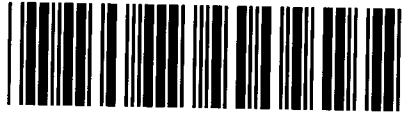




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Addendum Sta

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CITY OF BONHAM, TEXAS

FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT THEREON

SEPTEMBER 30, 2010

20

CITY OF BONHAM, TEXAS  
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September 30, 2010

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Unqualified Opinion on Basic Financial Statements  
Accompanied by Required Supplementary  
Information and Supplementary Information  
Including the Supplementary Schedules of  
Expenditures of Federal Awards

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members  
of the City Council  
City of Bonham, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund, and the aggregate remaining fund information of the City of Bonham, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Bonham, Texas, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Honorable Mayor and Members  
of the City Council  
City of Bonham, Texas  
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City. The schedule of expenditures of federal awards is the responsibility of management and is derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

*McClanahan and Holmes, LLP*  
Certified Public Accountants

Bonham, Texas  
January 10, 2011

CITY OF BONHAM, TEXAS  
Management's Discussion and Analysis  
September 30, 2010

As management of the City of Bonham, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010. The information presented for the year ended September 30, 2010, in the Summary Statement of Net Assets and the Summary Statement of Activities shown below are included for comparative purposes only.

#### BASIC FINANCIAL STATEMENTS

The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

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. There are two statements that make up the government-wide financial statements. These are the Statement of Net Assets and the Statement of Activities. Both of these statements include not only the City itself (known as the primary government) but also aggregate information of one legally separate component unit for which the City is financially accountable (Bonham Economic Development Corporation). The component unit is reported separately from the financial information of the primary government itself and issues separately audited financial statements.

The Statement of Net Assets presents information on all the City's assets and liabilities with the difference shown as net assets. The Statement of Activities presents information showing how the City's net assets changed during the current fiscal year.

Fund financial statements provide financial information on specific funds maintained by the City. 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. All of the funds of the City are divided into three categories: 1) government funds 2) proprietary funds and 3) fiduciary funds.

Governmental funds focus on short-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year, which are useful in evaluating the City's short-term financing requirements.

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

A portion of the City's net assets (56%) reflects its investment in capital assets (more fully described in Note 5 of the financial statements) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Therefore, these assets are not available for future spending. Although the City's investment in 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.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City's proprietary fund is the water and sewer fund that is an enterprise fund used to account for water and sewer operations. This fund is presented in the government-wide financial statements as a business-type activity. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary funds report assets held in a trustee or agency capacity. The City's fiduciary funds comprise of a Volunteer Fireman's Incentive fund and an agency fund used to transfer money for salaries and related expenses.

Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

CITY OF BONHAM, TEXAS  
Management's Discussion and Analysis  
September 30, 2010

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following summary statements of net assets and activities are presented for the primary government only:

Summary Statement of Net Assets  
(Amounts in Thousands of Dollars)  
September 30,

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<u>Assets</u>						
Capital Assets, Net	\$ 4,164	\$ 3,442	\$ 15,092	\$ 13,084	\$ 19,256	\$ 16,526
Other Assets	<u>5,345</u>	<u>2,934</u>	<u>6,418</u>	<u>6,079</u>	<u>11,763</u>	<u>9,013</u>
Total Assets	<u>9,509</u>	<u>6,376</u>	<u>21,510</u>	<u>19,163</u>	<u>31,019</u>	<u>25,539</u>
 <u>Liabilities</u>						
Long-Term Liabilities	6,537	4,308	11,830	11,547	18,367	15,855
Other Liabilities	<u>541</u>	<u>333</u>	<u>1,412</u>	<u>941</u>	<u>1,953</u>	<u>1,274</u>
Total Liabilities	<u>7,078</u>	<u>4,641</u>	<u>13,242</u>	<u>12,488</u>	<u>20,320</u>	<u>17,129</u>
 <u>Net Assets</u>						
Invested in Capital Assets						
Net of Related Debt	532	( 115)	5,432	4,236	5,964	4,121
Restricted	120	89	126	213	246	302
Unrestricted	<u>1,779</u>	<u>1,761</u>	<u>2,710</u>	<u>2,226</u>	<u>4,489</u>	<u>3,987</u>
Total Net Assets	<u>\$ 2,431</u>	<u>\$ 1,735</u>	<u>\$ 8,268</u>	<u>\$ 6,675</u>	<u>\$ 10,699</u>	<u>\$ 8,410</u>
 Revenue:						
Program Revenue:						
Charges for Services	\$ 2,219	\$ 1,773	\$ 6,496	\$ 6,441	\$ 8,715	\$ 8,214
Operating Grants and Contributions	-	3	-	-	-	3
Capital Grants and Contributions	1,255	164	1,744	171	2,999	335
General Revenue:						
Taxes	3,482	3,526	-	-	3,482	3,526
Miscellaneous Revenue	375	377	14	38	389	415
Interest on Investments	19	13	13	28	32	41
Gain on Sale of Capital Assets	<u>261</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>261</u>	<u>-</u>
Total Revenue	<u>7,611</u>	<u>5,856</u>	<u>8,267</u>	<u>6,678</u>	<u>15,878</u>	<u>12,534</u>



CITY OF BONHAM, TEXAS  
Management's Discussion and Analysis  
September 30, 2010

Summary Statement of Net Assets  
(Amounts in Thousands of Dollars)  
September 30,

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Expenses:						
Administration	2,292	1,451	-	-	2,292	1,451
Police	1,749	1,713	-	-	1,749	1,713
Fire	970	855	-	-	970	855
Equipment Services	50	52	-	-	50	52
Street	1,096	945	-	-	1,096	945
Sanitation	420	427	-	-	420	427
Library	221	218	-	-	221	218
Airport	81	70	-	-	81	70
Park and Recreation	256	256	-	-	256	256
Tourism	19	26	-	-	19	26
Lake Bonham	90	90	-	-	90	90
Grants	344	142	-	-	344	142
Capital Outlay	-	38	-	-	-	38
Interest on Long-Term Debt	220	193	-	-	220	193
Emergency Medical Services	-	-	2,154	2,102	2,154	2,102
Water/Sewer	-	-	3,626	3,466	3,626	3,466
Total Expenses	<u>7,808</u>	<u>6,476</u>	<u>5,780</u>	<u>5,568</u>	<u>13,588</u>	<u>12,044</u>
Increase (Decrease) in Net Assets before Transfers	( 197)	( 620)	2,487	1,110	2,290	490
Transfers	<u>894</u>	<u>744</u>	<u>( 894)</u>	<u>( 744)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets	697	124	1,593	366	2,290	490
Net Assets – Beginning	<u>1,735</u>	<u>1,611</u>	<u>6,675</u>	<u>6,309</u>	<u>8,410</u>	<u>7,920</u>
Net Assets – Ending	<u>\$ 2,432</u>	<u>\$ 1,735</u>	<u>\$ 8,268</u>	<u>\$ 6,675</u>	<u>\$ 10,700</u>	<u>\$ 8,410</u>

An additional portion of the City's net assets (3%) represents resources that are subject to external restrictions on how they may be used. The City has a positive unrestricted net assets of (42%).

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets.

The City's net assets increased by \$2,290,594 during the current fiscal year due to revenues exceeding expenses.

CITY OF BONHAM, TEXAS  
Management's Discussion and Analysis  
September 30, 2010

#### FUND FINANCIAL ANALYSIS

Governmental Funds provide information on short-term inflows and outflows and balances of spendable resources which is useful in assessing the City's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year the City's governmental funds reported a combined ending fund balance of \$4,450,856, an increase of \$2,458,889 as compared to the prior year. Approximately 98% (4,331,000) constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for debt service.

