

City of Bellmead, Texas
Financial Statements
September 30, 2007
(With Independent Auditors' Report Thereon)

City of Bellmead, Texas

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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, 2007, 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, 2007, 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.

March 10, 2008

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, 2007. 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 \$19,750,069 (net assets). Of this amount, \$3,853,290 (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, 2006 by \$17,919,097. Of this amount, \$3,662,766 (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 \$454,227 from the prior year.
- As of September 30, 2007, the City of Bellmead's governmental funds reported ending fund balances of \$8,312,102. Of this amount, \$1,713,442 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 \$6,792,891. Of this amount, \$1,604,703 was unreserved undesignated fund balance in the general fund available for use within the City's fiscal policies.
- At September 30, 2007, the restricted net assets of the governmental activities are \$6,214,212, of which \$5,386,892 were restricted for economic development and \$560,149 were restricted for culture and recreation. In the prior year, restricted net assets of the governmental activities were \$5,038,118 of which \$4,306,723 were restricted for economic development and \$464,501 were restricted for culture and recreation.
- As of September 30, 2007, the City of Bellmead's enterprise fund reported ending fund net assets of \$6,678,515. Of this amount, \$3,344,069 are unrestricted 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 \$6,837,286. Of this amount, \$1,809,939 were unrestricted 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 7 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 29 of this report.

Government-wide Financial Analysis

Net assets. The City's combined net assets were \$19,750,069 at September 30, 2007, which is a 10% increase from September 30, 2006. (See Table A-1.) The largest portion of the City's net assets, \$9,325,192, 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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets \$	8,691,780	7,325,249	4,236,680	2,671,795	12,928,460	9,997,044
Capital assets	<u>6,425,121</u>	<u>5,955,866</u>	<u>4,759,445</u>	<u>4,992,509</u>	<u>11,184,566</u>	<u>10,948,375</u>
Total assets	<u>15,116,901</u>	<u>13,281,115</u>	<u>8,996,125</u>	<u>7,664,304</u>	<u>24,113,026</u>	<u>20,945,419</u>
Long-term liabilities	1,385,000	1,580,000	1,501,819	279,374	2,886,819	1,859,374
Other liabilities	<u>660,347</u>	<u>619,304</u>	<u>815,791</u>	<u>547,644</u>	<u>1,476,138</u>	<u>1,166,948</u>
Total liabilities\$	<u>2,045,347</u>	<u>2,199,304</u>	<u>2,317,610</u>	<u>827,018</u>	<u>4,362,957</u>	<u>3,026,322</u>

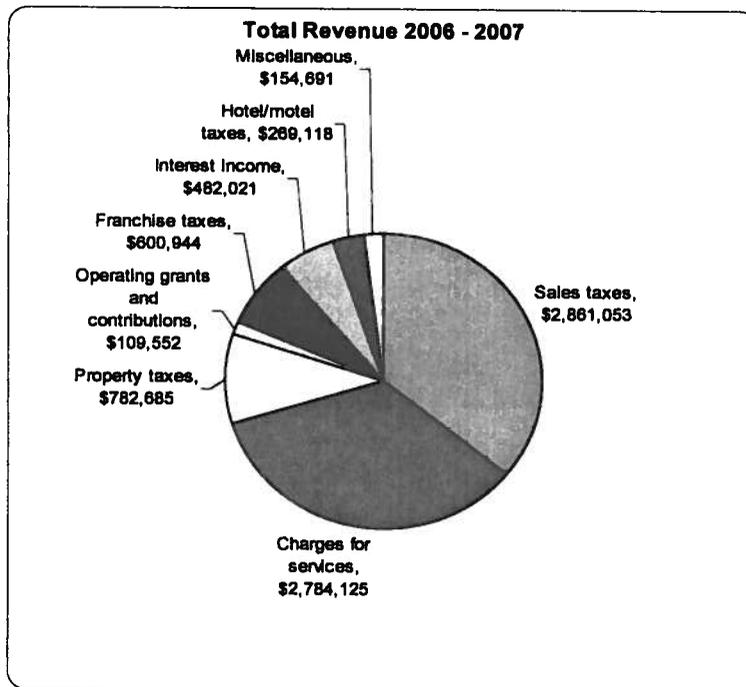
City of Bellmead
Net Assets
(Continued)

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 4,845,121	4,190,866	4,480,071	4,680,099	9,325,192	8,870,965
Restricted	6,214,212	5,038,118	357,375	347,248	6,571,587	5,385,366
Unrestricted	<u>2,012,221</u>	<u>1,852,827</u>	<u>1,841,069</u>	<u>1,809,939</u>	<u>3,853,290</u>	<u>3,662,766</u>
Total net assets	<u>\$ 13,071,554</u>	<u>11,081,811</u>	<u>6,678,515</u>	<u>6,837,286</u>	<u>19,750,069</u>	<u>17,919,097</u>

