

City of Bellmead, Texas
Financial Statements
September 30, 2008
(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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 respective 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, 2008, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparisons for the general fund and Bellmead Economic Development Corporation (a special revenue fund) 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.

February 3, 2009

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, 2008. 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 \$21,339,275 (net assets). Of this amount, \$4,005,907 (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, 2007 by \$19,750,069. Of this amount, \$3,853,290 (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 \$1,876,148 from the prior year.
- As of September 30, 2008, the City of Bellmead's governmental funds reported ending fund balances of \$7,707,983. Of this amount, \$1,562,596 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 \$8,312,102. Of this amount, \$1,713,442 was unreserved undesignated fund balance in the general fund available for use within the City's fiscal policies.
- At September 30, 2008, the restricted net assets of the governmental activities are \$5,411,383, of which \$4,741,350 were restricted for economic development and \$771,007 were restricted for culture and recreation. In the prior year, restricted net assets of the governmental activities were \$6,020,839 of which \$5,386,892 were restricted for economic development and \$560,149 were restricted for culture and recreation.
- As of September 30, 2008, the City of Bellmead's enterprise fund reported ending fund net assets of \$6,885,274. Of this amount, \$2,245,298 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 \$6,678,515. Of this amount, \$3,344,069 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 8 through 10 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 11 through 31 of this report.

Government-wide Financial Analysis

Net assets. The City's combined net assets were \$21,339,275 at September 30, 2008, which is an 8% increase from September 30, 2007. (See Table A-1.) The largest portion of the City's net assets, \$11,201,340, 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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets \$	8,424,923	8,691,780	4,539,150	4,236,680	12,964,073	12,928,460
Capital assets	<u>8,240,531</u>	<u>6,425,121</u>	<u>4,493,435</u>	<u>4,759,445</u>	<u>12,733,966</u>	<u>11,184,566</u>
Total assets	<u>16,665,454</u>	<u>15,116,901</u>	<u>9,032,585</u>	<u>8,996,125</u>	<u>25,698,039</u>	<u>24,113,026</u>
Long-term liabilities	1,323,085	1,385,000	1,489,975	1,501,819	2,813,060	2,886,819
Other liabilities	<u>888,368</u>	<u>660,347</u>	<u>657,336</u>	<u>815,791</u>	<u>1,545,704</u>	<u>1,476,138</u>
Total liabilities	<u>2,211,453</u>	<u>2,045,347</u>	<u>2,147,311</u>	<u>2,317,610</u>	<u>4,358,764</u>	<u>4,362,957</u>

City of Bellmead

Net Assets

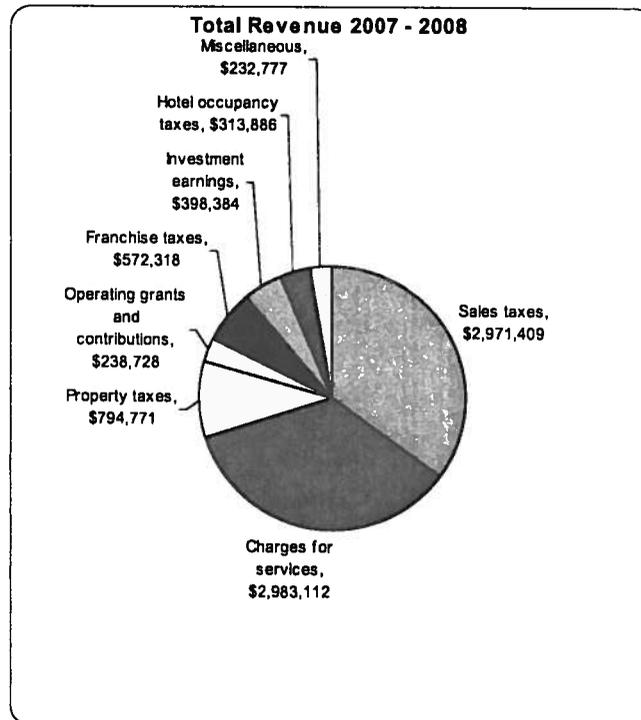
(Continued)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Net assets:						
Invested in capital assets, net of related debt	\$ 6,855,531	4,845,121	4,345,809	4,480,071	11,201,340	9,325,192
Restricted	5,837,861	6,214,212	294,167	357,375	6,132,028	6,571,587
Unrestricted	<u>1,760,609</u>	<u>2,012,221</u>	<u>2,245,298</u>	<u>1,841,069</u>	<u>4,005,907</u>	<u>3,853,290</u>
Total net assets	\$ <u>14,454,001</u>	<u>13,071,554</u>	<u>6,885,274</u>	<u>6,678,515</u>	<u>21,339,275</u>	<u>19,750,069</u>