The general fund is the City's chief operating fund. One hundred percent (\$1,011,829) is unreserved and available for spending at the City's discretion. The unreserved fund balance represents 18% of the general fund expenditures for the current fiscal year. The fund balance of the City's general fund increased \$179,157 during the current fiscal year, which is attributable to transfers from the City's proprietary fund, exceeding the deficiency of revenues over expenditures.

The City's Proprietary Funds consist of its Water and Sewer Fund and its Emergency Medical Services Fund. It provides the same type information found in the government-wide financial statements, but in more detail. The net assets increased by \$1,593,108 for the current fiscal year. This increase is primarily due to increased revenues.

#### CAPITAL ASSETS

Capital Assets for the City's governmental and business-type activities amounted to \$34,897,383, net of accumulated depreciation of \$15,641,292. This investment in capital assets includes land, construction in progress, buildings and improvements, furniture, equipment and vehicles, and water and sewer system. The City's investment in capital assets, net of asset sales and retirements, reflected an increase of 16.5% (17.3% increase for governmental activities and a 15.3% increase for business-type activities).

Major capital asset additions during the current year included the following:

Governmental activities:

1. \$23,310 for purchase of tractor, loader and cutter for Parks & Recreation
2. \$852,360 for Airport Improvement Project
3. \$51,738 for purchase of Police Department Vehicles
4. \$103,102 for purchase of Brush Truck for the Fire Department

Business-type activities:

1. \$28,584 for purchase of Water and Sewer Vehicle
2. \$56,995 for Water and Sewer System improvements construction in progress
3. \$2,474,308 for Water and Sewer System improvements
4. \$86,350 for purchase of Emergency Medical Services Vehicles and Equipment

A summary of capital asset activity is shown in Note 5 of the financial statements.

Long-term debt is detailed in Note 6 of the financial statements. At the end of the current fiscal year, the City had outstanding long-term debt of \$18,367,787. Of this amount, \$6,537,444 is general obligation debt backed by the full faith and credit of the City government \$11,830,343 are revenue bonds, which are secured by specified revenue sources.

CITY OF BONHAM, TEXAS  
Management's Discussion and Analysis  
September 30, 2010

The City's total long-term debt increased by \$2,509,328 (15.7%). New debt was issued in the form of combination tax and revenue certificates of obligation of \$3,440,000 general obligation refunding bonds of \$849,000 and notes payable of \$5,278. Debt retirement amounted to \$1,725,000 of bond and certificates of obligation payments and \$51,363 of notes payable. For more detailed information on the City's long-term, see Note 6 to the financial statements.

The City's liability for Compensated Absences increased by \$3,938 for the Governmental Activities and decreased by \$4,063 for the Business-type activities.

#### BUDGET ANALYSIS

The City Council adopts an annual budget for the General Fund and it is presented as Required Supplementary Information in this report. Significant variances between the budget and actual results are as follows:

1. Intergovernmental revenues exceeded the budgeted amount by \$515,071 due to grant revenues not originally budgeted.
2. Total expenditures were more than the budgeted amount by \$718,213. The departmental expenses were more than the budget by \$209,911, capital outlay expenses were less than the budget by \$40,765, Debt service exceeded budget by \$20,719 and grant expenditures exceeded the budget by \$528,348.
3. Proceeds from sale of capital assets were not budgeted and generated a favorable variance of \$266,417.
4. The net change in the general fund balance was an increase of \$179,157 as compared to a budgeted increase of \$4,499 generating a favorable variance of \$174,658.

#### ECONOMIC FACTORS AFFECTING NEXT YEAR'S BUDGET

The City had no unusual economic factors to consider in the preparation of the budget for the fiscal year ending September 30, 2011.

CITY OF BONHAM, TEXAS  
Statement of Net Assets  
September 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Bonham Economic Development Corporation
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 345,371	\$ 2,575,274	\$ 2,920,645	\$ 158,154
Investments	3,621,917	1,890,023	5,511,940	277,288
Receivables (Net of Allowance for Uncollectibles)				
Accounts	556,436	874,972	1,431,408	287,746
Inventory	-	114,650	114,650	-
Due from Other Funds	245,960	70,328	316,288	50,000
Due from Other Governments	260,185	610,440	870,625	-
Bond Issuance Costs	315,164	282,550	597,714	-
Capital Assets, Net of Accumulated Depreciation	4,164,327	15,091,764	19,256,091	1,232,961
<b>Total Assets</b>	<b>9,509,360</b>	<b>21,510,001</b>	<b>31,019,361</b>	<b>2,006,149</b>
<u>LIABILITIES</u>				
Accounts Payable and Accrued Liabilities	486,133	322,650	808,783	6,357
Contracts Payable	-	627,229	627,229	-
Customers' Meter Deposits	-	302,286	302,286	-
Due to Other Funds	192	125,000	125,192	50,000
Accrued Interest Payable	53,933	34,202	88,135	10,422
Noncurrent Liabilities:				
Due Within One Year	317,098	799,063	1,116,161	110,000
Due in More Than One Year	6,220,346	11,031,280	17,251,626	1,855,000
<b>Total Liabilities</b>	<b>7,077,702</b>	<b>13,241,710</b>	<b>20,319,412</b>	<b>2,031,779</b>
<u>NET ASSETS</u>				
Invested in Capital Assets, net of Related Debt	532,308	5,432,613	5,964,921	(742,461)
Restricted for:				
Debt Service	119,856	125,839	245,695	12,702
Unrestricted	1,779,494	2,709,839	4,489,333	704,129
<b>Total Net Assets</b>	<b>\$ 2,431,658</b>	<b>\$ 8,268,291</b>	<b>\$10,699,949</b>	<b>\$ (25,630)</b>

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

CITY OF BONHAM, TEXAS  
Statement of Activities  
Year Ended September 30, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit Bonham Economic Development Corporation
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
Administration	\$ 2,291,723	\$ 1,152,696	\$ -	\$ -	\$ (1,139,027)	\$ -	\$ -
Police	1,747,512	140,492	-	115,334	(1,491,686)	-	(1,491,686)
Fire	969,750	-	-	96,528	(873,222)	-	(873,222)
Equipment Services	50,536	-	-	-	(50,536)	-	(50,536)
Street	1,095,591	-	-	-	(1,095,591)	-	(1,095,591)
Sanitation	420,017	769,828	-	-	349,811	-	349,811
Library	221,348	-	-	-	(221,348)	-	(221,348)
Airport	81,047	77,687	-	738,065	734,705	-	734,705
Park and Recreation	255,611	-	-	-	(255,611)	-	(255,611)
Tourism	19,500	-	-	-	(19,500)	-	(19,500)
Lake Bonham	90,010	78,015	-	-	(11,995)	-	(11,995)
Grants	343,722	-	-	304,859	(38,863)	-	(38,863)
Interest on Long-Term Debt	220,279	-	-	-	(220,279)	-	(220,279)
Total Governmental Activities	7,806,646	2,218,718	-	1,254,786	(4,333,142)	-	(4,333,142)
Business-Type Activities:							
Emergency Medical Services	2,154,168	2,238,215	-	-	-	84,047	84,047
Water and Sewer	3,626,886	4,257,743	-	1,744,185	-	2,375,042	2,375,042
Total Business Activities	5,781,054	6,495,958	-	1,744,185	-	2,459,089	2,459,089
Total Primary Government	\$ 13,587,700	\$ 8,714,676	\$ -	\$ 2,998,971	(4,333,142)	2,459,089	(1,874,053)
Component Unit:							
Bonham Economic Development Corporation	\$ 283,390	\$ -	\$ -	\$ -			(283,390)
General Revenues:							
Property Taxes					1,959,258	-	1,959,258
Sales Taxes					960,653	-	960,653
Franchise Taxes					509,456	-	509,456
Other Taxes					52,463	-	52,463
Miscellaneous Revenue					374,955	14,534	389,489
Interest on Investments					19,129	13,337	32,466
Transfers					893,852	(893,852)	-
Gain on Sale of Capital Assets					260,862	-	260,862
Total General Revenues					5,030,628	(865,981)	4,164,647
Change in Net Assets					697,486	1,593,108	2,290,594
Net Assets - Beginning					1,734,172	6,675,183	8,409,355
Net Assets - Ending					\$ 2,431,658	\$ 8,268,291	\$ 10,699,949