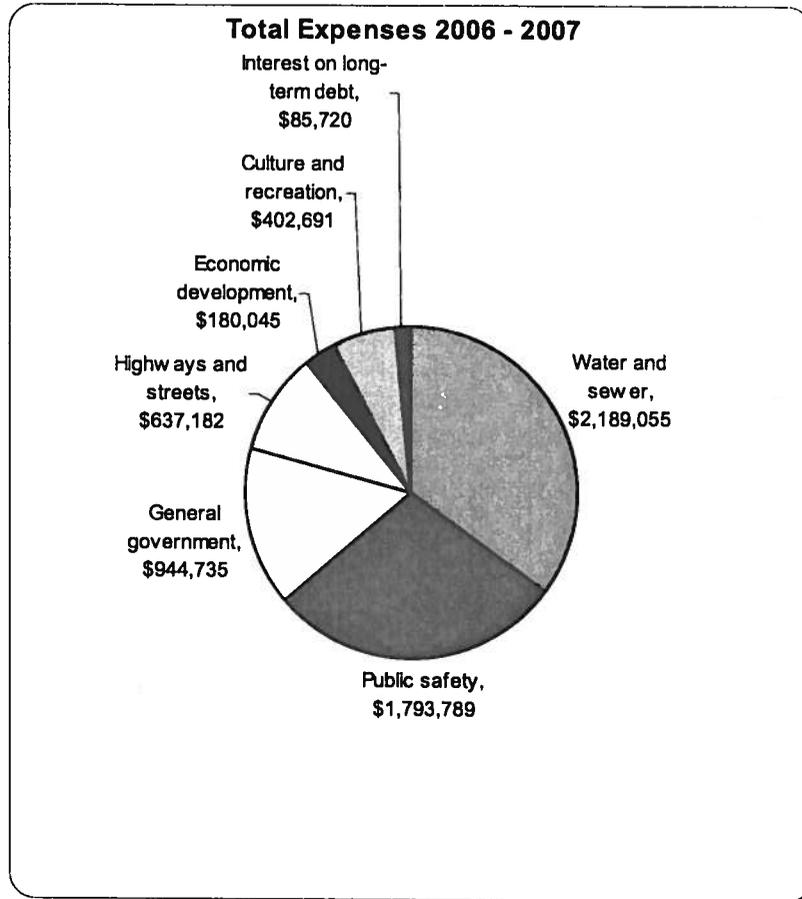
As of September 30, 2007, the City has positive balances in all three categories of net assets, both for the government as a whole as well as separately for its governmental and business-type activities.

Changes in Net Assets. The City's total revenues were \$8,064,189. Property taxes comprise 9.7% or \$782,685 of the City's revenue. Sales tax revenue comprises 35.7% or \$2,881,053 of the City's revenue. In addition, \$2,784,125 or 34.5% comes from charges for services; water and sewer fees of \$2,351,623 comprise 84.5% of the charges for services.

For the prior year, the City's total revenues were \$7,927,594. Property taxes comprise 9.3% or \$738,140 of the City's revenue. Sales tax revenue comprises 33.7% or \$2,669,962 of the City's revenue. In addition, \$2,344,240 or 29.6% comes from charges for service; water and sewer fees comprise 97.9% or \$2,296,991 of the charges for service.



The total cost of all programs and services for September 30, 2007 was \$6,233,217. For the prior year ended September 30, 2006, the total cost of all programs and services was \$5,942,896.



Governmental Activities

- The City was able to lower its property tax rate from .296354 to .278817 per \$100 valuation due to higher property appraisals and continued commercial growth.
- During 2007, the City annexed 398 acres of land which are available for economic development.
- The City finished construction of a new City Hall at a cost of \$1,439,783.

Business-type Activities

- The City issued long-term debt in the amount of \$1,503,000 to fund its share of the improvements to the Waco Metropolitan Area Sewer System (WMARSS). (See Note 3.) The City increased the sewer rates in order to fund the debt retirement.

Table A-2

City of Bellmead

Statement of Activities

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total 2007</u>	<u>Total 2006</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>		
Revenues:						
Program revenues:						
Charges for						
services	\$ 432,502	422,953	2,351,623	2,296,991	2,784,125	2,719,944
Operating grants	109,552	323,960	-	-	109,552	323,960
Capital grants	-	21,320	-	-	-	21,320
General revenues:						
Property taxes	782,685	735,492	-	-	782,685	735,492
Sales taxes	2,881,053	2,669,962	-	-	2,881,053	2,669,962
Franchise taxes	600,944	626,536	-	-	600,944	626,536
Hotel/motel						
taxes	269,118	256,982	-	-	269,118	256,982
Investment						
earnings	358,360	290,361	123,661	102,509	482,021	392,870
Miscellaneous	<u>154,691</u>	<u>180,528</u>	<u>-</u>	<u>-</u>	<u>154,691</u>	<u>180,528</u>
Total revenues	<u>5,588,905</u>	<u>5,528,094</u>	<u>2,475,284</u>	<u>2,399,500</u>	<u>8,064,189</u>	<u>7,927,594</u>
Expenses:						
General						
government	944,735	805,261	-	-	944,735	805,261
Public safety	1,793,789	1,707,270	-	-	1,793,789	1,707,270
Highways and						
streets	637,182	565,749	-	-	637,182	565,749
Economic						
development	180,045	480,957	-	-	180,045	480,957
Culture and						
recreation	402,691	350,407	-	-	402,691	350,407
Interest on long-						
term debt	85,720	94,943	-	-	85,720	94,943
Water and sewer	<u>-</u>	<u>-</u>	<u>2,189,055</u>	<u>1,938,309</u>	<u>2,189,055</u>	<u>1,938,309</u>
Total expenses	<u>4,044,162</u>	<u>4,004,587</u>	<u>2,189,055</u>	<u>1,938,309</u>	<u>6,233,217</u>	<u>5,942,896</u>
Increase in assets						
before transfers	1,544,743	1,523,507	286,229	461,191	1,830,972	1,984,698
Transfers	<u>445,000</u>	<u>327,000</u>	<u>(445,000)</u>	<u>(327,000)</u>	<u>-</u>	<u>-</u>
Changes in						
net assets	1,989,743	1,850,507	(158,771)	134,191	1,830,972	1,984,698
Net assets,						
beginning						
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>
Net assets,						
end of year						
	\$ <u>13,071,554</u>	<u>11,081,811</u>	<u>6,678,515</u>	<u>6,837,286</u>	<u>19,750,069</u>	<u>17,919,097</u>