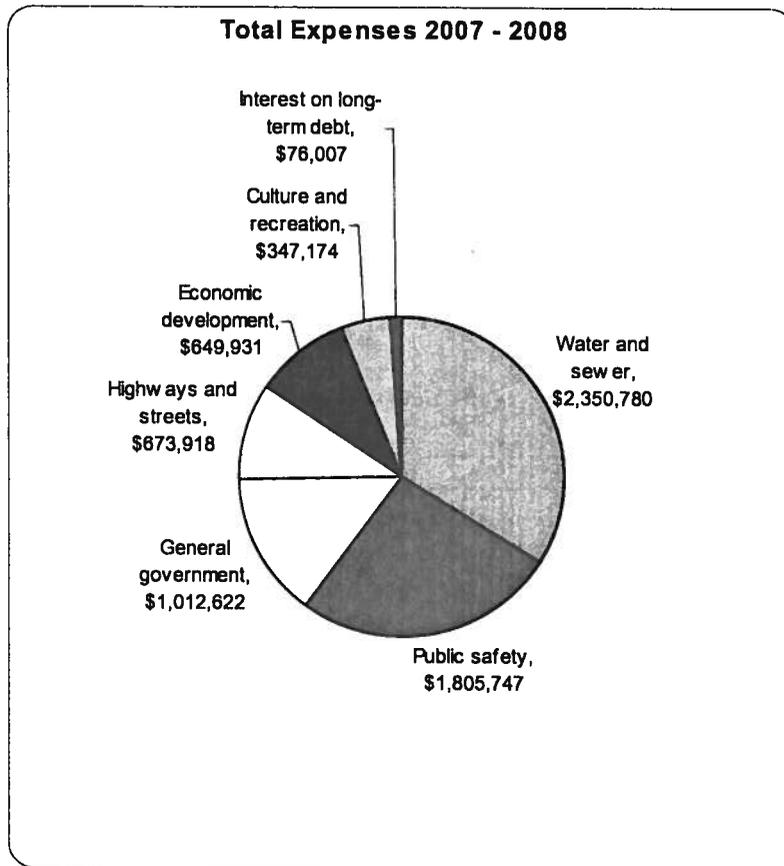
As of September 30, 2008, the City has positive balances in all three categories of net assets, both for the government as a whole as well as separately for its governmental and business-type activities.

Changes in Net Assets. The City's total revenues were \$8,505,385. Property taxes comprise 9.3% or \$794,771 of the City's revenue. Sales tax revenue comprises 34.9% or \$2,971,409 of the City's revenue. In addition, \$2,983,112 or 35.1% comes from charges for services; water and sewer fees of \$2,472,418 comprise 82.9% of the charges for services.

For the prior year, 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 service; water and sewer fees comprise 84.5% or \$2,351,623 of the charges for service.



The total cost of all programs and services for the year ended September 30, 2008 was \$6,916,179. For the prior year ended September 30, 2007, the total cost of all programs and services was \$6,233,217.



Governmental Activities

- The City was able to lower its property tax rate from .278817 to .267528 per \$100 valuation due to higher property appraisals and continued commercial growth.

Business-type Activities

- During 2007, the City annexed 398 acres of land which are available for economic development. In 2009, the City has budgeted \$150,000 for utility lines to the area.
- During 2008, the City began construction of a police department facility with a total cost of \$787,000, of which \$592,529 was expended in fiscal year 2008 to be financed from existing funds.

Table A-2
City of Bellmead
Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 510,694	432,502	2,472,418	2,351,623	2,983,112	2,784,125
Operating grants	238,728	109,552	-	-	238,728	109,552
General revenues:						
Property taxes	794,771	782,685	-	-	794,771	782,685
Sales taxes	2,971,409	2,881,053	-	-	2,971,409	2,881,053
Franchise taxes	572,318	600,944	-	-	572,318	600,944
Hotel/motel taxes	313,886	269,118	-	-	313,886	269,118
Investment earnings	266,579	358,360	131,805	123,661	398,384	482,021
Miscellaneous	187,500	154,691	45,277	-	232,777	154,691
Total revenues	<u>5,855,885</u>	<u>5,588,905</u>	<u>2,649,500</u>	<u>2,475,284</u>	<u>8,505,385</u>	<u>8,064,189</u>
Expenses:						
General government	1,012,622	944,735	-	-	1,012,622	944,735
Public safety	1,805,747	1,793,789	-	-	1,805,747	1,793,789
Highways and streets	673,918	637,182	-	-	673,918	637,182
Economic development	649,931	180,045	-	-	649,931	180,045
Culture and recreation	347,174	402,691	-	-	347,174	402,691
Interest on long-term debt	76,007	85,720	-	-	76,007	85,720
Water and sewer	-	-	2,350,780	2,189,055	2,350,780	2,189,055
Total expenses	<u>4,565,399</u>	<u>4,044,162</u>	<u>2,350,780</u>	<u>2,189,055</u>	<u>6,916,179</u>	<u>6,233,217</u>
Increase in assets before transfers	1,290,486	1,544,743	298,720	286,229	1,589,206	1,830,972
Transfers	91,961	445,000	(91,961)	(445,000)	-	-
Changes in net assets	1,382,447	1,989,743	206,759	(158,771)	1,589,206	1,830,972
Net assets, beginning 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>
Net assets, end of year	<u>\$ 14,454,001</u>	<u>13,071,554</u>	<u>6,885,274</u>	<u>6,678,515</u>	<u>21,339,275</u>	<u>19,750,069</u>

Analysis of the City's Operations – Table A-2 provides a summary of the City's operations for the year ended September 30, 2008. Governmental activities increased the City's net assets by \$1,382,447. The business-type activities increased net assets by \$206,759.

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 \$1,865,094. The significant changes in actual expenditures reflected increases in economic development of \$1,692,026. On the other hand, actual resources available were \$271,681 or 4.9% greater than the actual resources available in the prior year. Notable increases in actual resources were as follows: sales tax increased by \$90,356, investment earnings decreased \$91,781, while charges for services increased \$198,987.