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

CITY OF BONHAM, TEXAS  
Balance Sheet  
Governmental Funds  
September 30, 2010

	General Fund	Debt Service	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ (116,734)	\$ -	\$ -	\$ 424,718	\$ 307,984
Investments	605,901	119,856	2,896,160	-	3,621,917
Receivables (Net of Allowance for Uncollectibles)	498,534	33,327	-	24,575	556,436
Due From Other Funds	245,960	-	-	-	245,960
Due From Other Governments	260,185	-	-	-	260,185
Total Assets	<u>\$ 1,493,846</u>	<u>\$ 153,183</u>	<u>\$ 2,896,160</u>	<u>\$ 449,293</u>	<u>\$ 4,992,482</u>
<u>LIABILITIES AND FUND BALANCE</u>					
Accounts Payable and Accrued Liabilities	\$ 346,775	\$ -	\$ 24,400	\$ 1,882	\$ 373,057
Due to Other Funds	192	-	-	-	192
Deferred Revenues	135,050	33,327	-	-	168,377
Total Liabilities	<u>482,017</u>	<u>33,327</u>	<u>24,400</u>	<u>1,882</u>	<u>541,626</u>
Fund Balances:					
Reserved:					
Debt Service	-	119,856	-	-	119,856
Unreserved, Undesignated Reported in:					
General Fund	1,011,829	-	-	-	1,011,829
Special Revenue Funds	-	-	-	447,411	447,411
Capital Projects Fund	-	-	2,871,760	-	2,871,760
Total Fund Balances	<u>1,011,829</u>	<u>119,856</u>	<u>2,871,760</u>	<u>447,411</u>	<u>4,450,856</u>
Total Liabilities and Fund Balances	<u>\$ 1,493,846</u>	<u>\$ 153,183</u>	<u>\$ 2,896,160</u>	<u>\$ 449,293</u>	<u>\$ 4,992,482</u>
Fund Balances - Total Governmental Funds (above)					\$ 4,450,856
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in government activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$8,459,977 and the accumulated depreciation is \$4,295,650.					4,164,327
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.					168,377
Internal service funds are used to charge the cost of self insurance to particular functions. The assets and liabilities of the internal fund are included in the governmental activity statement of net assets.					(75,689)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:					
Compensated Absences					(156,567)
Accrued Interest Payable					(53,933)
Notes Payable					(239,009)
Tax Notes and Bonds Payable					(3,441,364)
Certificates of Obligation					(2,710,000)
Leases Payable					(12,962)
Deferred Charges on Long-Term Debt					337,622
Net Assets of Governmental Activities					<u>\$ 2,431,658</u>

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

CITY OF BONHAM, TEXAS  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2010

	General	Debt Service	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 3,026,667	\$ 426,205	\$ -	\$ 33,347	\$ 3,486,219
Licenses and Permits	1,350	-	-	-	1,350
Intergovernmental Revenues	516,721	-	-	738,065	1,254,786
Charges for Services	793,618	-	-	77,687	871,305
Land Lease Rental	-	-	-	78,015	78,015
Fines	140,492	-	-	-	140,492
Interest	3,545	12,607	2,232	71	18,455
Miscellaneous Revenue	351,922	-	-	21,683	373,605
Total Revenues	<u>4,834,315</u>	<u>438,812</u>	<u>2,232</u>	<u>948,868</u>	<u>6,224,227</u>
Expenditures:					
Current					
Administration	755,342	-	-	-	755,342
Police Department	1,693,791	-	-	13,142	1,706,933
Fire Department	898,294	-	-	-	898,294
Equipment Services	47,130	-	-	-	47,130
Street Department	959,663	-	77,019	-	1,036,682
Sanitation	418,796	-	-	-	418,796
Library	208,081	-	-	-	208,081
Airport	-	-	-	40,200	40,200
Parks and Recreation	226,025	-	-	-	226,025
Tourism	-	-	-	19,500	19,500
Lake Bonham	70,924	-	-	17,248	88,172
Grants	528,348	-	-	-	528,348
Capital Outlay	57,886	-	66,089	735,159	859,134
Debt Service					
Principal Retirement	20,532	1,004,141	-	-	1,024,673
Interest and Fiscal Charges	11,306	155,242	-	-	166,548
Bond Issuance Cost	-	127,184	123,863	-	251,047
Total Expenditures	<u>5,896,118</u>	<u>1,286,567</u>	<u>266,971</u>	<u>825,249</u>	<u>8,274,905</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,061,803)</u>	<u>(847,755)</u>	<u>(264,739)</u>	<u>123,619</u>	<u>(2,050,678)</u>
Other Financing Sources (Uses)					
Operating Transfers In	968,852	33,727	-	-	1,002,579
Operating Transfers Out	-	-	-	(33,727)	(33,727)
Proceeds from Issuance of Long-Term Debt	5,691	844,745	2,435,255	-	3,285,691
Bond Discount	-	-	(11,393)	-	(11,393)
Sale of Capital Assets	266,417	-	-	-	266,417
Total Other Financing Sources (Uses)	<u>1,240,960</u>	<u>878,472</u>	<u>2,423,862</u>	<u>(33,727)</u>	<u>4,509,567</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>179,157</u>	<u>30,717</u>	<u>2,159,123</u>	<u>89,892</u>	<u>2,458,889</u>
Fund Balances - October 1	<u>832,672</u>	<u>89,139</u>	<u>712,637</u>	<u>357,519</u>	<u>1,991,967</u>
Fund Balances - September 30	<u>\$ 1,011,829</u>	<u>\$ 119,856</u>	<u>\$ 2,871,760</u>	<u>\$ 447,411</u>	<u>\$ 4,450,856</u>

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

CITY OF BONHAM, TEXAS  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 2,458,889
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	1,030,510
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Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.	(302,649)
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The net effect of various miscellaneous transactions involving capital assets.	(5,555)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds	\$ (3,285,691)	
Retirements	1,038,243	
Amortization of Deferred Charges	(22,530)	
Bond Issuance Cost	251,047	
Bond Discount	11,393	
		(2,007,538)

Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(3,938)
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Some property and franchise taxes will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues in the governmental funds.	(4,389)
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The net revenue from internal service funds is reported with governmental activities.	(449,030)
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Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds.	(31,201)
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Payments made to reduce principal on capital leases is reported as an expenditure in governmental funds, but reduces a liability in the government-wide statements and is not considered an expense.	12,387
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Change in Net Assets - Governmental Activities	\$ 697,486
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The accompanying notes to the financial statements are  
an integral part of this statement.