Analysis of the City's Operations – Table A-2 provides a summary of the City's operations for the year ended September 30, 2007. Governmental activities increased the City's net assets by \$1,989,743. The business-type activities decreased net assets by \$158,771.

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, decreased by \$1,214,748. The significant changes in actual expenditures reflected decreases in economic and physical development of \$866,508. On the other hand, actual resources available were \$116,807 or 2.1% greater than the actual resources available in the prior year. Notable increases in actual resources were as follows: sales tax increased by \$211,091, investment earnings increased \$67,997, while intergovernmental revenue decreased \$263,499.

Proprietary Fund

For the current year, actual expenses, as compared to prior year actual expenses, increased by \$250,746 or 12.9%. On the other hand, actual revenues in the current year were \$75,781 or 3.2% greater than the actual revenues in the prior year. The notable increase in actual revenues was the result of an increase in sewer charges of \$126,660.

General Fund Budgetary Highlights

The original budget for the general fund was amended during the year. For fiscal year 2006-2007, revenues exceeded budgetary estimates and expenditures, including transfers, were less than budgetary estimates.

Actual expenditures, as compared to budget expenditures, decreased \$241,699. The most significant variance resulted from actual expenditures being more than budgeted in culture and recreation of \$121,490. On the other hand, actual resources available were \$165,668 more than budgeted resources.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During the year ended September 30, 2007, the City spent \$864,554 for governmental capital asset additions. Of the additions, \$730,832 represented expenditures for the City's new Municipal Service Center. Additionally, the City spent \$233,221 for enterprise capital asset additions during the year ended September 30, 2007.

- Total gross governmental capital assets as of September 30, 2007 are \$8,088,650. For the prior year, gross governmental capital assets were \$6,515,145.
- Total gross enterprise capital assets as of September 30, 2007 were \$10,577,107. For the prior year, gross enterprise capital assets were \$10,540,360.

Additional information on the City's capital assets can be found in Note 8 to the financial statements on pages 20 – 22 of this report.

Long-Term Debt

At September 30, 2007, the City had \$3,362,374 in bonds and notes outstanding. As of September 30, 2006, the City had \$2,077,410 in bonds and notes outstanding.

The increase in long-term debt during 2007 results from issuance of bonds in the amount of \$1,503,000 for its share of the WMARSS capital improvements (see Note 3).

Additional information on the City's long-term debt can be found in Note 9 to the financial statements on pages 22 - 24 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The City's adopted tax rate in effect for fiscal year 2008 is .267528, another reduction from the current year's tax rate.
- Net appraised value in effect for the fiscal year 2008 is \$286,798,015, a 15.75% increase from the net appraised value during the current year of \$247,774,534.
- The City plan for the construction of a new police department facility at a cost of \$875,000 is to be financed from existing funds.
- The City has budgeted \$360,000 for the remodeling of the exterior of the Civic Center.
- The citizens of Bellmead approved redirecting one-half of the sales tax previously used for economic development to highways and streets. This should amount to approximately \$490,000.
- The City has been awarded a federal grant in the amount of \$300,000 for a new swimming pool.
- A Holiday Inn Express is currently under construction in the City's industrial park. Also, another company is planning the construction of an operating plant in the industrial park.

