

City of Bellmead, Texas
Financial Statements
September 30, 2006
(With Independent Auditors' Report Thereon)

City of Bellmead, Texas

Table of Contents

	<u>Page</u>
Independent Auditors' Report	i
Management's Discussion and Analysis	ii
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	4
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	5
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	6
Statement of Net Assets – Proprietary Fund	7
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	8
Statement of Cash Flows – Proprietary Fund	9
Notes to Financial Statements	10



JAYNES, REITMEIER, BOYD & THERRELL, P.C.
Certified Public Accountants

5400 Bosque Blvd., Suite 500 Waco, Texas 76710
P.O. Box 7616 Waco, Texas 76714-7616
Phone 254.776.4190 Fax 254.776.8489
Web www.jrbt.com

Independent Auditors' Report

The Honorable Members of City Council
City of Bellmead, 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 Bellmead, Texas (the City) as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bellmead, Texas as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages ii through ix 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Jaynes, Reitmeier, Boyd & Therrell, P.C.

December 8, 2006

Management's Discussion and Analysis

The management of the City of Bellmead, Texas (the City) offers the following overview and analysis of the City's financial statements and financial activities for the fiscal year ended September 30, 2006. It should be read in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities at the close of the most recent fiscal year by \$17,919,097 (net assets). Of this amount, \$3,662,766 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with fund designation and fiscal policies. In the prior year, the City's assets exceeded its liabilities as of September 30, 2005 by \$15,934,399. Of this amount, \$3,756,305 (unrestricted net assets) could have been used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's investment in capital assets, net of debt, increased \$1,863,115 from the prior year.
- As of September 30, 2006, the City of Bellmead's governmental funds reported ending fund balances of \$6,792,891. Of this amount, \$1,604,703 is unreserved undesignated fund balance in the general fund available for use within the City's fund designation and fiscal policies. In the prior year, the City's governmental funds reported ending fund balances of \$6,779,746. Of this amount, \$1,667,644 was unreserved undesignated fund balance in the general fund available for use within the City's fiscal policies.
- At September 30, 2006, the restricted net assets of the governmental activities are \$5,038,118, of which \$4,306,723 were restricted for economic development and \$464,501 were restricted for culture and recreation. In the prior year, restricted net assets of the governmental activities were \$4,831,999 of which \$3,827,996 were restricted for economic development and \$723,122 were restricted for culture and recreation.
- As of September 30, 2006, the City of Bellmead's enterprise fund reported ending fund net assets of \$6,837,286. Of this amount, \$1,809,939 are unreserved fund net assets available for use with the City's fund designation and fiscal policies. In the prior year, the City's enterprise funds reported ending fund net assets of \$6,703,095. Of this amount, \$1,713,152 was unreserved fund net assets available for use with the City's fiscal policies.
- The total cost of the City's programs represents the inclusion of the City Council's funding priorities including: employee compensation and insurance, maintenance of the water system, and equipment for maintenance and operations.

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 include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent 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, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by citations, sales tax, street tax, and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, economic development, culture and recreation, and highways and streets. The business-type activities of the City include a water distribution operation and sewer services.

The government-wide financial statements can be found on pages 1 and 2 of this report.

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 funds and proprietary funds.

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

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

The basic governmental fund financial statements can be found on pages 3 and 4 of this report.

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

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 6 through 9 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10 through 27 of this report.

Government-wide Financial Analysis

Net assets. The City’s combined net assets were \$17,919,097 at September 30, 2006, which is a slight increase from September 30, 2005. (See Table A-1.) The largest portion of the City’s net assets, \$8,870,965, reflects its investment in capital assets (e.g., land, buildings and improvements, equipment, and water and sewer facilities), less any related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table A-1
City of Bellmead
Net Assets

	Governmental Activities		Business Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets \$	7,325,249	7,227,356	2,671,795	2,629,597	9,997,044	9,856,953
Capital assets	<u>5,955,866</u>	<u>4,296,152</u>	<u>4,992,509</u>	<u>5,030,797</u>	<u>10,948,375</u>	<u>9,326,949</u>
Total assets	<u>13,281,115</u>	<u>11,523,508</u>	<u>7,664,304</u>	<u>7,660,394</u>	<u>20,945,419</u>	<u>19,183,902</u>
Long-term liabilities	1,580,000	1,765,000	279,374	312,409	1,859,374	2,077,409
Other liabilities	<u>619,304</u>	<u>527,204</u>	<u>547,644</u>	<u>644,890</u>	<u>1,166,948</u>	<u>1,172,094</u>
Total liabilities	<u>2,199,304</u>	<u>2,292,204</u>	<u>827,018</u>	<u>957,299</u>	<u>3,026,322</u>	<u>3,249,503</u>

City of Bellmead

Net Assets

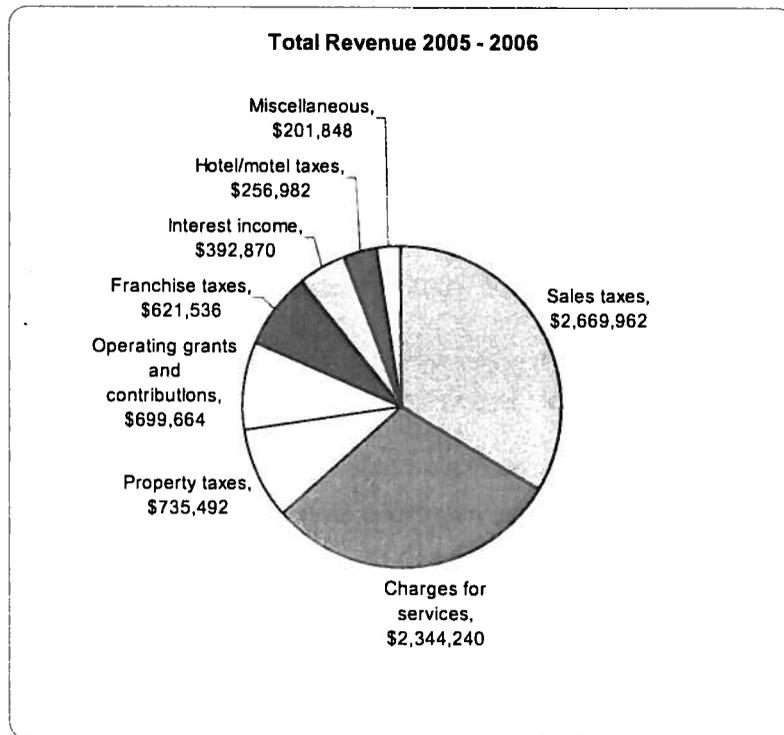
(Continued)