Proprietary Fund

For the current year, actual expenses, as compared to prior year actual expenses, increased by \$101,560 or 4.6%. On the other hand, actual revenues in the current year were \$179,746 or 7.8% greater than the actual revenues in the prior year. The notable increase in actual revenues was an increase in water sales and service in the amount of \$194,427.

General Fund Budgetary Highlights

The original budget for the general fund was amended during the year. For fiscal year 2007-2008, revenues exceeded budgetary estimates and expenditures, including transfers, were less than budgetary estimates.

Actual expenditures, as compared to budget expenditures, decreased \$320,097. The most significant variance resulted from actual expenditures being more than budgeted in culture and recreation of \$187,218. On the other hand, actual resources available were \$70,742 more than budgeted resources.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During the year ended September 30, 2008, the City spent \$2,213,527 for governmental capital asset additions. Of the additions, \$592,529 represented expenditures for the City's new Municipal Service Center. Additionally, the City spent \$231,886 for enterprise capital asset additions during the year ended September 30, 2008.

- Total gross governmental capital assets as of September 30, 2008 are \$11,962,820. For the prior year, gross governmental capital assets were \$9,969,951.
- Total gross enterprise capital assets as of September 30, 2008 were \$10,249,580. For the prior year, gross enterprise capital assets were \$10,926,710.

Additional information on the City's capital assets can be found in Note 8 to the financial statements on pages 21 – 24 of this report.

Long-Term Debt

At September 30, 2008, the City had \$3,132,819 in bonds and notes outstanding. As of September 30, 2007, the City had \$3,362,374 in bonds and notes outstanding.

Additional information on the City's long-term debt can be found in Note 9 to the financial statements on pages 25 - 27 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The City's adopted tax rate in effect for fiscal year 2009 is .253304, another reduction from the current year's tax rate.
- Net appraised value in effect for the fiscal year 2009 is \$307,335,198, a 15.75% increase from the net appraised value during the current year of \$286,798,015.
- The City is planning to remodel the exterior of the Civic Center.
- The City has been awarded a federal grant in the amount of \$300,000 for a new aquatic facility.
- The City has a new Holiday Inn with a meeting room and restaurant which will increase the hotel tax and tourism revenues. The City also has an agreement with Holiday Inn for several years of billboard advertising.
- The newly created street sales tax will fund major street improvements in the Paradise/Treasure Island area at a cost of approximately \$400,000.
- Collins Street Bakery is being constructed and will open in 2009, which will bring in shoppers and increase sales tax and property tax revenues.
- Bellmead Economic Development Corporation, a blended component unit, is constructing an industrial facility to house Texas Machine and Tool. The new business will increase property tax, payroll and employment for the City and promote economic development for the community. In 2008, the City spent \$1,300,000 on construction costs.

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.

City of Bellmead, Texas

Statement of Net Assets

September 30, 2008

Assets	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 8,034,445	2,034,233	10,068,678
Accounts receivable, net	387,193	349,988	737,181
Inventories	3,461	24,573	28,034
Internal balances	(176)	176	-
Restricted cash and cash equivalents	-	2,130,180	2,130,180
Capital assets not being depreciated:			
Land	1,881,301	42,896	1,924,197
Construction in progress	1,902,296	284,501	2,186,797
Capital assets, net of accumulated depreciation:			
Buildings and improvements	2,133,109	2,752	2,135,861
Infrastructure	1,184,797	-	1,184,797
Water and sewer facilities	-	3,814,082	3,814,082
Equipment	1,139,028	349,204	1,488,232
Total assets	<u>16,665,454</u>	<u>9,032,585</u>	<u>25,698,039</u>
Liabilities			
Accounts payable	592,440	198,062	790,502
Accrued liabilities	27,122	47,770	74,892
Accrued interest	5,489	7,850	13,339
Customer deposits payable	-	229,199	229,199
Noncurrent liabilities:			
Due within one year	263,317	174,455	437,772
Due in more than one year	1,323,085	1,489,975	2,813,060
Total liabilities	<u>2,211,453</u>	<u>2,147,311</u>	<u>4,358,764</u>
Net Assets			
Invested in capital assets, net of related debt	6,855,531	4,345,809	11,201,340
Restricted for:			
Court security and technology	94,426	-	94,426
Debt service	231,078	41,849	272,927
Capital projects	-	252,318	252,318
Economic development	4,741,350	-	4,741,350
Culture and recreation	771,007	-	771,007
Unrestricted	<u>1,760,609</u>	<u>2,245,298</u>	<u>4,005,907</u>
Total net assets	<u>\$ 14,454,001</u>	<u>6,885,274</u>	<u>21,339,275</u>

See accompanying notes to financial statements.