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, 2007

Assets	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 8,170,926	3,500,362	11,671,288
Accounts receivable, net	480,922	366,291	847,213
Inventories	11,653	10,545	22,198
Due from other funds	28,279	2,107	30,386
Restricted cash and cash equivalents	-	357,375	357,375
Capital assets not being depreciated:			
Land	1,881,301	24,869	1,906,170
Construction in progress	-	324,734	324,734
Capital assets, net of accumulated depreciation:			
Buildings and improvements	2,251,862	3,061	2,254,923
Infrastructure	1,216,625	-	1,216,625
Water and sewer facilities	-	4,112,645	4,112,645
Equipment	1,075,333	294,136	1,369,469
Total assets	<u>15,116,901</u>	<u>8,996,125</u>	<u>24,113,026</u>
Liabilities			
Accounts payable	263,096	179,687	442,783
Accrued liabilities	118,823	75,529	194,352
Due to other funds	-	30,386	30,386
Accrued interest	6,320	15,633	21,953
Customer deposits payable	-	222,027	222,027
Noncurrent liabilities:			
Due within one year	272,108	292,529	564,637
Due in more than one year	1,385,000	1,501,819	2,886,819
Total liabilities	<u>2,045,347</u>	<u>2,317,610</u>	<u>4,362,957</u>
Net Assets			
Invested in capital assets, net of related debt	4,845,121	4,480,071	9,325,192
Restricted for:			
Court security and technology	38,110	-	38,110
Debt service	229,061	106,347	335,408
Capital projects	-	251,028	251,028
Economic development	5,386,892	-	5,386,892
Culture and recreation	560,149	-	560,149
Unrestricted	<u>2,012,221</u>	<u>1,841,069</u>	<u>3,853,290</u>
Total net assets	<u>\$ 13,071,554</u>	<u>6,678,515</u>	<u>19,750,069</u>

See accompanying notes to financial statements.

Statement of Activities

Year Ended September 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<u>Functions: Programs</u>						
Governmental activities:						
General government	\$ 944,735	-	-	(900,684)	-	(900,684)
Public safety	1,793,789	42,268	-	(1,389,185)	-	(1,389,185)
Highways and streets	637,182	-	-	(637,182)	-	(637,182)
Economic development	180,045	67,284	-	(112,761)	-	(112,761)
Culture and recreation	402,691	-	-	(376,576)	-	(376,576)
Interest on long-term debt	85,720	-	-	(85,720)	-	(85,720)
Total governmental activities	<u>4,044,162</u>	<u>109,552</u>	<u>-</u>	<u>(3,502,108)</u>	<u>-</u>	<u>(3,502,108)</u>
Business-type activities:						
Water and sewer	2,189,055	-	-	-	162,568	162,568
Total business-type activities	<u>2,189,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,568</u>	<u>162,568</u>
Total	<u>\$ 6,233,217</u>	<u>2,784,125</u>	<u>-</u>	<u>(3,502,108)</u>	<u>162,568</u>	<u>(3,339,540)</u>
General revenues:						
Property taxes, levied for general purposes				593,077	-	593,077
Property taxes, levied for debt service				189,608	-	189,608
City sales and use taxes				2,881,053	-	2,881,053
Franchise taxes				600,944	-	600,944
Hotel/motel taxes				269,118	-	269,118
Unrestricted investment earnings				358,360	123,661	482,021
Miscellaneous				154,691	-	154,691
Transfers				445,000	(445,000)	-
Total general revenues and transfers				<u>5,491,851</u>	<u>(321,339)</u>	<u>5,170,512</u>
Change in net assets				1,989,743	(158,771)	1,830,972
Net assets - beginning				11,081,811	6,837,286	17,919,097
Net assets - ending				<u>\$ 13,071,554</u>	<u>6,678,515</u>	<u>19,750,069</u>

See accompanying notes to financial statements.

City of Bellmead, Texas

Balance Sheet -
Governmental Funds

September 30, 2007

	<u>General</u>	<u>Bellmead Development Corporation</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and cash equivalents	\$ 2,518,450	5,347,927	24,035	280,514	8,170,926
Receivables:					
Taxes	230,212	78,784	-	23,112	332,108
Other	94,843	16,946	-	37,025	148,814
Due from other funds	102,873	-	-	-	102,873
Inventories	11,653	-	-	-	11,653
 Total assets	 <u>\$ 2,958,031</u>	 <u>5,443,657</u>	 <u>24,035</u>	 <u>340,651</u>	 <u>8,766,374</u>
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 178,617	45,941	-	38,538	263,096
Accrued liabilities	12,940	-	-	-	12,940
Due to other funds	63,770	10,824	-	-	74,594
Deferred revenue	74,210	-	-	23,112	97,322
Other	-	-	-	6,320	6,320
Total liabilities	<u>329,537</u>	<u>56,765</u>	<u>-</u>	<u>67,970</u>	<u>454,272</u>
Fund balances:					
Reserved for:					
Inventories	11,653	-	-	-	11,653
Drug enforcement	2,240	-	-	-	2,240
Debt service	-	-	-	205,949	205,949
Cultural activities	560,149	-	-	-	560,149
Public safety	5,216	-	-	-	5,216
Court technology	30,654	-	-	-	30,654
Unreserved:					
Designated for street improvements	305,140	-	-	-	305,140
Undesignated	1,713,442	5,386,892	24,035	-	7,124,369
Unreserved, reported in nonmajor:					
Special revenue fund	-	-	-	66,732	66,732
Total fund balances	<u>2,628,494</u>	<u>5,386,892</u>	<u>24,035</u>	<u>272,681</u>	<u>8,312,102</u>
Total liabilities and fund balances	<u>\$ 2,958,031</u>	<u>5,443,657</u>	<u>24,035</u>	<u>340,651</u>	

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.	6,425,121
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	97,322
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Includes compensated absences of \$182,991 and long-term debt of \$1,580,000.	<u>(1,762,991)</u>
Net assets of governmental activities	<u>\$ 13,071,554</u>