CITY OF BONHAM, TEXAS  
Statement of Net Assets  
Proprietary Funds  
September 30, 2010

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Emergency Medical Services	Water and Sewer	Totals	Internal Service Fund
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 622,568	\$ 627,807	\$ 1,250,375	\$ 37,387
Investments	-	290,395	290,395	-
Accounts Receivable	320,079	554,893	874,972	-
Due from Other Funds	48,412	21,916	70,328	-
Due from Other Governments	-	610,440	610,440	-
Inventory	-	114,650	114,650	-
Restricted Assets				
Cash and Cash Equivalents	-	1,324,899	1,324,899	-
Investments	-	1,599,628	1,599,628	-
Total Current Assets	<u>991,059</u>	<u>5,144,628</u>	<u>6,135,687</u>	<u>37,387</u>
Noncurrent Assets				
Bond Issuance Costs	-	282,550	282,550	-
Capital Assets, Net of Accumulated Depreciation	<u>188,295</u>	<u>14,903,469</u>	<u>15,091,764</u>	<u>-</u>
Total Noncurrent Assets	<u>188,295</u>	<u>15,186,019</u>	<u>15,374,314</u>	<u>-</u>
Total Assets	<u>1,179,354</u>	<u>20,330,647</u>	<u>21,510,001</u>	<u>37,387</u>
Current Liabilities				
Accounts Payable and Accrued Liabilities	86,885	235,765	322,650	113,076
Current Portion of Notes Payable	-	15,531	15,531	-
Current Portion of Compensated Absences	31,781	10,593	42,374	-
Customers' Meter Deposits	-	302,286	302,286	-
Due to Other Funds	125,000	-	125,000	-
Payables from Restricted Assets				
Current Portion of Certificates of Obligation	-	330,000	330,000	-
Current Portion of Bonds Payable	-	411,158	411,158	-
Contracts Payable	-	627,229	627,229	-
Accrued Interest Payable	-	34,202	34,202	-
Total Current Liabilities	<u>243,666</u>	<u>1,966,764</u>	<u>2,210,430</u>	<u>113,076</u>
Noncurrent Liabilities				
Compensated Absences	35,717	12,067	47,784	-
Certificates of Obligation - Long-Term Portion	-	5,440,000	5,440,000	-
Notes Payable - Long-Term Portion	-	-	-	-
Bonds Payable - Long-Term Portion	-	5,901,478	5,901,478	-
Bond Discounts	-	(357,982)	(357,982)	-
Total Long-Term Liabilities	<u>35,717</u>	<u>10,995,563</u>	<u>11,031,280</u>	<u>-</u>
Total Liabilities	<u>279,383</u>	<u>12,962,327</u>	<u>13,241,710</u>	<u>113,076</u>
<u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt	-	5,432,613	5,432,613	-
Restricted for:				
Debt Service	-	125,839	125,839	-
Unrestricted	<u>899,971</u>	<u>1,809,868</u>	<u>2,709,839</u>	<u>(75,689)</u>
Total Net Assets	<u>\$ 899,971</u>	<u>\$ 7,368,320</u>	<u>\$ 8,268,291</u>	<u>\$ (75,689)</u>

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

CITY OF BONHAM, TEXAS  
Statement of Revenues, Expenses, and Changes  
in Net Assets - Proprietary Funds  
Year Ended September 30, 2010

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Emergency Medical Services	Water and Sewer	Totals	Internal Service Fund
Operating Revenues				
Charges for Services	\$ 2,238,215	\$ 4,257,743	\$ 6,495,958	\$ -
Other	3,692	10,842	14,534	-
Employee Contributions	-	-	-	319,494
Employer Contributions	-	-	-	809,412
Total Revenues	<u>2,241,907</u>	<u>4,268,585</u>	<u>6,510,492</u>	<u>1,128,906</u>
Operating Expenses				
Water and Wastewater Administration	-	483,034	483,034	-
Water Purchase and Delivery	-	896,712	896,712	-
Water Distribution	-	706,220	706,220	-
Wastewater Collection	-	234,666	234,666	-
Wastewater Treatment	-	423,424	423,424	-
Depreciation	91,339	547,133	638,472	-
Employee Insurance Expense	-	-	-	1,503,610
Salaries	1,661,461	-	1,661,461	-
Supplies	177,880	-	177,880	-
Services	223,488	-	223,488	-
Total Operating Expenses	<u>2,154,168</u>	<u>3,291,189</u>	<u>5,445,357</u>	<u>1,503,610</u>
Operating Income (Loss)	<u>87,739</u>	<u>977,396</u>	<u>1,065,135</u>	<u>(374,704)</u>
Nonoperating Revenues (Expenses)				
Intergovernmental	-	1,744,185	1,744,185	-
Interest Income	1,636	11,701	13,337	674
Interest Expense	-	(335,697)	(335,697)	-
Transfer In (Out)	(303,852)	(590,000)	(893,852)	(75,000)
Total Nonoperating Revenues (Expenses)	<u>(302,216)</u>	<u>830,189</u>	<u>527,973</u>	<u>(74,326)</u>
Change in Net Assets	<u>(214,477)</u>	<u>1,807,585</u>	<u>1,593,108</u>	<u>(449,030)</u>
Net Assets - Beginning of Year	<u>1,114,448</u>	<u>5,560,735</u>	<u>6,675,183</u>	<u>373,341</u>
Net Assets - End of Year	<u>\$ 899,971</u>	<u>\$ 7,368,320</u>	<u>\$ 8,268,291</u>	<u>\$ (75,689)</u>

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

CITY OF BONHAM, TEXAS  
Statement of Cash Flows - Proprietary Funds  
Year Ended September 30, 2010

	Business-Type Activities - Enterprise Fund			Governmental Activities
	Emergency Medical Services	Water and Sewer	Totals	Internal Service
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 2,338,408	\$ 4,218,441	\$6,556,849	\$ -
Cash Payments to Suppliers for Goods and Services	(396,941)	(1,847,055)	(2,243,996)	-
Cash Payments to Employees for Services	(1,656,632)	(888,920)	(2,545,552)	-
Other Operating Revenues	-	10,842	10,842	-
Employer and Employee Contributions	-	-	-	1,128,906
Employee Insurance Claims Paid	-	-	-	(1,464,530)
Net Cash from Operating Activities	<u>284,835</u>	<u>1,493,308</u>	<u>1,778,143</u>	<u>(335,624)</u>
Cash Flows from Noncapital Financing Activities				
Subsidy from Federal Grant	-	1,133,745	1,133,745	-
Transfers to Other Funds	(178,852)	(590,000)	(768,852)	(75,000)
Net Cash from Noncapital Financing Activities	<u>(178,852)</u>	<u>543,745</u>	<u>364,893</u>	<u>(75,000)</u>
Cash Flows from Capital and Related Financing Activities				
Acquisition of Capital Assets and Construction in Progress	(86,350)	(2,207,667)	(2,294,017)	-
Proceeds Received from Long-Term Debt	-	1,000,000	1,000,000	-
Principal Paid on Long-Term Debt	-	(720,859)	(720,859)	-
Principal Paid on Notes Payable	-	(17,261)	(17,261)	-
Interest Paid on Long-Term Debt	-	(291,977)	(291,977)	-
Net Cash from Capital and Related Financing Activities	<u>(86,350)</u>	<u>(2,237,764)</u>	<u>(2,324,114)</u>	<u>-</u>
Cash Flows from Investing Activities				
Net Change in Investments	-	93,232	93,232	-
Interest Received	1,636	11,701	13,337	674
Net Cash from Investing Activities	<u>1,636</u>	<u>104,933</u>	<u>106,569</u>	<u>674</u>
Net Increase (Decrease) in Cash	21,269	(95,778)	(74,509)	(409,950)
Cash and Cash Equivalents, October 1	<u>601,299</u>	<u>2,048,484</u>	<u>2,649,783</u>	<u>447,337</u>
Cash and Cash Equivalents, September 30	<u>\$ 622,568</u>	<u>\$ 1,952,706</u>	<u>\$2,575,274</u>	<u>\$ 37,387</u>

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

CITY OF BONHAM, TEXAS  
Statement of Cash Flows - Proprietary Funds  
Year Ended September 30, 2010