	Governmental Activities		Business Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 4,190,866	2,356,152	4,680,099	4,651,698	8,870,965	7,007,850
Restricted	5,038,118	4,831,999	347,248	338,245	5,385,366	5,170,244
Unrestricted	<u>1,852,827</u>	<u>2,043,153</u>	<u>1,809,939</u>	<u>1,713,152</u>	<u>3,662,766</u>	<u>3,756,305</u>
Total net assets	\$ <u>11,081,811</u>	<u>9,231,304</u>	<u>6,837,286</u>	<u>6,703,095</u>	<u>17,919,097</u>	<u>15,934,399</u>

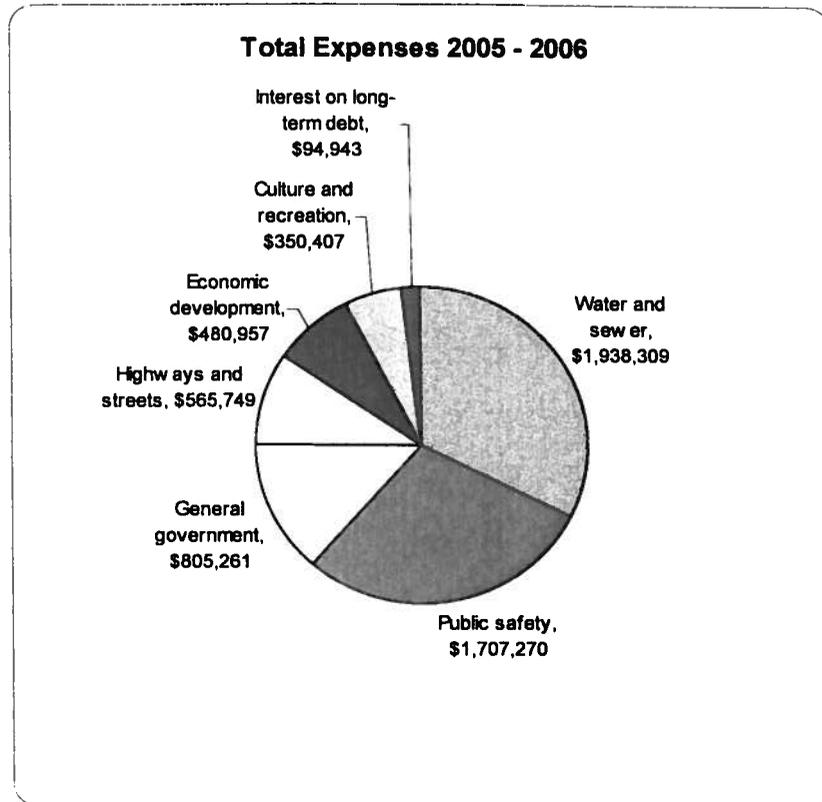
As of September 30, 2006, the City has positive balances in all three categories of net assets, both for the government as a whole as well as separately for its governmental and business-type activities.

Changes in Net Assets. The City's total revenues were \$7,927,594. Property taxes comprise 9.28% or \$738,140 of the City's revenue. Sales tax revenue comprises 33.68% or \$2,669,962 of the City's revenue. In addition, \$2,344,240 or 29.57% comes from charges for services; water and sewer fees of \$2,296,991 comprise 97.98% of the charges for services.

For the prior year, the City's total revenues were \$7,409,211. Property taxes comprise 9.95% or \$737,535 of the City's revenue. Sales tax revenue comprises 31.45% or \$2,330,564 of the City's revenue. In addition, \$2,371,770 or 32.01% comes from charges for service; water and sewer fees comprise 94.81% or \$2,248,683 of the charges for service.



The total cost of all programs and services for September 30, 2006 was \$5,942,896. For the prior year ended September 30, 2005, the total cost of all programs and services was \$5,812,861.



Governmental Activities

- The City was able to lower its property tax rate from .296354 to .310254 per \$100 valuation due to higher property appraisals and continued commercial growth.
- During 2006, the City acquired a tract of land for its shop at a cost of \$175,000.
- During 2006, the City expended approximately \$460,000 for infrastructure of its economic development program.
- The City began construction of a new municipal service center at an estimated cost of \$921,000.
- The City remodeled its civic center at an estimated cost of \$267,000.

Business-type Activities

- The City continued to repair and maintain water and sewer lines and installed a new water cooling tower at a cost of \$188,000.