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, 2007

	General Fund	Bellmead Development Corporation	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 591,045	-	-	192,372	783,417
Sales taxes	1,920,702	960,351	-	-	2,881,053
Franchise taxes	600,944	-	-	-	600,944
Hotel/motel taxes	269,118	-	-	-	269,118
Licenses and permits	44,051	-	-	-	44,051
Intergovernmental	42,268	-	-	67,284	109,552
Parks and recreation fees	26,115	-	-	-	26,115
Fines and fees	362,336	-	-	-	362,336
Investment earnings	117,307	232,364	223	8,466	358,360
Micellaneous	118,782	35,909	-	-	154,691
Total revenues	<u>4,092,668</u>	<u>1,228,624</u>	<u>223</u>	<u>268,122</u>	<u>5,589,637</u>
Expenditures					
Current:					
General government	878,430	-	-	-	878,430
Public safety	1,695,302	-	-	-	1,695,302
Highways and streets	603,372	-	-	-	603,372
Economic and physical development	-	148,455	-	78,542	226,997
Culture and recreation	347,010	-	-	-	347,010
Debt service:					
Principal	-	-	-	185,000	185,000
Interest and other charges	-	-	-	85,720	85,720
Capital outlay	-	-	670,473	-	670,473
Total expenditures	<u>3,524,114</u>	<u>148,455</u>	<u>670,473</u>	<u>349,262</u>	<u>4,692,304</u>
Excess (deficiency) of revenues over expenditures	<u>568,554</u>	<u>1,080,169</u>	<u>(670,250)</u>	<u>(81,140)</u>	<u>897,333</u>
Other financing sources (uses)					
Proceeds from sale of assets	-	-	-	-	-
Transfers in	-	-	823,000	65,000	888,000
Transfers out	(443,000)	-	-	-	(443,000)
Total other financing sources (uses)	<u>(443,000)</u>	<u>-</u>	<u>823,000</u>	<u>65,000</u>	<u>445,000</u>
Net change in fund balances	<u>125,554</u>	<u>1,080,169</u>	<u>152,750</u>	<u>(16,140)</u>	<u>1,342,333</u>
Fund balances, beginning of year, as previously reported	2,326,062	4,306,723	(128,715)	288,821	6,792,891
Prior period adjustment	176,878	-	-	-	176,878
Fund balances, beginning of year, as restated	<u>2,502,940</u>	<u>4,306,723</u>	<u>(128,715)</u>	<u>288,821</u>	<u>6,969,769</u>
Fund balances, ending	\$ <u>2,628,494</u>	<u>5,386,892</u>	<u>24,035</u>	<u>272,681</u>	<u>8,312,102</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, 2007

Net change in fund balances - total governmental funds	\$ 1,342,333
Amounts reported for governmental activities in the statement of activities are different because:	
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 (\$395,299) exceeded capital asset additions (\$864,554) in the current period.	469,255
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(732)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	185,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(6,113)</u>
Change in net assets of governmental activities	<u>\$ 1,989,743</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 568,000	592,000	591,045	(955)
Sales taxes	1,900,000	1,930,000	1,920,702	(9,298)
Franchise taxes	529,000	579,000	600,944	21,944
Hotel/motel taxes	243,000	274,500	269,118	(5,382)
Licenses and permits	61,500	42,500	44,051	1,551
Intergovernmental	50,000	30,000	42,268	12,268
Parks and recreation fees	40,000	30,000	26,115	(3,885)
Fines and fees	340,000	320,000	362,336	42,336
Investment earnings	45,000	75,000	117,307	42,307
Miscellaneous	47,500	54,000	118,782	64,782
Total revenues	<u>3,824,000</u>	<u>3,927,000</u>	<u>4,092,668</u>	<u>165,668</u>
Expenditures:				
Current:				
General government	950,000	848,313	878,430	(30,117)
Public safety	1,750,500	1,752,500	1,695,302	57,198
Highways and streets	760,500	696,500	603,372	93,128
Culture and recreation	719,400	468,500	347,010	121,490
Total expenditures	<u>4,180,400</u>	<u>3,765,813</u>	<u>3,524,114</u>	<u>241,699</u>
Excess (deficiency) of revenues over expenditures	<u>(356,400)</u>	<u>161,187</u>	<u>568,554</u>	<u>407,367</u>
Other financing sources (uses):				
Transfers in	150,000	-	-	-
Transfers out	(535,000)	(465,000)	(443,000)	22,000
Total other financing sources (uses)	<u>(385,000)</u>	<u>(465,000)</u>	<u>(443,000)</u>	<u>22,000</u>
Net change in fund balance	(741,400)	(303,813)	125,554	429,367
Fund balance, beginning as restated	<u>2,006,777</u>	<u>2,390,077</u>	<u>2,502,940</u>	<u>(112,863)</u>
Fund balance, ending	\$ <u><u>1,265,377</u></u>	<u><u>2,086,264</u></u>	<u><u>2,628,494</u></u>	<u><u>542,230</u></u>

See accompanying notes to financial statements.