	Business-Type Activities - Enterprise Fund			Governmental Activities
	Emergency Medical Services	Water and Sewer	Totals	Internal Service
Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities				
Operating Income (Loss)	\$ 87,739	\$ 977,396	\$1,065,135	\$ (374,704)
Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities				
Depreciation	91,339	547,133	638,472	-
Change in Assets and Liabilities				
Decrease (Increase) in Accounts Receivable	96,501	(60,689)	35,812	-
Decrease (Increase) in Inventory	-	45,855	45,855	-
Increase (Decrease) in Accounts Payable and Accrued Expenses	9,486	(38,566)	(29,080)	39,080
Increase (Decrease) in Customer Meter Deposits	-	21,387	21,387	-
Decrease (Increase) in Due from Other Funds	(230)	792	562	-
Total Adjustments	197,096	515,912	713,008	39,080
Net Cash From Operating Activities	\$ 284,835	\$ 1,493,308	\$1,778,143	\$ (335,624)

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

CITY OF BONHAM, TEXAS  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2010

	<u>Volunteer Firemen Incentive Program</u>	<u>Agency Fund</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 123,334	\$ 216,605
Investments	-	-
Due from Other Funds	-	192
	<hr/>	<hr/>
Total Assets	123,334	216,797
	<hr/>	<hr/>
<u>LIABILITIES</u>		
Accounts Payable and Accrued Expense	20	26,135
Due to Other Funds	626	190,662
	<hr/>	<hr/>
Total Liabilities	646	216,797
	<hr/>	<hr/>
<u>NET ASSETS</u>		
Held in Trust for Pension Benefits	\$ 122,688	\$ -
	<hr/>	<hr/>

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

CITY OF BONHAM, TEXAS  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended September 30, 2010

	<u>Volunteer Firemen Incentive Program</u>
Additions	
Interest on Investments	\$ 236
Total Additions	<u>236</u>
Deductions	
Total Deductions	<u>-</u>
Change in Net Assets	236
Net Assets - Beginning	<u>122,452</u>
Net Assets - Ending	<u>\$ 122,688</u>

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

CITY OF BONHAM, TEXAS  
Notes to Financial Statements  
September 30, 2010

Note 1: Summary of Significant Accounting Policies

The City of Bonham, Texas (the City) was incorporated in the middle 1880's. The City operates under a council-manager form of government. The City's major operations include public safety, public works, parks and recreation, and general government services. Additionally, the City operates a water and sewer system.

The accounting and reporting policies of the City relating to the funds included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

A. The Reporting Entity

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, a component unit is included in the accompanying financial statements.

Bonham Economic Development Corporation, Inc. is a discretely presented component unit of the City due to the ability of the City to exercise oversight responsibility. Bonham Economic Development Corporation, Inc. issues separately audited component unit financial statements. Copies of the component unit financial statements may be obtained from City Secretary of the City of Bonham, Texas, 301 E. Fifth, Bonham, Texas.

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 1: Summary of Significant Accounting Policies (continued)

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. *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. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. The following interfund activities have been eliminated:

- Due from/to other funds
- Transfers in/out

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid in financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide statements and fund statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.



CITY OF BONHAM, TEXAS  
Notes to Financial Statements (continued)  
September 30, 2010

Note 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City reports the following major governmental funds:

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

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund - The Capital Projects Fund is used to account for acquisition or construction of general fixed assets.

The non-major governmental funds consist of the following:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The City accounts for the proceeds received from the Drug Investigation Activity, Airport, Tourism, and Land Account within the Special Revenue Fund category. The assets received from the Drug Investigation Activity Fund are restricted for drug related expenditures.

The City reports the following major proprietary funds:

Water Sewer Fund - The Water and Sewer Fund is used to account for the provision of water and sewer services to the City's residents.

Emergency Medical Service Fund - The Emergency Medical Service Fund is used to account for services provided to residents of Fannin County.

Internal Service Fund - Internal Service Funds are used to account for financing of goods and services, provided by one department to other departments of the City. The City operates one Internal Service which provides a partially self-funded group comprehensive health care program for all employees.

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Fiduciary Funds - Fiduciary Funds are used to report assets held in a trustee or agency capacity. The City serves as trustee for the Volunteer Firemen's Incentive Fund, a pension trust fund. The City transfers money to an agency fund to provide for employees salaries and related expenses.

Proprietary funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for the proprietary fund. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance on these assets are recorded as expenses. Renewals and betterments are capitalized. Infrastructure assets acquired since October 1, 2003 are recorded at cost.

Assets capitalized have an original cost of \$5,000 and useful life in excess of one year. Depreciation on capital assets has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20-50 Years
Furniture, Equipment and Vehicles	5-20 Years
Water and Sewer System	30-40 Years
Infrastructure	40 Years

E. Cash

For purposes of the statement of cash flows, cash includes all cash on hand, demand deposits, and time deposits and other highly liquid investments with a maturity of three months or less when purchased.

F. Taxes Receivable

Allowances for uncollectible taxes are based on historical experience in collecting property taxes. At September 30, 2010, net taxes not estimated to be collectible within sixty days are reflected in deferred revenue.

G. Inventories

Inventories are stated at cost using the first-in, first-out method. Inventory in the governmental fund is recorded as an expense at the time individual inventory items are purchased. Inventory in the proprietary fund is recorded as an expense at the time individual inventory items are consumed.

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 1: Summary of Significant Accounting Policies (continued)

H. Long-Term Debt

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Presently, the City's long-term debt consists primarily of bonds, certificates of obligation and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the city or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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.

J. Program Revenues

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.

K. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenue/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 1: Summary of Significant Accounting Policies (continued)

L. Compensated Absences Payable

It is the City's policy to permit employees to accumulate 240 hours (300 hours for fire department personnel) of annual vacation, which is paid to employees upon separation from service.

Note 2: Stewardship, Compliance and Accountability

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations. The following instances of noncompliance are considered material to the financial statements.

For the year ended September 30, 2010, the City's expenditures exceeded appropriations at the legal level of control in the General Fund as follows:

<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
Fire Department	\$ 96,600
Street Department	197,878
Library	5,721
Lake Bonham	2,264
Grants	528,348
Debt Service	20,719

For the year ended September 30, 2010, Bonham Economic Development Corporation's expenditures exceeded appropriations at the legal level of control in the General Fund as follows:

<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
Salaries and Administrative	\$ 470
Special Projects	30,115

Note 3: Deposits and Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Deposited funds may be invested in certificates of deposits in institutions that are domiciled in the State of Texas. Collateral agreements must be approved prior to deposit of funds as provided by law.

As of September 30, 2010, the City was not exposed to custodial credit risk since deposits are insured or collateralized with securities pledged held in the name of the City. The City's carrying amount of deposits was \$3,136,539 and the bank's balances were \$3,422,660.

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 3: Deposits and Investments (continued)

As of September 30, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Texas Local Government Investment Pool (Texpool)	\$5,635,274

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of September 30, 2010, Texpool's investments credit quality rating was AAAm (Standard & Poor's).

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the City's deposits may not be returned to it. As of September 30, 2010, the City's bank balance was not exposed to custodial credit risk.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

Discretely Presented Component Unit – Bonham Economic Development Corporation

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Corporation's deposits may not be returned or the Corporation will not be able to recover collateral securities in the possession of an outside party. The Corporation's policy requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Deposited funds may be invested in certificates of deposits in institutions that are domiciled in the State of Texas. Collateral agreements must be approved prior to deposit of funds as provided by law.

As of September 30, 2010, the Corporation was not exposed to custodial credit risk since deposits are insured or collateralized with securities pledged held in the name of the Corporation. The Corporation's carrying amount of deposits was \$158,154 and the bank's balances were \$162,155.

As of September 30, 2010, the Corporation had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Texas Local Government Investment Pool (Texpool)	\$ 277,288

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of September 30, 2010, Texpool's investments credit quality rating was AAAm (Standard & Poor's).