Table A-2

City of Bellmead

Statement of Activities

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total 2006</u>	<u>Total 2005</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>		
Revenues:						
Program revenues:						
Charges for						
services	\$ 47,249	123,087	2,296,991	2,248,683	2,344,240	2,371,770
Operating grants	699,664	779,831	-	-	699,664	779,831
Capital grants	21,320	106,545	-	-	21,320	106,545
General revenues:						
Property taxes	735,492	737,535	-	-	735,492	737,535
Sales taxes	2,669,962	2,330,564	-	-	2,669,962	2,330,564
Franchise taxes	626,536	493,154	-	-	626,536	493,154
Hotel/motel						
taxes	256,982	234,114	-	-	256,982	234,114
Investment						
earnings	290,361	169,508	102,509	41,563	392,870	211,071
Miscellaneous	<u>180,528</u>	<u>144,627</u>	<u>-</u>	<u>-</u>	<u>180,528</u>	<u>144,627</u>
Total revenues	<u>5,528,094</u>	<u>5,118,965</u>	<u>2,399,500</u>	<u>2,290,246</u>	<u>7,927,594</u>	<u>7,409,211</u>
Expenses:						
General						
government	805,261	705,160	-	-	805,261	705,160
Public safety	1,707,270	1,603,971	-	-	1,707,270	1,603,971
Highways and						
streets	565,749	642,666	-	-	565,749	642,666
Economic						
development	480,957	387,389	-	-	480,957	387,389
Culture and						
recreation	350,407	365,616	-	-	350,407	365,616
Interest on long-						
term debt	94,943	104,474	-	-	94,943	104,474
Water and sewer	-	-	1,938,309	2,003,585	1,938,309	2,003,585
Total expenses	<u>4,004,587</u>	<u>3,809,276</u>	<u>1,938,309</u>	<u>2,003,585</u>	<u>5,942,896</u>	<u>5,812,861</u>
Increase (decrease)						
in assets before						
transfers	1,523,507	1,309,689	461,191	286,661	1,984,698	1,596,350
Transfers	<u>327,000</u>	<u>135,000</u>	<u>(327,000)</u>	<u>(135,000)</u>	<u>-</u>	<u>-</u>
Changes in						
net assets	1,850,507	1,444,689	134,191	151,661	1,984,698	1,596,350
Net assets,						
beginning						
of year	<u>9,231,304</u>	<u>7,786,615</u>	<u>6,703,095</u>	<u>6,551,434</u>	<u>15,934,399</u>	<u>14,338,049</u>
Net assets,						
end of year						
\$	<u>11,081,811</u>	<u>9,231,304</u>	<u>6,837,286</u>	<u>6,703,095</u>	<u>17,919,097</u>	<u>15,934,399</u>

Analysis of the City's Operations – Table A-2 provides a summary of the City's operations for the year ended September 30, 2006. Governmental activities increased the City's net assets by \$1,850,507. The business-type activities increased net assets by \$134,191.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS AND BUDGETARY HIGHLIGHTS

Governmental Funds

In the current year, actual expenditures, as compared to prior year actual expenditures, increased by \$777,173. The significant changes in actual expenditures reflected increases in general government expenditures of \$658,127 and capital outlay of \$621,034. On the other hand, actual resources available were \$353,448 or 6.90% greater than the actual resources available in the prior year. Notable increases in actual resources were as follows: sales tax increased by \$339,398, franchise tax increased by \$133,382, and investment earnings increased \$120,853.

Proprietary Fund

For the current year, actual expenses, as compared to prior year actual expenses, decreased by \$63,253 or 3.2%. On the other hand, actual revenues in the current year were \$48,066 or 2.2% greater than the actual revenues in the prior year. The notable increase in actual revenues was the result of an increase in water usage due to less rainfall in the current year than in the prior year.

General Fund Budgetary Highlights

The original budget for the general fund was amended during the year. For fiscal year 2005-2006, revenues exceeded budgetary estimates and expenditures, including transfers, were more than budgetary estimates.

Actual expenditures, as compared to budget expenditures, decreased \$27,336. The most significant variance resulted from actual expenditures being more than budgeted in general government of \$477,975. On the other hand, actual resources available were \$158,067 less than budgeted resources. A notable decrease in budgeted over actual revenues was hotel/motel taxes, which decreased by \$282,018.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During the year ended September 30, 2006, the City's component unit spent \$644,123 for governmental capital asset additions. Of the additions, \$460,000 represented infrastructure developed for its industrial district. Additionally, the City spent \$438,775 for enterprise capital asset additions during the year ended September 30, 2006.

- Total gross governmental capital assets as of September 30, 2006 are \$9,105,397. For the prior year, gross governmental capital assets were \$7,102,173.

- Total gross enterprise capital assets as of September 30, 2005 were \$10,693,489. For the prior year, gross enterprise capital assets were \$10,254,779.

Additional information on the City's capital assets can be found in Note 8 to the financial statements on pages 19 – 21 of this report.

Long-Term Debt

At September 30, 2006, the City had \$2,077,410 in bonds and notes outstanding. As of September 30, 2005, the City had \$2,319,099 in bonds and notes outstanding.

The decrease in long-term debt during 2006 results from scheduled repayments of existing debt. No new long-term debt was incurred during 2006.

Additional information on the City's long-term debt can be found in Note 9 to the financial statements on pages 22 - 23 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The City's adopted tax rate in effect for fiscal year 2007 is .278817, another reduction from the current year's tax rate.
- Net appraised value in effect for the fiscal year 2007 is \$261,303,021, a 5.4% increase from the net appraised value during the current year of \$247,774,534.
- The remaining cost of the remodeling of the City's Municipal Service Center is expected to be provided from existing funds.
- The City is considering financing the cost of its share of the improvements to the regional sewer system, which is expected to be \$820,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Manager, City of Bellmead, 3015 Bellmead Drive, Bellmead, Texas 76705.

Basic Financial Statements

City of Bellmead, Texas

Statement of Net Assets

September 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 6,920,818	1,986,580	8,907,398
Accounts receivable, net	373,208	320,959	694,167
Inventories	10,347	17,008	27,355
Due from other funds	20,876	-	20,876
Restricted cash and cash equivalents	-	347,248	347,248
Capital assets not being depreciated:			
Land	1,881,301	24,869	1,906,170
Construction in progress	708,951	9,587	718,538
Capital assets, net of accumulated depreciation:			
Buildings and improvements	905,342	3,370	908,712
Infrastructure	1,248,452	-	1,248,452
Water and sewer facilities	-	4,606,720	4,606,720
Equipment	1,211,820	347,963	1,559,783
Total assets	<u>13,281,115</u>	<u>7,664,304</u>	<u>20,945,419</u>
Liabilities			
Accounts payable	237,816	196,432	434,248
Accrued liabilities	189,361	80,903	270,264
Due to other funds	-	20,876	20,876
Accrued interest	7,127	-	7,127
Customer deposits payable	-	216,397	216,397
Noncurrent liabilities:			
Due within one year	185,000	33,036	218,036
Due in more than one year	1,580,000	279,374	1,859,374
Total liabilities	<u>2,199,304</u>	<u>827,018</u>	<u>3,026,322</u>
Net Assets			
Invested in capital assets, net of related debt	4,190,866	4,680,099	8,870,965
Restricted for:			
Court security and technology	29,831	-	29,831
Debt service	237,063	43,546	280,609
Capital projects	-	303,702	303,702
Economic development	4,306,723	-	4,306,723
Culture and recreation	464,501	-	464,501
Unrestricted	<u>1,852,827</u>	<u>1,809,939</u>	<u>3,662,766</u>
Total net assets	<u>\$ 11,081,811</u>	<u>6,837,286</u>	<u>17,919,097</u>

See accompanying notes to financial statements.