Statement of Net Assets -
Proprietary Fund

September 30, 2007

Assets	Business-type Activities - Enterprise Fund
	<u>Water and Sewer Fund</u>
Current assets:	
Cash and cash equivalents	\$ 3,500,362
Accounts receivable (net of allowance for uncollectibles of \$15,599):	
Accounts	350,647
Other	15,644
Due from Other Funds	2,107
Inventories	10,545
Restricted cash	357,375
Total current assets	<u>4,236,680</u>
Noncurrent assets:	
Capital assets:	
Land	24,869
Buildings and improvements	13,711
Water and sewer facilities	9,364,084
Equipment	1,199,312
Construction in progress	324,734
Less accumulated depreciation	<u>(6,167,265)</u>
Total capital assets (net of accumulated depreciation)	<u>4,759,445</u>
Total noncurrent assets	<u>4,759,445</u>
Total assets	<u>8,996,125</u>
Liabilities	
Current liabilities:	
Accounts payable	179,687
Accrued expense	67,236
Due to other funds	30,386
Customer deposits payable	222,027
Compensated absences, current portion	11,974
Revenue bond and note payable, current portion	158,243
Total current liabilities	<u>669,553</u>
Noncurrent liabilities:	
Compensated absences	23,926
Revenue bond and note payable	1,624,131
Total noncurrent liabilities	<u>1,648,057</u>
Total liabilities	<u>2,317,610</u>
Net Assets	
Invested in capital assets, net of related debt	2,977,071
Restricted for:	
Debt service	106,347
Capital projects	251,028
Unrestricted	3,344,069
Total net assets	<u>\$ 6,678,515</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, 2007

	<u>Business-type Activities-</u> <u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
Operating revenues:	
Charges for sales and services:	
Water sales	\$ 1,449,555
Sewer charges	759,798
Turn-on fees	32,785
Water and sewer tap fees	2,050
Chipper fees	38,222
Other	10,262
Total operating revenue	<u>2,292,672</u>
Operating expenses:	
Salaries and benefits	745,706
System repair and maintenance	237,289
Auto and equipment maintenance	68,293
Supplies	170,393
Office expense	25,426
Professional fees	48,002
Utilities	355,645
Bad debts	7,572
Depreciation	466,286
Insurance	13,735
Miscellaneous	35,075
Bond Interest Expense	15,633
Total operating expenses	<u>2,189,055</u>
Operating income	103,617
Nonoperating revenues (expenses):	
Interest and miscellaneous	<u>182,609</u>
Total nonoperating revenue (expenses)	<u>182,609</u>
Income before transfers	286,226
Transfers out	<u>(445,000)</u>
Change in net assets	(158,774)
Total net assets - beginning	<u>6,837,286</u>
Total net assets - ending	<u>\$ 6,678,515</u>

See accompanying notes to financial statements.

City of Bellmead, Texas

Statement of Cash Flows -
Proprietary Fund

Year Ended September 30, 2007

	Business-type Activities- Enterprise Fund
	<u>Water and Sewer Fund</u>
Cash flows from operating activities:	
Receipts from customers and users	\$ 2,247,005
Payments to suppliers	(958,344)
Payments to employees	(739,106)
Net cash provided by operating activities	<u>549,555</u>
Cash flows from noncapital financing activities:	
Transfer out	(445,000)
Net cash used in noncapital and financing activities	<u>(445,000)</u>
Cash flows from capital and related financing activities:	
Proceeds from acquisition of capital debt	1,503,000
Acquisition of capital assets	(233,222)
Principal paid on general obligation bonds	(33,036)
Net cash provided by capital and related financing activities	<u>1,236,742</u>
Cash flows from investing activities:	
Interest received	182,612
Net cash provided by investing activities	<u>182,612</u>
Net increase in cash and cash equivalents	1,523,909
Cash and cash equivalents, at beginning of year	<u>2,333,828</u>
Cash and cash equivalents, at end of year	<u>\$ 3,857,737</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 103,617
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	466,286
Change in assets and liabilities:	
Account receivables, net	(45,332)
Inventories	6,463
Due from Other Funds	(2,107)
Accounts payables	(16,745)
Other liabilities	37,373
Net cash provided by operating activities	<u>\$ 549,555</u>

See accompanying notes to financial statements.

City of Bellmead, Texas

Notes to Financial Statements

September 30, 2007

(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*.

City of Bellmead, TexasNotes 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 2007 tax and revenue certificates of obligation will be used to fund construction projects related to the Waco Metropolitan Area Regional Sewer System.

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

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)

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 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 local government investment pool was created to function as a money market mutual fund within the meaning of Rule 2a-7 of the Investment Company Act of 1940 and seeks to maintain a constant \$1.00 net asset value per share. The reported value of the pool 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 is 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 consists of the city managers from each of the seven 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		\$ 449,453
Capital assets		639,668
Current liabilities		<u>(54,456)</u>
Net assets		\$ <u>1,034,665</u>
Operating expenses		\$ (313,756)
Non-operating revenue		<u>43,236</u>
Net loss		\$ <u>(270,520)</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	\$ 4,269,220
Undivided interest in bank deposits held by another government	419,256
External investment pools	<u>7,340,187</u>
Total cash and cash equivalents	\$ <u>12,028,663</u>

Custodian Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. City policy requires all deposits to be fully secured in accordance with the Texas Government Code, Chapter 2257, by either surety bonds, letters of credit of the United States or its agencies and instrumentalities, or by eligible securities held by an independent third-party custodian.