City of Belmead, Texas

Statement of Activities

Year Ended September 30, 2008

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government	\$ 1,012,622	40,386	-	(972,236)	-	(972,236)
Public safety	1,805,747	436,383	34,990	(1,334,374)	-	(1,334,374)
Highways and streets	673,918	-	-	(673,918)	-	(673,918)
Economic development	649,931	-	203,738	(446,193)	-	(446,193)
Culture and recreation	347,174	33,925	-	(313,249)	-	(313,249)
Interest on long-term debt	76,007	-	-	(76,007)	-	(76,007)
Total governmental activities	<u>4,565,399</u>	<u>510,694</u>	<u>238,728</u>	<u>(3,815,977)</u>	<u>-</u>	<u>(3,815,977)</u>
Business-type activities:						
Water and sewer	2,350,780	2,472,418	-	-	121,638	121,638
Total business-type activities	<u>2,350,780</u>	<u>2,472,418</u>	<u>-</u>	<u>-</u>	<u>121,638</u>	<u>121,638</u>
Total	<u>\$ 6,916,179</u>	<u>2,983,112</u>	<u>238,728</u>	<u>(3,815,977)</u>	<u>121,638</u>	<u>(3,694,339)</u>
General revenues:						
Property taxes, levied for general purposes				589,192	-	589,192
Property taxes, levied for debt service				205,579	-	205,579
Sales taxes				2,971,409	-	2,971,409
Franchise taxes				572,318	-	572,318
Hotel occupancy taxes				313,886	-	313,886
Investment earnings				266,579	131,805	398,384
Miscellaneous				187,500	45,277	232,777
Transfers				91,961	(91,961)	-
Total general revenues and transfers				<u>5,198,424</u>	<u>85,121</u>	<u>5,283,545</u>
Change in net assets				1,382,447	206,759	1,589,206
Net assets - beginning				13,071,554	6,678,515	19,750,069
Net assets - ending				<u>\$ 14,454,001</u>	<u>6,885,274</u>	<u>21,339,275</u>

See accompanying notes to financial statements.

City of Bellmead, Texas

Balance Sheet –
Governmental Funds

September 30, 2008

<u>Assets</u>	<u>General</u>	<u>Bellmead Economic Development Corporation</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 2,751,269	4,968,199	2,702	312,275	8,034,445
Receivables (net of allowance for uncollectibles)	267,179	51,931	-	68,083	387,193
Due from other funds	43,390	-	-	40,989	84,379
Inventories	3,461	-	-	-	3,461
Total assets	\$ 3,065,299	5,020,130	2,702	421,347	8,509,478
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 152,961	237,599	201,563	317	592,440
Accrued liabilities	27,122	-	-	5,489	32,611
Due to other funds	36,413	41,181	-	6,961	84,555
Deferred revenue - delinquent property taxes	68,009	-	-	23,880	91,889
Total liabilities	284,505	278,780	201,563	36,647	801,495
Fund balances:					
Reserved for:					
Inventories	3,461	-	-	-	3,461
Drug enforcement	821	-	-	-	821
Cultural activities	771,007	-	-	-	771,007
Public safety	65,093	-	-	-	65,093
Court technology	28,512	-	-	-	28,512
Economic development	-	4,741,350	-	-	4,741,350
Capital acquisition	-	-	(198,861)	-	(198,861)
Unreserved, designated for:					
Street improvements	349,304	-	-	-	349,304
Unreserved, undesignated reported in:					
General fund	1,562,596	-	-	-	1,562,596
Special revenue fund	-	-	-	177,502	177,502
Debt service fund	-	-	-	207,198	207,198
Total fund balances	2,780,794	4,741,350	(198,861)	384,700	7,707,983
Total liabilities and fund balances	\$ 3,065,299	5,020,130	2,702	421,347	

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.	8,240,531
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	91,889
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Includes compensated absences of \$201,402 and long-term debt of \$1,385,000.	(1,586,402)

Net assets of governmental activities \$ 14,454,001

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, 2008

	<u>General</u>	<u>Bellmead Economic Development Corporation</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes:					
Property taxes	\$ 595,393	-	-	204,811	800,204
Sales taxes	1,980,939	781,765	-	208,705	2,971,409
Franchise taxes	572,318	-	-	-	572,318
Hotel occupancy	313,886	-	-	-	313,886
Licenses and permits	40,386	-	-	-	40,386
Intergovernmental	34,990	-	-	203,738	238,728
Parks and recreation fees	33,925	-	-	-	33,925
Fines and fees	436,383	-	-	-	436,383
Investment earnings	84,268	174,381	99	7,831	266,579
Micellaneous	106,754	80,746	-	-	187,500
Total revenues	<u>4,199,242</u>	<u>1,036,892</u>	<u>99</u>	<u>625,085</u>	<u>5,861,318</u>
Expenditures					
Current:					
General government	877,738	-	-	-	877,738
Public safety	1,782,202	-	-	-	1,782,202
Highways and streets	671,181	-	-	65,470	736,651
Economic and physical development	-	1,682,434	-	236,589	1,919,023
Culture and recreation	297,782	-	-	-	297,782
Debt service:					
Principal	-	-	-	195,000	195,000
Interest and other charges	-	-	-	76,007	76,007
Capital outlay	-	-	672,995	-	672,995
Total expenditures	<u>3,628,903</u>	<u>1,682,434</u>	<u>672,995</u>	<u>573,066</u>	<u>6,557,398</u>
Excess (deficiency) of revenues over (under) expenditures	<u>570,339</u>	<u>(645,542)</u>	<u>(672,896)</u>	<u>52,019</u>	<u>(696,080)</u>
Other financing sources (uses)					
Transfers in	31,961	-	450,000	60,000	541,961
Transfers out	<u>(450,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(450,000)</u>
Total other financing sources (uses)	<u>(418,039)</u>	<u>-</u>	<u>450,000</u>	<u>60,000</u>	<u>91,961</u>
Net change in fund balances	152,300	(645,542)	(222,896)	112,019	(604,119)
Fund balances, beginning of year	<u>2,628,494</u>	<u>5,386,892</u>	<u>24,035</u>	<u>272,681</u>	<u>8,312,102</u>
Fund balances, end of year	\$ <u><u>2,780,794</u></u>	\$ <u><u>4,741,350</u></u>	\$ <u><u>(198,861)</u></u>	\$ <u><u>384,700</u></u>	\$ <u><u>7,707,983</u></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, 2008