City of Bellmead, Texas

Statement of Activities

Year Ended September 30, 2006

Functions/Programs	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
Governmental activities:							
General government	\$ 805,261	34,809	-	-	(770,452)	-	(770,452)
Public safety	1,707,270	-	375,704	21,320	(1,310,246)	-	(1,310,246)
Highways and streets	565,749	-	-	-	(565,749)	-	(565,749)
Economic development	480,957	-	323,960	-	(156,997)	-	(156,997)
Culture and recreation	350,407	12,440	-	-	(337,967)	-	(337,967)
Interest on long-term debt	94,943	-	-	-	(94,943)	-	(94,943)
Total governmental activities	4,004,587	47,249	699,664	21,320	(3,236,354)	-	(3,236,354)
Business-type activities:							
Water and sewer	1,938,309	2,296,991	-	-	-	358,682	358,682
Total business-type activities	1,938,309	2,296,991	-	-	-	358,682	358,682
Total	\$ 5,942,896	2,344,240	699,664	21,320	(3,236,354)	358,682	(2,877,672)
General revenues:							
Property taxes, levied for general purposes					546,277	-	546,277
Property taxes, levied for debt service					189,215	-	189,215
City sales and use taxes					2,669,962	-	2,669,962
Franchise taxes					626,536	-	626,536
Hotel motel taxes					256,982	-	256,982
Unrestricted investment earnings					290,361	102,509	392,870
Gain on disposition of equipment					54,646	-	54,646
Miscellaneous					125,882	-	125,882
Transfers					327,000	(327,000)	-
Total general revenues and transfers					5,086,861	(224,491)	4,862,370
Change in net assets					1,850,507	134,191	1,984,698
Net assets - beginning					9,231,304	6,703,095	15,934,399
Net assets - ending					\$ 11,081,811	6,837,286	17,919,097

See accompanying notes to financial statements.

City of Bellmead, Texas

Balance Sheet -
Governmental Funds

September 30, 2006

<u>Assets</u>	<u>General</u>	<u>Bellmead Development Corporation</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 2,401,952	4,219,061	10,182	289,623	6,920,818
Receivables:					
Taxes	214,359	72,067	-	25,875	312,301
Other	43,775	10,371	-	6,761	60,907
Due from other funds	78,210	6,475	-	-	84,685
Inventories	10,347	-	-	-	10,347
Total assets	\$ 2,748,643	4,307,974	10,182	322,259	7,389,058
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 97,780	704	138,897	435	237,816
Accrued liabilities	189,361	-	-	-	189,361
Due to other funds	63,262	547	-	-	63,809
Deferred revenue	72,178	-	-	25,876	98,054
Other	-	-	-	7,127	7,127
Total liabilities	422,581	1,251	138,897	33,438	596,167
Fund balances:					
Reserved for:					
Inventories	10,347	-	-	-	10,347
Drug enforcement	2,142	-	-	-	2,142
Debt service	-	-	-	211,193	211,193
Cultural activities	464,501	-	-	-	464,501
Public safety	2,536	-	-	-	2,536
Court technology	25,153	-	-	-	25,153
Unreserved:					
Designated for street improvements	216,680	-	-	-	216,680
Undesignated	1,604,703	4,306,723	(128,715)	-	5,782,711
Unreserved, reported in nonmajor:					
Special revenue fund	-	-	-	77,628	77,628
Capital projects fund	-	-	-	-	-
Total fund balances	2,326,062	4,306,723	(128,715)	288,821	6,792,891
Total liabilities and fund balances	\$ 2,748,643	4,307,974	10,182	322,259	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,955,866
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	98,054
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.	(1,765,000)
Net assets of governmental activities	\$ 11,081,811

See accompanying notes to financial statements.

City of Bellmead, Texas

Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds

Year Ended September 30, 2006

	General Fund	Bellmead Development Corporation	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 548,240	-	-	189,900	738,140
Sales taxes	1,779,975	889,987	-	-	2,669,962
Franchise taxes	626,536	-	-	-	626,536
Hotel/motel taxes	256,982	-	-	-	256,982
Licenses and permits	34,809	-	-	-	34,809
Intergovernmental	47,544	-	-	325,507	373,051
Parks and recreation fees	12,440	-	-	-	12,440
Fines and fees	347,933	-	-	-	347,933
Investment earnings	108,860	171,579	131	9,791	290,361
Micellaneous	81,114	39,702	-	1,800	122,616
Total revenues	<u>3,844,433</u>	<u>1,101,268</u>	<u>131</u>	<u>526,998</u>	<u>5,472,830</u>
Expenditures					
Current:					
General government	1,395,475	-	-	-	1,395,475
Public safety	1,589,864	-	-	-	1,589,864
Highways and streets	564,928	-	-	-	564,928
Economic and physical development	-	742,908	-	350,597	1,093,505
Culture and recreation	319,897	-	-	-	319,897
Debt service:					
Principal	-	-	-	175,000	175,000
Interest and other charges	-	-	-	94,943	94,943
Capital outlay	-	-	673,440	-	673,440
Total expenditures	<u>3,870,164</u>	<u>742,908</u>	<u>673,440</u>	<u>620,540</u>	<u>5,907,052</u>
Excess (deficiency) of revenues over expenditures	<u>(25,731)</u>	<u>358,360</u>	<u>(673,309)</u>	<u>(93,542)</u>	<u>(434,222)</u>
Other financing sources (uses)					
Proceeds from sale of assets	-	120,367	-	-	120,367
Transfers in	30,000	-	547,000	70,000	647,000
Transfers out	(320,000)	-	-	-	(320,000)
Total other financing sources (uses)	<u>(290,000)</u>	<u>120,367</u>	<u>547,000</u>	<u>70,000</u>	<u>447,367</u>
Net change in fund balances	(315,731)	478,727	(126,309)	(23,542)	13,145
Fund balances, beginning	<u>2,641,793</u>	<u>3,827,996</u>	<u>(2,406)</u>	<u>312,363</u>	<u>6,779,746</u>
Fund balances, ending	<u>\$ 2,326,062</u>	<u>4,306,723</u>	<u>(128,715)</u>	<u>288,821</u>	<u>6,792,891</u>

See accompanying notes to financial statements.