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

For an investment, custodial credit risk is the risk that in the event of the failure of the counter-party, the City would not be able to recover the value of its investment or collateralized securities that are in the possession of an outside third party. The City's investment policy requires that the purchase of investment securities be settled on a delivery basis and that ownership of all securities be perfected in the name of the City.

At September 30, 2007, 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, 2007 is 54 days and 51 days, respectively.

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, 2007, the City's investment in TexPool and TexSTAR was rated AAA by Standard & Poor.

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

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(5) Deposits and Investments (continued)

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.

(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 2006 levy was based was \$276,143,725.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 2007 were 96.04 % of the tax levy.

(7) Interfund Receivables, Payables, and Transfers

Interfund receivables and payable balances at September 30, 2007 are as follows:

<u>Funds</u>	<u>Receivable</u>	<u>Payable</u>
General fund	\$ 102,873	63,770
Economic Development Corporation	-	10,824
Water and sewer fund	<u>2,107</u>	<u>30,386</u>
Totals	\$ <u>104,980</u>	<u>104,980</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(7) Interfund Receivables, Payables, and Transfers (continued)

Interfund transfers at September 30, 2007 are as follows:

	<u>Transfers in</u>		
	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Transfers out:			
General	\$ 443,000	-	443,000
Enterprise	<u>380,000</u>	<u>65,000</u>	<u>445,000</u>
Total transfers	\$ <u>823,000</u>	<u>65,000</u>	<u>888,000</u>

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, 3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or match funds for various grant programs.

(8) Capital Assets

Capital asset activity for the year ended September 30, 2007 was as follows:

	<u>Balance October 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2007</u>
<u>Governmental activities:</u>				
Capital assets, not depreciated:				
Land	\$ 1,881,301	-	-	1,881,301
Construction in progress	<u>708,951</u>	<u>-</u>	<u>(708,951)</u>	<u>-</u>
Total capital assets not being depreciated	<u>2,590,252</u>	<u>-</u>	<u>(708,951)</u>	<u>1,881,301</u>
Capital assets, being depreciated:				
Buildings and improvements	1,644,524	1,439,783	-	3,084,307
Infrastructure	1,273,108	-	-	1,273,108
Equipment	<u>3,597,513</u>	<u>133,722</u>	<u>-</u>	<u>3,731,235</u>
Total capital assets being depreciated	<u>6,515,145</u>	<u>1,573,505</u>	<u>-</u>	<u>8,088,650</u>

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(8) Capital Assets (continued)

	<u>Balance October 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2007</u>
<u>Governmental activities: (continued)</u>				
Less accumulated depreciation for:				
Buildings and improvements	\$ (739,182)	(93,263)	-	(832,445)
Infrastructure	(24,656)	(31,827)	-	(56,483)
Equipment	<u>(2,385,693)</u>	<u>(270,209)</u>	<u>-</u>	<u>(2,655,902)</u>
Total accumulated depreciation	<u>(3,149,531)</u>	<u>(395,299)</u>	<u>-</u>	<u>(3,544,830)</u>
Total capital assets, being depreciated, net	<u>3,365,614</u>	<u>1,178,206</u>	<u>-</u>	<u>4,543,820</u>
Governmental activities capital assets, net	\$ <u>5,955,866</u>	<u>1,178,206</u>	<u>(708,951)</u>	<u>6,425,121</u>
<u>Business-type activities:</u>				
Capital assets, not depreciated:				
Land	\$ 24,869	-	-	24,869
Construction in progress	<u>128,260</u>	<u>196,474</u>	<u>-</u>	<u>324,734</u>
Total capital assets not being depreciated	<u>153,129</u>	<u>196,474</u>	<u>-</u>	<u>349,603</u>
Capital assets, being depreciated:				
Buildings and improvements	13,711	-	-	13,711
Water and sewer facilities	9,359,943	4,141	-	9,364,084
Equipment	<u>1,166,706</u>	<u>32,606</u>	<u>-</u>	<u>1,199,312</u>
Total capital assets being depreciated	<u>10,540,360</u>	<u>36,747</u>	<u>-</u>	<u>10,577,107</u>

City of Bellmead, Texas
Notes to Financial Statements
(Continued)

(8) Capital Assets (continued)

	Balance October 1, <u>2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2007</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ (10,341)	(309)	-	(10,650)
Water and sewer facilities	(4,871,896)	(379,543)	-	(5,251,439)
Equipment	<u>(818,742)</u>	<u>(86,434)</u>	<u>-</u>	<u>(905,176)</u>
Total accumulated depreciation	<u>(5,700,979)</u>	<u>(466,286)</u>	<u>-</u>	<u>(6,167,265)</u>
Total capital assets, being depreciated, net	<u>4,839,381</u>	<u>(429,539)</u>	<u>-</u>	<u>4,409,842</u>
Business-type activities capital assets, net	\$ <u>4,992,510</u>	<u>(233,065)</u>	<u>-</u>	<u>4,759,445</u>

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

Governmental activities:	
General government	\$ 46,648
Public safety	219,513
Highways and streets	40,193
Economic development	33,263
Culture and recreation	<u>55,682</u>
Total depreciation expense – governmental activities	\$ <u>395,299</u>
Business-type activities:	
Water and sewer	\$ <u>466,286</u>

(9) Long-Term Debt

Long-term debt consists of bonded indebtedness, notes payable, and compensated absences. 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. For the governmental activities, compensated absences are generally liquidated by the general fund.