Net change in fund balances - total governmental funds	\$ (604,119)
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 capital asset additions (\$2,213,527) exceeded depreciation expense (\$397,565) in the current period.	1,815,962
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(5,433)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	195,000
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>(18,963)</u>
Change in net assets of governmental activities	\$ <u>1,382,447</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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes:				
Property taxes	\$ 578,000	590,000	595,393	5,393
Sales taxes	1,950,000	1,950,000	1,980,939	30,939
Franchise taxes	529,000	557,000	572,318	15,318
Hotel occupancy	573,000	319,500	313,886	(5,614)
Licenses and permits	45,000	34,500	40,386	5,886
Intergovernmental	50,000	60,000	34,990	(25,010)
Parks and recreation fees	35,000	32,500	33,925	1,425
Fines and fees	340,000	410,000	436,383	26,383
Investment earnings	65,000	85,000	84,268	(732)
Miscellaneous	70,000	90,000	106,754	16,754
Total revenues	<u>4,235,000</u>	<u>4,128,500</u>	<u>4,199,242</u>	<u>70,742</u>
Expenditures:				
General government	1,000,500	890,500	877,738	12,762
Public safety	1,811,000	1,853,500	1,782,201	71,299
Highways and streets	730,000	720,000	671,182	48,818
Culture and recreation	758,000	485,000	297,782	187,218
Total expenditures	<u>4,299,500</u>	<u>3,949,000</u>	<u>3,628,903</u>	<u>320,097</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(64,500)</u>	<u>179,500</u>	<u>570,339</u>	<u>390,839</u>
Other financing sources (uses):				
Transfers in	100,000	25,000	31,961	6,961
Transfers out	(535,000)	(450,000)	(450,000)	-
Total other financing sources (uses)	<u>(435,000)</u>	<u>(425,000)</u>	<u>(418,039)</u>	<u>6,961</u>
Net change in fund balance	(499,500)	(245,500)	152,300	397,800
Fund balance, beginning of year	<u>1,265,377</u>	<u>2,086,264</u>	<u>2,628,494</u>	<u>(542,230)</u>
Fund balance, end of year	<u>\$ 765,877</u>	<u>1,840,764</u>	<u>2,780,794</u>	<u>940,030</u>

See accompanying notes to financial statements.

City of Bellmead, Texas

**Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – Bellmead Economic Development Corporation**

Year Ended September 30, 2008

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues				
Sales taxes	\$ 850,000	435,000	781,765	346,765
Investment earnings	100,000	210,000	174,381	(35,619)
Miscellaneous	35,000	80,000	80,746	746
Total revenues	<u>985,000</u>	<u>725,000</u>	<u>1,036,892</u>	<u>311,892</u>
Expenditures:				
Economic development	1,020,000	1,359,000	1,682,434	(323,434)
Total expenditures	<u>1,020,000</u>	<u>1,359,000</u>	<u>1,682,434</u>	<u>(323,434)</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>(35,000)</u>	 <u>(634,000)</u>	 <u>(645,542)</u>	 <u>(11,542)</u>
 Other financing sources:				
Transfers in	35,000	-	-	-
Total other financing sources	<u>35,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Net change in fund balance	 -	 (634,000)	 (645,542)	 (11,542)
 Fund balance, beginning of year	 <u>5,386,892</u>	 <u>5,386,892</u>	 <u>5,386,892</u>	 <u>-</u>
 Fund balance, end of year	 <u>\$ 5,386,892</u>	 <u>4,752,892</u>	 <u>4,741,350</u>	 <u>(11,542)</u>

See accompanying notes to financial statements.

City of Bellmead, Texas

Statement of Net Assets -
Proprietary Fund

September 30, 2008

	Business-type Activ Enterprise Func <u>Water and Sewer Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,034,233
Accounts receivable (net of allowance for uncollectibles of \$14,050):	
Accounts	334,112
Other	15,876
Due from other funds	176
Inventories	24,573
Total current assets	<u>2,408,970</u>
Noncurrent assets:	
Restricted cash	2,130,180
Capital assets:	
Land	42,896
Buildings and improvements	12,461
Water and sewer facilities	8,582,474
Equipment	1,327,248
Construction in progress	284,501
Less accumulated depreciation	(5,756,145)
Total capital assets (net of accumulated depreciation)	<u>4,493,435</u>
Total noncurrent assets	<u>6,623,615</u>
Total assets	<u>9,032,585</u>
Liabilities	
Current liabilities:	
Accounts payable	198,062
Accrued liabilities	55,620
Customer deposits payable	229,199
Compensated absences, current portion	10,778
Revenue bond and note payable, current portion	163,677
Total current liabilities	<u>657,336</u>
Noncurrent liabilities:	
Compensated absences	27,833
Revenue bond and note payable	1,462,142
Total noncurrent liabilities	<u>1,489,975</u>
Total liabilities	<u>2,147,311</u>
Net Assets	
Invested in capital assets, net of related debt	4,345,809
Restricted for:	
Debt service	41,849
Capital projects	252,318
Unrestricted	2,245,298
Total net assets	<u>\$ 6,885,274</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, 2008