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the Corporation's deposits may not be returned to it. As of September 30, 2010, the Corporation's bank balance was not exposed to custodial credit risk.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 4: Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Tax rates per \$100 valuation for the 2009 levy amounted to .5209 for maintenance and operation and .1491 for the interest and sinking fund. The 2009 net taxable assessed valuation was \$290,908,813.

Note 5: Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

	Balance <u>9/30/09</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>9/30/10</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 185,086	\$ -	\$( 5,555)	\$ 179,531
Construction in Progress	<u>84,539</u>	<u>852,360</u>	<u>( 819,698)</u>	<u>117,201</u>
Total Assets not being Depreciated	<u>269,625</u>	<u>852,360</u>	<u>( 825,253)</u>	<u>296,732</u>
Capital Assets being Depreciated:				
Infrastructure	584,086	819,698	-	1,403,784
Buildings and Improvements	3,861,630	-	-	3,861,630
Furniture, Equipment and Vehicles	<u>2,719,681</u>	<u>178,150</u>	<u>-</u>	<u>2,897,831</u>
	<u>7,165,397</u>	<u>997,848</u>	<u>-</u>	<u>8,163,245</u>
Less Accumulated Depreciation for:				
Infrastructure	82,659	35,095	-	117,754
Buildings and Improvements	1,820,682	89,556	-	1,910,238
Furniture, Equipment and Vehicles	<u>2,089,660</u>	<u>177,998</u>	<u>-</u>	<u>2,267,658</u>
	<u>3,993,001</u>	<u>302,649</u>	<u>-</u>	<u>4,295,650</u>
Capital Assets being Depreciated, Net	<u>3,172,396</u>	<u>695,199</u>	<u>-</u>	<u>3,867,595</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,442,021</u>	<u>\$ 1,547,559</u>	<u>\$( 825,253)</u>	<u>\$4,164,327</u>

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 5: Capital Assets (continued)

	<u>Balance</u> <u>9/30/09</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/10</u>
Business-Type Activities				
Capital Assets, not being Depreciated:				
Land	\$ 51,367	\$ -	\$ -	\$ 51,367
Construction in Progress	<u>2,208,039</u>	<u>2,474,131</u>	<u>(2,429,872)</u>	<u>2,252,298</u>
Total Capital Assets, not Being Depreciated	<u>2,259,406</u>	<u>2,474,131</u>	<u>(2,429,872)</u>	<u>2,303,665</u>
Capital Assets being Depreciated:				
Furniture, Equipment and Vehicles	1,816,791	114,934	-	1,931,725
Buildings and Improvements	772,036	-	-	772,036
Water and Sewer System	<u>18,942,936</u>	<u>2,487,044</u>	<u>-</u>	<u>21,429,980</u>
	<u>21,531,763</u>	<u>2,601,978</u>	<u>-</u>	<u>24,133,741</u>
Less Accumulated Depreciation for:				
Furniture, Equipment and Vehicles	1,388,568	125,532	-	1,514,100
Buildings and Improvements	25,119	19,472	-	44,591
Water and Sewer System	<u>9,293,482</u>	<u>493,469</u>	<u>-</u>	<u>9,786,951</u>
	<u>10,707,169</u>	<u>638,473</u>	<u>-</u>	<u>11,345,641</u>
Capital Assets being Depreciated, Net	<u>10,824,594</u>	<u>1,963,505</u>	<u>-</u>	<u>12,788,099</u>
Business-Type Activities Capital Assets, Net	<u>\$ 13,084,000</u>	<u>\$ 4,437,636</u>	<u>\$(2,429,872)</u>	<u>\$ 15,091,764</u>

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 5: Capital Assets (continued)

Discretely Presented Component Unit

Capital asset activity for Bonham Economic Development Corporation for the year ended September 30, 2010, follows:

	<u>Balance</u> <u>9/30/09</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/10</u>
Capital Assets, not being Depreciated:				
Land	\$ 329,874	\$ -	\$ -	\$ 329,874
Capital Assets being Depreciated:				
Land Improvements	298,738	-	-	298,738
Buildings	733,578	-	-	733,578
Equipment	<u>62,127</u>	<u>-</u>	<u>-</u>	<u>62,127</u>
	<u>1,094,443</u>	<u>-</u>	<u>-</u>	<u>1,094,443</u>
Less Accumulated Depreciation for:				
Land Improvements	18,709	5,975	-	24,684
Buildings	95,527	18,935	-	114,462
Equipment	<u>43,773</u>	<u>8,437</u>	<u>-</u>	<u>52,210</u>
Total Accumulated Depreciation	<u>158,009</u>	<u>33,347</u>	<u>-</u>	<u>191,356</u>
Capital Assets being Depreciated, Net	<u>936,434</u>	<u>( 33,347)</u>	<u>-</u>	<u>903,087</u>
Capital Assets, Net	<u>\$ 1,266,308</u>	<u>\$( 33,347)</u>	<u>\$ -</u>	<u>\$ 1,232,961</u>

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

Governmental Activities:	
Administration	\$ 28,307
Police	41,543
Fire	73,652
Equipment Services	2,222
Streets	68,834
Sanitation	1,221
Library	14,730
Airport	40,847
Parks and Recreation	<u>31,293</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 302,649</u>
Business-Type Activities:	
Emergency Medical Services	\$ 91,339
Water and Sewer	<u>547,134</u>
	<u>\$ 638,473</u>



CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 6: Long-Term Debt

A summary of long-term debt transactions for the year ended September 30, 2010, follows:

	Balance October 1, 2009	Additions	Retirements	Balance September 30, 2010	Due Within One Year
<b>Governmental Activities</b>					
Certificates of Obligation	\$ 545,000	\$2,440,000	\$ 275,000	\$ 2,710,000	\$ 10,000
Bonds and Tax Notes	3,330,505	840,000	729,141	3,441,364	185,842
Less Deferred Amounts:					
For Issuance Discounts	( 12,411)	( 11,393)	( 1,346)	( 22,458)	-
Total Certificates of Obligations and Bonds					
And Tax Notes Payable	3,863,094	3,268,607	1,002,795	6,128,906	195,842
Notes Payable	267,420	5,691	34,102	239,009	34,708
Capital Lease	25,349	-	12,387	12,962	12,962
Compensated Absences	152,629	139,423	135,485	156,567	73,586
Governmental Activity Long-Term Liabilities	<u>\$ 4,308,492</u>	<u>\$3,413,721</u>	<u>\$1,184,769</u>	<u>\$ 6,537,444</u>	<u>\$ 317,098</u>
<b>Business-Type Activities</b>					
Certificates of Obligation	\$ 5,100,000	\$1,000,000	\$ 330,000	\$ 5,770,000	\$ 330,000
Bonds and Tax Notes	6,703,495	-	390,859	6,312,636	411,158
Less Deferred Amounts:					
For Issuance Discounts	( 383,582)	-	( 25,600)	( 357,982)	-
Total Certificates of Obligations and Bonds					
And Tax Notes Payable	11,419,913	1,000,000	695,259	11,724,654	741,158
Notes Payable	32,792	-	17,261	15,531	15,531
Compensated Absences	94,221	75,927	79,990	90,158	42,374
Business-Type Activity Long-Term Liabilities	<u>\$ 11,546,926</u>	<u>\$1,075,927</u>	<u>\$ 792,510</u>	<u>\$ 11,830,343</u>	<u>\$ 799,063</u>

Long-term debt is comprised of the following:

**Governmental Type Activities**

\$2,440,000, Series 2010, Combination Tax and Revenue Certificates of Obligation due in annual installments of \$160,000 to \$285,000 through 2030, with interest at 3.0% to 4.125% payable semi-annually. Certificates are subject to redemption on February 15, 2020, at par plus accrued interest.

\$ 2,440,000

\$840,000, Series 2010, General Obligation Refunding Bonds, due in annual installments of \$130,000 to \$240,000 through 2026, with interest at 3.0% to 4.0% payable semi-annually. Bonds are subject to redemption on February 15, 2020 at par plus any accrued interest.