City of Bellmead, Texas

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities

Year Ended September 30, 2006

Net change in fund balances - total governmental funds	\$	13,145
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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 as depreciation expense. This is the amount by which depreciation expense (\$346,100) exceeded capital asset additions (\$2,804,207) in the current period.</p>	2,458,107	
<p>In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.</p>	(798,483)	
<p>Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	2,738	
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	<u>175,000</u>	
Change in net assets of governmental activities	\$	<u><u>1,850,507</u></u>

See accompanying notes to financial statements.

City of Bellmead, Texas

Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund

Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 568,000	553,000	548,240	(4,760)
Sales taxes	1,700,000	1,750,000	1,779,975	29,975
Franchise taxes	479,000	596,000	626,536	30,536
Hotel/motel taxes	226,000	539,000	256,982	(282,018)
Licenses and permits	57,500	43,000	34,809	(8,191)
Intergovernmental	50,000	69,000	47,544	(21,456)
Parks and recreation fees	56,500	8,500	12,440	3,940
Fines and fees	325,000	325,000	347,933	22,933
Investment earnings	30,000	70,000	108,860	38,860
Micellaneous	47,500	49,000	81,114	32,114
Total revenues	<u>3,539,500</u>	<u>4,002,500</u>	<u>3,844,433</u>	<u>(158,067)</u>
Expenditures:				
Current:				
General government	1,035,500	917,500	1,395,475	(477,975)
Public safety	1,530,500	1,612,500	1,589,864	22,636
Highways and streets	643,000	628,500	564,928	63,572
Culture and recreation	682,900	739,000	319,897	419,103
Total expenditures	<u>3,891,900</u>	<u>3,897,500</u>	<u>3,870,164</u>	<u>27,336</u>
Excess (deficiency) of revenues over expenditures	<u>(352,400)</u>	<u>105,000</u>	<u>(25,731)</u>	<u>(130,731)</u>
Other financing sources (uses):				
Transfers in	150,000	30,000	30,000	-
Transfers out	<u>(35,000)</u>	<u>(135,000)</u>	<u>(320,000)</u>	<u>(185,000)</u>
Total other financing sources (uses)	<u>115,000</u>	<u>(105,000)</u>	<u>(290,000)</u>	<u>(185,000)</u>
Net change in fund balance	(237,400)	-	(315,731)	(315,731)
Fund balance, beginning	<u>2,244,177</u>	<u>2,390,077</u>	<u>2,641,793</u>	<u>(251,716)</u>
Fund balance, ending	\$ <u><u>2,006,777</u></u>	<u><u>2,390,077</u></u>	<u><u>2,326,062</u></u>	<u><u>(64,015)</u></u>

See accompanying notes to financial statements.

City of Bellmead, Texas

Statement of Net Assets -
Proprietary Fund

September 30, 2006

	Business-type Activities - Enterprise Fund Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,986,580
Accounts receivable (net of allowance for uncollectibles of \$16,557):	
Accounts	310,085
Other	10,874
Inventories	17,008
Restricted cash	347,248
Total current assets	<u>2,671,795</u>
Noncurrent assets:	
Capital assets:	
Land	24,869
Buildings and improvements	13,711
Water and sewer facilities	9,478,616
Equipment	1,166,706
Construction in progress	9,587
Less accumulated depreciation	<u>(5,700,980)</u>
Total capital assets (net of accumulated depreciation)	<u>4,992,509</u>
Total noncurrent assets	<u>4,992,509</u>
Total assets	<u>7,664,304</u>
Liabilities	
Current liabilities:	
Accounts payable	196,432
Accrued wages	80,903
Due to other funds	20,876
Customer deposits payable	216,397
Revenue bond and note payable	<u>33,036</u>
Total current liabilities	<u>547,644</u>
Noncurrent liabilities:	
Revenue bond and note payable	<u>279,374</u>
Total liabilities	<u>827,018</u>
Net Assets	
Invested in capital assets, net of related debt	4,680,099
Restricted for:	
Debt service	43,546
Capital projects	303,702
Unrestricted	<u>1,809,939</u>
Total net assets	<u>\$ 6,837,286</u>

See accompanying notes to financial statements.

City of Bellmead, Texas

Statement of Revenues, Expenses and Changes in Fund Net Assets -
Proprietary Fund

Year Ended September 30, 2006

	Business-type Activities- Enterprise Fund Water and Sewer Fund
Operating revenues:	
Charges for sales and services:	
Water sales	\$ 1,529,218
Sewer charges	633,138
Turn-on fees	31,586
Water and sewer tap fees	8,689
Chipper fees	39,512
Other	8,502
Total operating revenue	<u>2,250,645</u>
Operating expenses:	
Salaries and benefits	646,673
System repair and maintenance	148,323
Auto and equipment maintenance	60,050
Supplies	115,010
Office expense	27,775
Professional fees	36,893
Utilities	378,844
Bad debts	2,118
Depreciation	477,062
Insurance	14,532
Miscellaneous	31,029
Total operating expenses	<u>1,938,309</u>
Operating income	312,336
Nonoperating revenues (expenses):	
Interest and miscellaneous	148,855
Total nonoperating revenue (expenses)	<u>148,855</u>
Income before transfers	461,191
Transfers out	<u>(327,000)</u>
Change in net assets	134,191
Total net assets - beginning	<u>6,703,095</u>
Total net assets - ending	<u>\$ 6,837,286</u>

See accompanying notes to financial statements.