	Business-type Activities- Enterprise Fund
	Water and Sewer Fund
Operating revenues:	
Charges for sales and services:	
Water sales	\$ 1,643,982
Sewer charges	720,256
Turn-on fees	33,134
Water and sewer tap fees	19,807
Chipper fees	39,085
Other	16,154
Total operating revenues	2,472,418
Operating expenses:	
Salaries and benefits	732,742
System repair and maintenance	392,770
Auto and equipment maintenance	78,175
Supplies	119,321
Office expense	27,856
Professional fees	58,832
Utilities	369,271
Bad debts	4,367
Depreciation	457,570
Insurance	23,972
Miscellaneous	25,739
Total operating expenses	2,290,615
Operating income	181,803
Nonoperating revenues (expenses):	
Interest and other income	177,082
Interest charges	(60,165)
Total nonoperating revenue (expenses)	116,917
Income before transfers	298,720
Transfers out	(91,961)
Change in net assets	206,759
Total net assets - beginning of year	6,678,515
Total net assets - end of year	\$ 6,885,274

See accompanying notes to financial statements.

City of Bellmead, Texas
Statement of Cash Flows -
Proprietary Fund
Year Ended September 30, 2008

	Business-type Activities- Enterprise Fund Water and Sewer Fund
Cash flows from operating activities:	
Receipts from customers and users	\$ 2,488,721
Payments to suppliers	(1,112,058)
Payments to employees	(746,828)
Net cash provided by operating activities	629,835
Cash flows from noncapital related financing activities:	
Transfer out	(91,961)
Net cash used in noncapital and related financing activities	(91,961)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(191,560)
Principal paid on bonds and note payable	(156,555)
Interest paid on bonds and note payable	(60,165)
Net cash used in capital and related financing activities	(408,280)
Cash flows from investing activities:	
Interest received	177,082
Net cash provided by investing activities	177,082
Net increase in cash and cash equivalents	306,676
Cash and cash equivalents, at beginning of year	3,857,737
Cash and cash equivalents, at end of year	\$ 4,164,413
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 181,803
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	457,570
Change in assets and liabilities:	
Account receivables, net	16,303
Inventories	(14,028)
Due from other funds	1,931
Accounts payables	18,375
Other liabilities	(32,119)
Net cash provided by operating activities	\$ 629,835

See accompanying notes to financial statements.

City of Bellmead, Texas

Notes to Financial Statements

September 30, 2008

(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 Economic 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, Texas

Notes to Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies (continued)

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

Bellmead Economic Development Corporation – The Bellmead Economic 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.

Capital Projects Fund – The capital projects fund is used for various construction projects for 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

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)

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 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 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

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.

(g) Restricted assets

Restricted cash accounts in the water and sewer fund of \$451,865 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. In addition, \$1,478,193 represents proceeds from the 2007 tax and revenue certificates of obligation that have not been spent but have been restricted to purchase water and sewer improvements in the future; and \$200,122 represents funds set aside for construction of water wells.

(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	5-30
Water and sewer facilities	5-30
Equipment	3-20
Infrastructure	40

City of Bellmead, Texas

Notes 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 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.

The fund financial statements included the following fund with cumulative fund deficits at September 30, 2008:

<u>Fund</u>	<u>Deficit Amount</u>
Capital Projects Fund	\$ 198,861

The capital projects fund is currently being used to construct a new police department building to be completed in fiscal year 2009. There are funds budgeted in the General Fund which will be transferred to the capital projects fund to offset this deficit balance.

(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	\$ 496,214
Capital assets	665,908
Current liabilities	<u>(97,522)</u>
Net assets	<u>\$ 1,064,600</u>
Operating expenses	\$ (253,827)
Non-operating revenue	<u>32,377</u>
Change in net assets	<u>\$ (221,450)</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	\$ 4,131,051
Undivided interest in bank deposits held by another government	453,324
Governmental investment pools:	
TexPool	5,052,838
TexSTAR	2,561,645
	2,561,645
Total cash and cash equivalents	\$ 12,198,858

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

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

the City's policy not to invest in securities maturing more than three years from the date of purchase. At September 30, 2008, 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, 2008 is 42 days and 34 days, respectively.

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 AAA or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2008, the City's investment in TexPool and TexSTAR was rated AAAM 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 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) Receivables

Receivables as of September 30, 2008 for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(6) Receivables (continued)

	<u>General</u>	<u>Bellmead Economic Development Corporation</u>	<u>Other Nonmajor</u>	<u>Water and Sewer</u>	<u>Total</u>
Receivables:					
Property taxes	\$ 66,448	-	23,880	-	90,328
Sales taxes	163,159	40,790	40,790	-	244,739
Accounts	-	-	-	305,272	305,272
Other	<u>37,572</u>	<u>11,141</u>	<u>3,413</u>	<u>58,766</u>	<u>110,892</u>
Gross receivables	267,179	51,931	68,083	364,038	751,231
Less: allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,050</u>	<u>14,050</u>
Net total receivables	<u>\$ 267,179</u>	<u>51,931</u>	<u>68,083</u>	<u>349,988</u>	<u>737,181</u>

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 2007 levy was based was \$275,677,485.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 2008 were 94.6 % of the tax levy.