840,000

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 6: Long-Term Debt (continued)

Governmental Type Activities (continued)

\$205,000, Series 2007A, Certificates of Obligation due in annual installments of \$5,000 to \$30,000 through 2027, with interest at 4.3% to 15.0%. Certificates are subject to redemption on February 15, 2017 at par plus accrued interest.	190,000
\$311,800, Series 2004, General Obligation Refunding Bonds, due in annual installments of \$15,200 to \$24,200 through 2022, with interest at 4.48%. On February 15, 2014, or any date thereafter, Refunding Bonds may be redeemed at par plus any accrued interest.	242,600
\$335,000, Series 2007, General Obligation Refunding Bonds, due in annual installments of \$10,000 to \$60,000 through 2021, with interest at 3.93%.	175,000
\$95,000, Series 2007B, Certificates of Obligation due in annual installments of \$5,000 to \$10,000 through 2027 with interest from 6.1% to 15.0%. Certificates are subject to redemption on February 15, 2017, or any date thereafter, at par plus accrued interest.	80,000
\$3,045,000, Series 2005, General Obligation Refunding and Improvement Bonds, due in annual installments of \$43,837 to \$240,261 with the final payment due in 2026, with interest at 4.28% payable semi-annually.	2,183,764
\$250,000, Note Payable to Wiley Hokett, dated April 13, 2006, due in monthly installments that range from \$1,779 to \$2,120 through September 2021. The note bears an interest rate of 5%.	211,792
\$27,558 note payable to Legend Bank, dated March 21, 2007, due on demand, but if no demand is made, then in annual interest payments ranging from \$323 to \$510 and annual principal payments of \$7,312. The final payment of \$5,763 is scheduled to be made on March 21, 2011, the maturity date. The current interest rate of the note is 2.50%. This is a variable rate note and the payment amounts may change. The rate will not be more than 7.00% or less than 2.25%.	5,622
\$8,228 note payable to Legend Bank, dated August 28, 2008, due on demand, but if no demand is made, then in three annual payments of \$2,883. The note matures August 28, 2011. The stated interest rate is 2.5%. This is a variable rate note and the payments could change. The rate is indexed to be 2.5% less than the Wall Street Journal Prime Rate.	2,807
\$26,667 note payable to Legend Bank, dated January 15, 2009, due on demand, but if no demand, then in two annual payments of \$13,872. The note matures February 15, 2011. The stated interest rate is 2.5%. This is a variable rate note and the payments could change. The interest rate will not be more than 10% or less than 2.5%. The rate is indexed to be 0.75% less than the Wall Street Journal Prime Rate.	13,510
\$5,691 note payable to John Deere Credit, dated June 29, 2010, due in 36 monthly installments of \$183. The note matures on June 29, 2013. The stated interest rate is 9.90%.	5,278
Total Governmental Type Activities	<u>\$ 6,390,373</u>

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 6: Long-Term Debt (continued)

Business-Type Activities

\$567,000, Series 2005, General Obligation Refunding Bonds, due in annual installments of \$8,163 to \$44,739 with the final payment due in 2026, with interest at 4.28% payable semi-annually.	\$ 490,236
\$1,675,000, Series 2005A, Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$80,000 to \$85,000 with the final payment due in 2026. There is no interest associated with these certificates.	1,335,000
\$7,355,000, Series 2006, Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$245,000 with the final payment due in 2036. There is no interest associated with these certificates.	4,435,000
\$49,431, Note Payable to Legend Bank, dated September 1, 2006, due on demand, but if no demand is made, then monthly interest payments ranging from \$8 to \$240 and monthly principal payments of \$824. The current interest rate of this note is 2.50%. This is a variable rate note and the payments may change. The interest is 2.5% below the Wall Street Journal Prime Rate. The final payment will be made on September 1, 2011.	9,883
\$7,483,200, Series 2004, General Obligation Refunding Bonds, due in annual installments of \$384,000 to \$580,800 with final payment due in 2022, with interest at 4.48% payable semi-annually. On February 15, 2014, or on any date thereafter, Refunding Bonds may be redeemed at par plus any accrued interest.	5,822,400
\$27,770, Note Payable to Legend Bank, dated March 21, 2007, due on demand, but if no demand is made, then in annual interest payments ranging from \$152 to \$911 and annual principal payments of \$7,374. The final payment of \$5,978 is scheduled to be made on the maturity date of the note, March 21, 2011. The stated interest rate of this note is 2.50%. This is a variable rate note and the payment amounts may change. The rate will not be more than 7.00% or less than 2.25%.	<u>5,648</u>
Total Business-Type Activities	<u>\$ 12,098,167</u>

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 6: Long-Term Debt (continued)

On June 29, 2010, the City received loan proceeds of \$5,691 from John Deere Credit. The proceeds were used to purchase John Deere Gator for the parks and recreation department. The equipment is collateral for the loan.

During the year the City issued Certificates of Obligation, Series 2010 in the amount of \$2,440,000. Proceeds are to be used for capital improvements consisting of street improvements, Senior Citizen Nutrition Facility, Administration Facilities, and reduce the tax rate for property tax payers. The bond issuance cost for this issue was \$123,863 and will be amortized over the life of the bonds issued.

On June 14, 2010, the City issued \$840,000 of general obligation bonds for a current refunding of \$699,000 of debt as follows: \$250,000 of 1998 Combination Tax and Revenue Certificates of Obligation and \$449,000 of 2005 General Obligation Refunding and Improvement Bonds.

The City incurred bond issuance costs of \$127,184, which will be amortized over the life of the bonds issued. There will be a gross debt service loss from this refunding of \$296,631 at an economic loss of \$61,857.

During the year ending September 30, 2006, the City issued \$7,355,000 of Certificates of Obligation to provide funds for improvements and rehabilitation of the City's Water System, specifically for 1) the construction of an elevated storage tank, 2) to replace and upgrade water distribution lines in the City, 3) to replace water meters in the City, 4) to construct a treated water pump station, 5) removing one existing elevated water storage tank, 6) rehabilitation and printing of one existing elevated storage tank and 7) for paying legal, fiscal, engineering and architectural fees in connection with such projects. The certificates mature through 2036. As of September 30, 2010, the City had only received proceeds of \$5,420,000. There is no interest cost associated with this issue.

The ordinances authorizing the issuance of the Certificates of Obligation and the Refunding Bonds state that the City shall establish and maintain an interest and sinking fund. In addition, the ordinances provide for ad valorem taxes to be levied which will be sufficient to pay the interest as such interest comes due and to provide and maintain a sinking fund adequate to pay the principal as such principal matures.

The Certificates of Obligation and Refunding Bonds are additionally secured by the revenues of the City's waterworks and sewer systems, after payment of all maintenance, operational expenses, and debt service of said system.

In prior years, the City defeased certain certificates of obligation and general obligation refunding bonds. The City deposited proceeds of the new refunding bonds in an irrevocable escrow account with a trust agent to ensure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. Although defeased, the refunded debt from these earlier issues will not actually be retired until the call dates have come due or until maturity. On September 30, 2010, \$5,922,000 of bonds outstanding are considered defeased.