City of Bellmead, Texas

Statement of Cash Flows -
Proprietary Fund

Year Ended September 30, 2006

	Business-type Activities- <u>Enterprise Fund</u> <u>Water and Sewer</u> <u>Fund</u>
Cash flows from operating activities:	
Receipts from customers and users	\$ 2,224,080
Payments to suppliers	(881,022)
Payments to employees	(643,946)
Net cash provided by operating activities	<u>699,112</u>
Cash flows from noncapital financing activities:	
Transfer out	<u>(327,000)</u>
Net cash used in noncapital and financing activities	<u>(327,000)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(438,775)
Principal paid on general obligation bonds	<u>(66,689)</u>
Net cash used in capital and related financing activities	<u>(505,464)</u>
Cash flows from investing activities:	
Interest received	<u>148,855</u>
Net cash provided by investing activities	<u>148,855</u>
Net increase in cash and cash equivalents	15,503
Cash and cash equivalents, at beginning of year	<u>2,318,325</u>
Cash and cash equivalents, at end of year	<u>\$ 2,333,828</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 312,336
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	477,062
Change in assets and liabilities:	
Account receivables, net	(26,565)
Inventories	(130)
Accounts payables	(85,219)
Other liabilities	<u>21,628</u>
Net cash provided by operating activities	<u>\$ 699,112</u>

See accompanying notes to financial statements.

City of Bellmead, Texas

Notes to Financial Statements

September 30, 2006

(1) Summary of Significant Accounting Policies(a) Reporting entity

The City of Bellmead, Texas (the City) is a home-rule municipal corporation organized and existing under the provisions of the Constitution of the State of Texas. The City operates under a Council-Manager form of government and provides the following services: general government, public safety (police and fire), highways and streets, economic development, and culture and recreation.

Generally accepted accounting principles require financial statements to present the government and its component units, entities for which the government is considered financially accountable. Based on these criteria, the Bellmead Development Corporation (the Corporation) has been included as a blended component unit. Blended component units, although legally separate entities, are, in substance, part of the government's operations and, therefore, data from these units are combined with data of the primary government. The Corporation is responsible for certain economic development expenditures benefiting all citizens of the government and is financed by a portion of sales tax revenue and is governed by a board comprised of members of the government's council. The Corporation has a September 30 year-end and is reported as a special revenue fund. Complete financial statements of the Corporation may be obtained from the City of Bellmead.

(b) 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. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Notes to Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(c) Government-wide and fund financial statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(c) Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 City 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 claims and judgments, are recorded only when payment is due.

Property taxes, city sales and use taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Fines and miscellaneous revenues are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

City of Bellmead, TexasNotes to Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (continued)(c) Measurement focus, basis of accounting
and financial statement presentation (continued)

Bellmead Development Corporation – The Bellmead Development Corporation is a blended component unit which is reported as a special revenue fund that accounts for sales tax revenue that is to be used for certain economic development expenditures benefiting all citizens of the City.

The City reports the following major proprietary fund:

Water and Sewer Fund - The water and sewer fund accounts for the activities of the water distribution system, the sewage treatment plant, sewage pumping stations and collection systems.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally 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 City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. 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 delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewer enterprise funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for

City of Bellmead, TexasNotes to Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (continued)(c) Measurement focus, basis of accounting
and financial statement presentation (continued)

the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

(d) Deposits and investments

For purposes of the statement of cash flows, the City considers all highly liquid investments (investments with original maturities less than 90 days, including restricted assets) to be cash equivalents.

State statutes authorize the City to invest in obligations of the United States or its agencies and instrumentalities and state or local governments, commercial paper, guaranteed investment contracts, repurchase agreements, and certain governmental investment pools. The City's local investment policy limits the City to invest in obligations of the United States or its agencies and instrumentalities, certificates of deposit, money market mutual funds, and local government investment pools.

Investments are reported at fair value. The governmental investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

(e) 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" or "advances to/from other funds." 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."

All accounts receivable are shown net of an allowance for uncollectibles.

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(f) Inventories and prepaid expenses

All inventories are valued at the lower of cost (first-in, first-out) or market. Inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both government-wide and fund financial statements.

(g) Restricted assets

Restricted cash accounts in the water and sewer fund are used to report resources set aside for operations of the Waco Metropolitan Area Regional Sewer System (WMARSS), as more fully discussed in Note 3.

(h) Capital assets

Capital assets, which include land, buildings and improvements, machinery and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City has elected to report general infrastructure assets prospectively from October 1, 2003 as permitted by GASB Statement No. 34. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	5-25
Water and sewer systems	5-30
Equipment	3-20

City of Bellmead, TexasNotes to Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (continued)(i) Long-term obligations

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

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

(j) Fund equity

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

(k) Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

(2) Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between fund balance of total governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets.

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(2) Reconciliation of Government-Wide and Fund Financial Statements (continued)

The governmental statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances of total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

(3) Undivided Interest in Waco Metropolitan Area Regional Sewer System

During 2004, the City entered into an agreement with the City of Waco, Texas to acquire a 5.73% undivided interest in the facilities and operations of the Waco Metropolitan Area Regional Sewer System (WMARSS). The City believes that its purchase and operation of the system will increase the efficiency and effectiveness of providing sewer treatments services to its citizens.

Under an interlocal agreement, a WMARSS board was created consisting of the city managers from each of the six participating cities. The operation and administration of the system is subject to joint control by the cities through the WMARSS board; however, a separate legal entity was not created. The agreement allows the cities to pool resources and share the costs, risk, and rewards of providing services. Further, each city retains an ongoing financial interest and ongoing financial responsibility in the operations of the system. The City has reported its share of assets, liabilities, equity, revenues and expenses that are associated with this joint activity in its enterprise fund as follows:

Current assets		\$ 543,916
Capital assets		555,240
Current liabilities		<u>(65,593)</u>
Net assets		\$ <u>1,033,563</u>
Operating expenses		\$ (245,710)
Non-operating revenue		<u>34,059</u>
Net loss		\$ <u>(211,651)</u>

(4) Budgetary Information

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

City of Bellmead, Texas

Notes to Financial Statements (Continued)

(4) Budgetary Information (continued)

- Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget in accordance with generally accepted accounting principles for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing those expenditures.
- Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
- The budget is legally enacted by the City Council. Budgetary control is maintained at the fund level.
- Budget revisions are made during the year.
- Formal budgetary integration is employed for the general fund, debt service fund, and special revenue funds.
- Actual expenditures and operating transfers out may not legally exceed budget appropriations at the individual fund level.
- Appropriations lapse at the close of the fiscal year to the extent that they have not been expended or encumbered.