(7) Interfund Receivables, Payables, and Transfers

Interfund receivables and payable balances at September 30, 2008 are as follows:

<u>Funds</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 43,390	36,413
Bellmead Economic Development Corporation	-	41,181
Nonmajor	40,989	6,961
Water and sewer	<u>176</u>	<u>-</u>
Totals	<u>\$ 84,555</u>	<u>84,555</u>

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

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

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.

Interfund transfers at September 30, 2008 are as follows:

	Transfers in			
	General	Capital Projects	Nonmajor	Total
Transfers out:				
General	\$ -	450,000	-	450,000
Enterprise	31,961	-	60,000	91,961
Total transfers	\$ 31,961	450,000	60,000	541,961

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, and 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, 2008 was as follows:

	Balance October 1, 2007	Additions	Deletions	Balance September 30, 2008
<u>Governmental activities:</u>				
Capital assets, not depreciated:				
Land	\$ 1,881,301	-	-	1,881,301
Construction in progress	-	1,902,296	-	1,902,296
Total capital assets not being depreciated	1,881,301	1,902,296	-	3,783,597

City of Bellmead, Texas

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

	Balance October 1, 2007	Additions	Deletions	Balance September 30, 2008
<u>Governmental activities: (continued)</u>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,084,307	-	-	3,084,307
Infrastructure	1,273,108	-	-	1,273,108
Equipment	3,731,235	311,231	(220,658)	3,821,808
Total capital assets being depreciated	<u>8,088,650</u>	<u>311,231</u>	<u>(220,658)</u>	<u>8,179,223</u>
Less: accumulated depreciation for:				
Buildings and improvements	(832,445)	(118,753)	-	(951,198)
Infrastructure	(56,483)	(31,828)	-	(88,311)
Equipment	(2,655,902)	(246,984)	220,106	(2,682,780)
Total accumulated depreciation	<u>(3,544,830)</u>	<u>(397,565)</u>	<u>220,106</u>	<u>(3,722,289)</u>
Total capital assets, being depreciated, net	<u>4,543,820</u>	<u>(86,334)</u>	<u>(552)</u>	<u>4,456,934</u>
Governmental activities capital assets, net	<u>\$ 6,425,121</u>	<u>1,815,962</u>	<u>(552)</u>	<u>8,240,531</u>
<u>Business-type activities:</u>				
Capital assets, not depreciated:				
Land	\$ 24,869	18,027	-	42,896
Construction in progress	324,734	-	(40,233)	284,501
Total capital assets not being depreciated	<u>349,603</u>	<u>18,027</u>	<u>(40,233)</u>	<u>327,397</u>

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

(8) Capital Assets (continued)

	Balance October 1, 2007	Additions	Deletions	Balance September 30, 2008
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Business-type activities: (continued)</u>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 13,711	-	(1,250)	12,461
Water and sewer facilities	9,364,084	84,871	(866,481)	8,582,474
Equipment	<u>1,199,312</u>	<u>128,988</u>	<u>(1,052)</u>	<u>1,327,248</u>
Total capital assets being depreciated	<u>10,577,107</u>	<u>213,859</u>	<u>(868,783)</u>	<u>9,922,183</u>
Less accumulated depreciation for:				
Buildings and improvements	(10,650)	(309)	1,250	(9,709)
Water and sewer facilities	(5,251,439)	(383,434)	866,481	(4,768,392)
Equipment	<u>(905,176)</u>	<u>(73,827)</u>	<u>959</u>	<u>(978,044)</u>
Total accumulated depreciation	<u>(6,167,265)</u>	<u>(457,570)</u>	<u>868,690</u>	<u>(5,756,145)</u>
Total capital assets, being depreciated, net	<u>4,409,842</u>	<u>(243,711)</u>	<u>(93)</u>	<u>4,166,038</u>
Business-type activities capital assets, net	<u>\$ 4,759,445</u>	<u>(225,684)</u>	<u>(40,326)</u>	<u>4,493,435</u>

The City has active construction projects as of September 30, 2008, with commitments as follows:

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(8) Capital Assets (continued)

	<u>Spent to Date</u>	<u>Remaining Commitments</u>
Governmental activities:		
Police department building	\$ 592,529	194,471
Building for Texas Machine & Tool	<u>1,309,767</u>	<u>565,965</u>
	<u>1,902,296</u>	<u>760,436</u>
Business-type activities:		
Sewer projects	67,788	1,313,212
Well design	<u>216,713</u>	<u>1,000,000</u>
	<u>284,501</u>	<u>2,313,212</u>
	<u>\$ 2,186,797</u>	<u>3,073,648</u>

The Bellmead Economic Development Corporation (BEDC) is currently constructing a building which will be utilized as plant and office space by Texas Machine & Tool International, LLC (TMI). BEDC has entered into a ten-year lease agreement with TMI to lease the property at 6.5% interest based on the construction cost of the building, not to exceed \$1,832,000. At any time after the fifth year of the lease, TMI can purchase the building at amounts specified in the lease agreement. If the lease lasts to its maturity, TMI can purchase the building for \$-0-.