City of Bellmead, Texas

Notes to Financial Statements
(Continued)(9) Long-Term Debt (continued)

The following is a summary of changes in long-term debt for the year ended September 30, 2007:

	<u>October 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2007</u>	<u>Due Within One Year</u>
Governmental activities:					
Tax and revenue certificates of obligation	\$ 1,765,000	-	(185,000)	1,580,000	195,000
Compensated Absences	<u>176,878</u>	<u>88,221</u>	<u>(82,108)</u>	<u>182,991</u>	<u>77,108</u>
	<u>\$ 1,941,878</u>	<u>88,221</u>	<u>(267,108)</u>	<u>1,762,991</u>	<u>272,108</u>
Business-type activities:					
Tax and revenue certificates of obligation	\$ -	1,503,000	-	1,503,000	122,312
Note payable	312,410	-	(33,036)	279,374	158,243
Compensated absences	<u>24,641</u>	<u>23,232</u>	<u>(11,974)</u>	<u>35,899</u>	<u>11,974</u>
	<u>\$ 337,051</u>	<u>1,526,232</u>	<u>(45,010)</u>	<u>1,818,273</u>	<u>292,529</u>

Long-term debt for governmental activities at September 30, 2007 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>1,580,000</u>
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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 \$9,556 to \$66,690 with interest at 3.65%	\$ 279,374
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\$1,503,000 series 2007 tax and revenue certificates of obligation, due in annual installments of \$122,312 to \$181,768 with interest at 4.5%	<u>1,503,000</u>
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	\$ <u>1,782,374</u>
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City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(9) Long-Term Debt (continued)

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>
2008	\$ 195,000	75,838
2009	200,000	65,866
2010	215,000	55,941
2011	225,000	44,434
2012	235,000	32,701
2013-2014	<u>510,000</u>	<u>28,985</u>
	<u>\$ 1,580,000</u>	<u>303,765</u>

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

<u>Year Ended</u> <u>September 30,</u>	<u>Certificates of Obligation</u>		<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 122,312	67,635	34,555	9,570
2009	127,816	62,131	35,861	8,285
2010	133,568	56,379	37,222	6,950
2011	139,579	50,369	9,556	6,096
2012	145,860	44,088	10,046	5,739
2013-2017	833,865	115,872	55,415	22,862
2018-2022	-	-	66,509	11,758
2023-2025	<u>-</u>	<u>-</u>	<u>30,210</u>	<u>1,111</u>
	<u>\$ 1,503,000</u>	<u>396,474</u>	<u>279,374</u>	<u>72,371</u>

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.

City of Bellmead, TexasNotes to Financial Statements
(Continued)(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 821 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 821 municipalities has an annual, individual actuarial valuation performed.

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 sixty and above with five or more years of service or with 25 years of service regardless of age. A member is vested after five years.

(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.

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(10) Employee Benefit Plan (continued)

(b) Contributions (continued)

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, 2006 valuation is effective for rates beginning January 2008.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial valuation date	<u>December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Actuarial valuation of assets	\$ 4,748,231	4,250,826	4,045,510
Actuarial accrued liability	5,361,117	4,739,405	4,556,355
Percentage funded	88.6%	89.7%	88.8%
Unfunded actuarial accrued liability (UAAL)	\$ 612,886	488,579	510,845
Annual covered payroll	2,024,218	1,894,604	1,833,084
UAAL as a percentage of covered payroll	30.28%	25.8%	27.9%

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,		
	2007	2006	2005
Net pension obligation (NPO) (NPO) at the beginning of period	\$ -	-	-
Annual pension cost:			
Annual required contribution	218,317	193,747	193,024
Contributions made	218,317	193,747	193,024
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, ¶36e 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, TexasNotes 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 (the 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 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.

(13) Authoritative Pronouncements Not Yet Effective

A summary of pronouncements issued by the Governmental Accounting Standards Board (GASB), which may impact the City but are not yet effective follows. The City has not yet determined the effects of the adoption of these pronouncements on the financial statements.

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (issued July 2004) – This statement establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2006.

GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues (issued in September 2006) – This statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as sales or collateral borrowings. The statement also includes disclosure requirements for future revenues that are pledged or sold. The requirements of the new statement become effective for periods beginning after December 15, 2006.

City of Bellmead, TexasNotes to Financial Statements
(Continued)(13) Authoritative Pronouncements Not Yet Effective

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (issued November 2006) – This statement provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. The requirements of the new statement become effective for periods beginning after December 15, 2007.

(14) Prior Period Adjustment

During the current year, the City determined that accrued liabilities in the general fund were overstated in prior years due to improperly recording accrued vacation and sick leave. Accordingly, the fund balance of the general fund as of October 1, 2006 was increased by \$176,878.