(5) Deposits and Investments

A summary of the City's cash and cash equivalents follows:

Cash and certificates of deposit in bank	\$ 3,011,731
Undivided interest in bank deposits held by another government	514,649
External investment pools	<u>5,728,266</u>
Total cash and cash equivalents	\$ <u>9,254,646</u>

At September 30, 2006, the City's only investment is in external investment pools. The weighted average maturity of Texas Local Government Investment Pool (TexPool) and Texas Short Term Asset Reserve Fund (TexSTAR) as of September 30, 2006 is 51 days and 76 days, respectively.

City of Bellmead, TexasNotes to Financial Statements
(Continued)(5) Deposits and Investments (continued)

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair value by: (a) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, (b) investing operating funds primarily in shorter-term certificates of deposit, securities, money market mutual funds, or government investment pools, and (c) diversifying maturities and staggering purchase dates to minimize the impact of market movements over time. It is the City's policy not to invest in securities maturing more than three years from the date of purchase.

Credit Risk. The City's investment policy limits investments in governmental investment pools and money market mutual funds to those that are rated no lower than an AAA or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2006, the City's investment in TexPool and TexSTAR was rated AAA by Standard & Poor's.

TexPool is a public funds investment pool created pursuant to the Interlocal Cooperation Act of the State of Texas. The City has delegated the authority to hold legal title to the Pool as custodians and to make investment purchases with the City's funds. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure.

TexSTAR is a Texas public funds investment pool that is co-administered by J.P. Morgan Chase and First Southwest Asset Management, Inc. TexSTAR is run by a five-member board comprised of three representatives of eligible governmental entities and one member designated by each of the co-administrators. TexSTAR currently offers a "Cash Reserve Fund" which will invest only in authorized investments under the Public Funds Investment Act with weighted average maturities which cannot exceed 60 days.

TexPool and TexSTAR operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. TexPool and TexSTAR use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool and TexSTAR is the same as the value of TexPool shares and TexSTAR shares.

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(6) Property Taxes

The appraisal of property within the City is the responsibility of the McLennan County Appraisal District (the District). The District is required under the Property Tax Code to assess all property within the District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the District must be reviewed every four years.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. The net assessed value upon which the fiscal 2005 levy was based was \$247,774,534.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 2006 were 95.5% of the tax levy.

(7) Interfund Balances

Interfund receivables and payable balances at September 30, 2006 are as follows:

<u>Funds</u>	<u>Receivable</u>	<u>Payable</u>
General fund	\$ 78,210	63,262
Economic Development Corporation	6,475	547
Water and sewer fund	-	<u>20,876</u>
Totals	\$ <u>84,685</u>	<u>84,685</u>

(8) Capital Assets

Capital asset activity for the year ended September 30, 2006 was as follows:

	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2006</u>
<u>Governmental activities:</u>				
Capital assets, not depreciated:				
Land	\$ 1,947,022	-	(65,721)	1,881,301
Construction in progress	<u>670,145</u>	<u>769,538</u>	<u>(730,732)</u>	<u>708,951</u>
Total capital assets not being depreciated	<u>2,617,167</u>	<u>769,538</u>	<u>(796,453)</u>	<u>2,590,252</u>

City of Bellmead, Texas

Notes to Financial Statements
(Continued)(8) Capital Assets (continued)

	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2006</u>
<u>Governmental activities: (continued)</u>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,062,321	582,203	-	1,644,524
Infrastructure	-	1,273,108	-	1,273,108
Equipment	<u>3,422,685</u>	<u>179,358</u>	<u>(4,530)</u>	<u>3,597,513</u>
Total capital assets being depreciated	<u>4,485,006</u>	<u>2,034,669</u>	<u>(4,530)</u>	<u>6,515,145</u>
Less accumulated depreciation for:				
Buildings and improvements	(690,186)	(48,996)	-	(739,182)
Infrastructure	-	(24,656)	-	(24,656)
Equipment	<u>(2,115,835)</u>	<u>(272,358)</u>	<u>2,500</u>	<u>(2,385,693)</u>
Total accumulated depreciation	<u>(2,806,021)</u>	<u>(346,010)</u>	<u>2,500</u>	<u>(3,149,531)</u>
Total capital assets, being depreciated, net	<u>1,678,985</u>	<u>1,688,659</u>	<u>(2,030)</u>	<u>3,365,614</u>
Governmental activities capital assets, net	\$ <u>4,296,152</u>	<u>2,458,197</u>	<u>(798,483)</u>	<u>5,955,866</u>
<u>Business-type activities:</u>				
Capital assets, not depreciated:				
Land	\$ 24,869	-	-	24,869
Construction in progress	<u>-</u>	<u>9,587</u>	<u>-</u>	<u>9,587</u>
Total capital assets not being depreciated	<u>24,869</u>	<u>9,587</u>	<u>-</u>	<u>34,456</u>

City of Bellmead, Texas

Notes to Financial Statements
(Continued)(8) Capital Assets (continued)

	<u>Balance October 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2005</u>
<u>Business-type activities: (continued)</u>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 13,711	-	-	13,711
Water and sewer facilities	9,124,338	354,278	-	9,478,616
Equipment	<u>1,091,861</u>	<u>74,844</u>	-	<u>1,166,705</u>
Total capital assets being depreciated	<u>10,229,910</u>	<u>429,122</u>	-	<u>10,659,043</u>
Less accumulated depreciation for:				
Buildings and improvements	(10,032)	(309)	-	(10,341)
Water and sewer facilities	(4,495,642)	(376,254)	-	(4,871,896)
Equipment	<u>(718,308)</u>	<u>(100,434)</u>	-	<u>(818,742)</u>
Total accumulated depreciation	<u>(5,223,982)</u>	<u>(476,997)</u>	-	<u>(5,700,979)</u>
Total capital assets, being depreciated, net	<u>5,005,928</u>	<u>(47,875)</u>	-	<u>4,958,053</u>
Business-type activities capital assets, net	\$ <u>5,030,797</u>	<u>(38,288)</u>	-	<u>4,992,509</u>