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

Governmental activities	
General government	\$ 38,203
Public safety	193,045
Highways and streets	76,250
Economic development	40,675
Culture and recreation	<u>49,392</u>
Total depreciation - governmental activities	<u>\$ 397,565</u>
Business-type activities	
Water and sewer	<u>\$ 457,570</u>

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(9) Long-Term Debt

Long-term debt consists of bonded indebtedness, note 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.

The following is a summary of changes in long-term debt for the year ended September 30, 2008:

	<u>October 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2008</u>	<u>Due Within One Year</u>
Governmental activities:					
Tax and revenue certificates of obligation	\$ 1,580,000	-	(195,000)	1,385,000	200,000
Compensated absences	<u>182,991</u>	<u>95,519</u>	<u>(77,108)</u>	<u>201,402</u>	<u>63,317</u>
	<u>\$ 1,762,991</u>	<u>95,519</u>	<u>(272,108)</u>	<u>1,586,402</u>	<u>263,317</u>
Business-type activities:					
Tax and revenue certificates of obligation	\$ 1,503,000	-	(122,000)	1,381,000	127,816
Note payable	279,374	-	(34,555)	244,819	35,861
Compensated absences	<u>35,899</u>	<u>14,686</u>	<u>(11,974)</u>	<u>38,611</u>	<u>10,778</u>
	<u>\$ 1,818,273</u>	<u>14,686</u>	<u>(168,529)</u>	<u>1,664,430</u>	<u>174,455</u>

Long-term debt for governmental activities at September 30, 2008 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%, maturing in 2014

\$ 1,385,000

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:

Year Ended September 30,	<u>Principal</u>	<u>Interest</u>
2009	\$ 200,000	65,866
2010	215,000	55,941
2011	225,000	44,434
2012	235,000	32,701
2013	250,000	20,160
2014	<u>260,000</u>	<u>6,825</u>
	<u>\$ 1,385,000</u>	<u>225,927</u>

Long-term debt for business-type activities at September 30, 2008 is comprised of the following:

Note payable to City of Waco, due in annual installments of \$9,556 to \$66,690 with interest at 3.65%, maturing in 2024	\$ 244,819
\$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%, maturing in 2017	<u>1,381,000</u>
	<u>\$ 1,625,819</u>

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

Year Ended September 30,	<u>Certificates of Obligation</u>		<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	152,423	37,524	10,377	5,366
2014-2018	681,754	78,348	57,454	20,802
2019-2023	-	-	68,974	9,285
2024	-	-	<u>15,329</u>	<u>280</u>
	<u>\$ 1,381,000</u>	<u>328,839</u>	<u>244,819</u>	<u>62,803</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

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 827 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 827 municipalities has an annual, individual actuarial valuation performed. At its December 8, 2007 meeting, the TMRS Board of Trustees adopted revised actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. All assumptions for the December 31, 2007 valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

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 within the actuarial constraints also in the statutes. Plan provisions for the City were as follows:

Deposit rate:	7%
Matching ratio (City to employee)	2 to 1
A member is vested after	5 years

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(10) Employee Benefit Plan (continued)

Members can retire at certain ages, based on the years of service with the City. The service requirement eligibilities for the City are 5 years/age 60 or 20 years/any age.

Under the state law governing TMRS, the actuary annually determines the City contribution rate. Both the employees and the City made contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, 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, 2007 valuation is effective for rates beginning January 2009). If a change in plan provisions is elected by the City, this rate can change.

Since its inception, TMRS has used the *unit credit* actuarial funding method. This method accounts for the liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the *Updated Service Credit and Annuity Increases* provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the *projected unit credit* (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustees rules provide that whenever a change in the actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

Schedule of Actuarial Liabilities and Funding Progress

Actuarial valuation date	December 31,		
	2007	2006	2005
Actuarial valuation of assets	\$ 5,179,564	4,748,231	4,250,826
Actuarial accrued liability	6,304,221	5,361,117	4,739,405
Percentage funded	82.2%	88.6%	89.7%

City of Bellmead, Texas

Notes to Financial Statements
(Continued)

(10) Employee Benefit Plan (continued)

Schedule of Actuarial Liabilities and Funding Progress
(Continued)

Actuarial valuation date	December 31,		
	2007	2006	2005
Unfunded actuarial accrued liability (UAAL)	\$ 1,124,625	612,886	488,579
Annual covered payroll	2,238,802	2,024,218	1,894,604
UAAL as a percentage of covered payroll	50.2%	30.3%	25.8%

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been \$5,764,279 and the funded ratio would have been 89.9%.

	September 30,		
	2008	2007	2006
Net pension obligation (NPO) at the beginning of period	\$ -	-	-
Annual required contribution	233,009	218,317	193,747
Contributions made	233,009	218,317	193,747
NPO at the end of period	-	-	-

Actuarial assumptions:

Actuarial cost method	-	Projected unit credit
Amortization method	-	Level percent of payroll
Remaining amortization period	-	30 years – closed 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	-	Varies by age and service
Includes inflation at	-	3.0%
Cost-of-living adjustments	-	2.1% (3.0% of CPI)

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

(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.

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. 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.

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

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (issued June 2007) – The objective of this statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies in accounting and financial reporting, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The requirements of the new statement become effective for periods beginning after June 15, 2009.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* (issued November 2007) – This statement establishes standards for the reporting of land and other real estate held as investments by endowments. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. The requirements of the new statement become effective for periods beginning after June 15, 2008.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Investments* (issued June 2008) – This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this Statement are effective for periods beginning after June 15, 2009.