The City has active construction projects as of September 30, 2006. At year-end, the City's construction commitments are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitments</u>
New municipal building	\$ 708,951	277,903

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(8) Capital Assets (continued)

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

Governmental activities:

General government	\$ 21,427
Public safety	227,640
Highways and streets	40,507
Economic development	25,926
Culture and recreation	<u>30,510</u>

Total depreciation expense – governmental activities \$ 346,010

Business-type activities:

Water and sewer \$ 476,997

(9) Long-Term Debt

Long-term debt consists of bonded indebtedness and note payable. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and pledges income derived from the acquired or constructed assets to pay debt service. General obligation bonds have been issued for the business-type activities.

The following is a summary of changes in long-term debt for the year ended September 30, 2006:

	<u>October 1,</u> <u>2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30,</u> <u>2006</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Tax and revenue certificates of obligation	\$ <u>1,940,000</u>	<u>-</u>	<u>(175,000)</u>	<u>1,765,000</u>	<u>185,000</u>
	\$ <u>1,940,000</u>	<u>-</u>	<u>(175,000)</u>	<u>1,765,000</u>	<u>185,000</u>
Business-type activities:					
Note payable	\$ <u>379,099</u>	<u>-</u>	<u>(66,690)</u>	<u>312,410</u>	<u>33,036</u>
	\$ <u>379,099</u>	<u>-</u>	<u>(66,690)</u>	<u>312,410</u>	<u>33,036</u>

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(9) Long-Term Debt (continued)

Long-term debt for governmental activities at September 30, 2006 is comprised of the following:

\$2,020,000 series 1999 tax and revenue certificates of obligation, due in annual installments of \$80,000 to 260,000 with interest rates from 4.75% to 5.25%	\$ <u>1,765,000</u>
---	---------------------

Long-term debt for business-type activities at September 30, 2006 is comprised of the following:

Note payable to the City of Waco, due in annual installments of \$15,329 to \$66,690 with interest at 3.65%	\$ <u>312,410</u>
---	-------------------

Annual debt service requirements to maturity for governmental activities are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 185,000	85,528
2008	195,000	75,838
2009	200,000	65,866
2010	215,000	55,491
2011	225,000	44,434
2012-2015	<u>745,000</u>	<u>59,676</u>
	\$ <u>1,765,000</u>	<u>386,833</u>

Annual debt service requirements to maturity for business-type activities are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 33,036	10,804
2008	34,555	9,570
2009	35,861	8,285
2010	37,222	6,950
2011	9,556	6,096
2012-2016	53,415	24,849
2017-2021	64,298	14,146
2022-2025	<u>44,467</u>	<u>2,475</u>
	\$ <u>312,410</u>	<u>83,175</u>

City of Bellmead, Texas**Notes to Financial Statements
(Continued)****(9) Long-Term Debt (continued)**

Tax and revenue certificates of obligation constitute direct obligations of the City payable from ad valorem taxes levied, within the limits prescribed by law, against all taxable property within the City and are additionally payable from and secured by a limited pledge of surplus net revenues of the City's waterworks systems, not to exceed \$1,000 each, as provided in the ordinances authorizing the bonds.

(10) Employee Benefit Plan**(a) 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 state-wide Texas Municipal Retirement System (TMRS), one of 811 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 811 municipalities has an annual, individual actuarial valuation performed. All assumptions for the 12/31/05 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and with the actuarial constraints also in the statutes. Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years.

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(10) Employee Benefit Plan (continued)

(b) Contributions

The contribution rate for the employees is 6%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The 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 is the basis for the rate and the calendar year when the rate goes into effect; i.e., December 31, 2005 valuation is effective for rates beginning January 2007.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial valuation date	December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Actuarial valuation of assets	\$ 4,250,826	4,045,510	4,064,816
Actuarial accrued liability	4,739,405	4,556,355	4,761,199
Percentage funded	89.7%	88.8%	85.4%
Unfunded actuarial accrued liability (UAAL)	\$ 488,579	510,845	696,383
Annual covered payroll	1,894,604	1,833,084	1,836,148
UAAL as a percentage of covered payroll	25.8%	27.9%	37.9%

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(10) Employee Benefit Plan (continued)

(b) Contributions (continued)

Schedule of Actuarial Liabilities and Funding Progress
(continued)

	September 30,		
	2006	2005	2004
Net pension obligation (NPO) (NPO) at the beginning of period	\$ -	-	-
Annual pension cost:			
Annual required contribution	193,747	193,024	181,855
Contributions made	193,747	193,024	181,855
NPO at the end of period	-	-	-
Actuarial assumptions:			
Actuarial cost method	-		Unit credit
Amortization method	-		Level percent of payroll
Remaining amortization period	-		25 years – open period
Asset valuation method	-		Amortized cost (to accurately reflect the requirements of GASB Statement No. 25, ¶136e and ¶138)
Investment rate of return	-		7%
Projected salary increases	-		None
Includes inflation at	-		3.5%
Cost-of-living adjustments	-		None

(11) Commitments and Contingencies

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 which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

City of Bellmead, Texas**Notes to Financial Statements
(Continued)****(11) Commitments and Contingencies (continued)**

There are other claims and pending actions incident to normal operations of the City. In the opinion of the City management based on consultation with the City's attorney, the City's potential liability in these matters will not have a material impact on the financial statements.

(12) 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; injuries to employees; and natural disasters. The City has joined together with other governments in the State of Texas to form the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability, property and workers' compensation coverages. The City pays a quarterly contribution to the pool for its insurance coverage. The agreement for formation of the Texas Municipal League Intergovernmental Risk Pool provides that the Pool will be self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits.

The Texas Municipal League Intergovernmental Risk Pool has published its own financial report, which can be obtained by writing the Texas Municipal League Intergovernmental Risk Pool, 1821 Rutherford Lane, Austin, Texas 78754-5128.