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 6: Long-Term Debt (continued)

The annual requirements to amortize the bonds, certificates of obligation, and notes outstanding as of September 30, 2010, are as follows:

Year Ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2011	\$ 230,550	\$ 280,207	\$ 756,689	\$ 273,031	\$ 1,540,477
2012	175,210	249,112	757,127	253,921	1,435,370
2013	180,855	239,902	777,269	234,393	1,432,419
2014	185,407	230,327	798,981	213,931	1,428,646
2015	190,953	220,328	814,323	192,642	1,418,246
2016	369,963	209,761	835,250	170,544	1,585,518
2017	341,746	208,798	854,450	147,548	1,552,542
2018	208,268	206,965	880,961	123,531	1,419,725
2019	417,627	193,614	906,688	98,349	1,616,278
2020	239,414	178,592	933,043	72,003	1,423,052
2021	655,701	158,931	953,956	44,603	1,813,191
2022	416,570	135,753	950,539	16,702	1,519,564
2023	526,540	114,041	363,460	1,911	1,005,952
2024	288,837	95,283	333,163	914	718,197
2025	305,523	77,696	333,477	558	717,254
2026	557,209	58,787	333,791	188	949,975
2027	290,000	41,026	245,000	-	576,026
2028	255,000	27,926	245,000	-	527,926
2029	270,000	17,291	25,000	-	312,291
2030	<u>285,000</u>	<u>5,878</u>	<u>-</u>	<u>-</u>	<u>290,878</u>
	<u>\$ 6,390,373</u>	<u>\$ 2,950,218</u>	<u>\$ 12,098,167</u>	<u>\$ 1,844,769</u>	<u>\$ 23,283,527</u>

Discretely Presented Component Unit

A summary of the Bonham Economic Development Corporation's long-term debt transactions for the year ended September 30, 2010, follows:

Balance, September 30, 2009	\$ 2,070,000
Additions	-
Retirements	<u>105,000</u>
Balance, September 30, 2010	<u>\$ 1,965,000</u>

The amount of bonds due within one year is \$110,000.

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 6: Long-Term Debt (continued)

Discretely Presented Component Unit (continued)

Bonds are comprised of the following:

Revenue Bonds:

\$3,000,000, Series 1998 Sales Tax Revenue Bonds, due in annual installments of \$110,000 to \$200,000 through 2023, interest at 3.8% to 5.0%.

\$ 1,965,000

Debt service requirements are as follows:

Year Ending September 30,	Sales Tax Revenue Bonds		Total
	Principal	Interest	
2011	\$ 110,000	\$ 97,275	\$ 207,275
2012	115,000	92,050	207,050
2013	125,000	86,588	211,588
2014	130,000	80,588	210,588
2015	135,000	74,250	209,250
2016	140,000	67,500	207,500
2017	150,000	60,500	210,500
2018	155,000	53,000	208,000
2019	165,000	45,250	210,250
2020	170,000	37,000	207,000
2021	180,000	28,500	208,500
2022	190,000	19,500	209,500
2023	<u>200,000</u>	<u>10,000</u>	<u>210,000</u>
	<u>\$ 1,965,000</u>	<u>\$ 752,001</u>	<u>\$ 2,717,001</u>

Sales and Use Taxes (one-half of one percent) levied by the City of Bonham, Texas, within its boundaries under the Development Corporation Act of 1979, are pledged for payment of bonds and interest. The resolution authorizing the issuance of revenue bonds created an interest and sinking fund (Debt Service Fund). The ordinance requires the Corporation to make substantially equal monthly installments payments to the Debt Service Fund which will be sufficient to pay principal and interest as it comes due.

Note 7: Capital Leases

The City has entered into a lease agreement as lessee for financing the acquisition of a roller for the street department. Upon inception of the lease the City made a payment of \$13,565. The future minimum lease obligations and the net present value of the lease payments discounted at 4.55% are as follows:

<u>Year Ending September 30</u>	
2011	<u>\$ 13,564</u>
Total Minimum Lease Payments	13,564
Less: Amount Representing Interest	( 602)
Present Value of Minimum Lease Payments	<u>\$ 12,962</u>

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 8: Interfund Transactions and Balances

Interfund transfers for the year ended September 30, 2010, consisted of the following individual amounts:

Transfers to Debt Service Fund From:

Special Revenue Fund	\$ 33,727
Total Transferred to Debt Service Fund	<u>\$ 33,727</u>

Transfers to General Fund From:

Water and Sewer Fund	\$ 590,000
Emergency Medical Services Fund	303,852
Internal Service Fund	75,000
Total Transferred to General Fund	<u>\$ 968,852</u>

The transfers to the Debt Service Fund were to pay debt related to the airport. The transfer from the Water and Sewer Fund to the General Fund was to cover the costs of administrative functions. The transfer from the Emergency Medical Services Fund to the General Fund was to cover the costs of administrative functions and to pay debt related to the North Fire Station to purchase equipment.

Due To/Due From's for the year ended September 30, 2010 consisted of the following:

Due From General Fund To:

Agency Fund	\$ 192
Total Due From General Fund	<u>\$ 192</u>

Due From Firemen Incentive Program To:

General Fund	\$ 626
Total Due From Firemen Incentive Program	<u>\$ 626</u>

Due From Agency Fund To:

General Fund	\$ 120,334
Water and Sewer Fund	21,916
Emergency Medical Services Fund	48,412
Total Due From Agency Fund	<u>\$ 190,662</u>

Due From Emergency Medical Services Fund To:

General Fund	\$ 125,000
Total Due From Emergency Medical Services Fund	<u>\$ 125,000</u>

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 9: Disaggregation of Receivables and Payables

Receivables at September 30, 2010, were as follows:

	<u>Property Taxes</u>	<u>Other Taxes</u>	<u>Accounts</u>	<u>Gross Receivables</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivables</u>
Governmental						
General Fund	\$ 153,395	\$ 326,261	\$ 64,897	\$ 544,553	\$( 46,019)	\$ 498,534
Special Revenue	-	10,015	14,560	24,575	-	24,575
Debt Service	<u>41,659</u>	<u>-</u>	<u>-</u>	<u>41,659</u>	<u>( 8,332)</u>	<u>33,327</u>
Total – Governmental Activities	<u>\$ 195,054</u>	<u>\$ 336,276</u>	<u>\$ 79,457</u>	<u>\$ 610,787</u>	<u>\$( 54,351)</u>	<u>\$ 556,436</u>
Proprietary						
Emergency Medical Services	\$ -	\$ -	\$ 426,753	\$ 426,753	\$( 106,674)	\$ 320,079
Water and Sewer Fund	<u>-</u>	<u>-</u>	<u>566,997</u>	<u>566,997</u>	<u>( 12,104)</u>	<u>554,893</u>
Total – Business-Type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 993,750</u>	<u>\$ 993,750</u>	<u>\$( 118,778)</u>	<u>\$ 874,972</u>
Amounts Not Expected To be Collected During The Subsequent Year	<u>\$ 117,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,770</u>

Payables at September 30, 2010, were as follows:

	<u>Accounts</u>	<u>Wages</u>	<u>Totals</u>
Governmental Activities			
General Fund	\$ 202,096	\$ 144,679	\$ 346,775
Capital Projects Fund	24,400	-	24,400
Special Revenue	1,882	-	1,882
Internal Service	<u>113,076</u>	<u>-</u>	<u>113,076</u>
Total-Governmental Activities	<u>\$ 341,454</u>	<u>\$ 144,679</u>	<u>\$ 486,133</u>
Business-Type Activities			
Emergency Medical Services	\$ 28,215	\$ 58,670	\$ 86,885
Water and Sewer Fund	<u>208,873</u>	<u>26,892</u>	<u>235,765</u>
Total-Business-Type Activities	<u>\$ 237,088</u>	<u>\$ 85,562</u>	<u>\$ 322,650</u>



CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 10: Retirement Commitments

Volunteer Firemen's Incentive Fund

The City sponsors and administers the Volunteer Firemen's Incentive Fund which is accounted for as a separate Pension Trust Fund. The Plan provides specified benefits for volunteer firemen who meet the plan's criteria. This amount was not actuarially determined and data concerning the actuarial status of the fund at September 30, 2010, was not available.

Pension Plan

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing the TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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

	<u>Plan Year 2009</u>	<u>Plan Year 2010</u>
Employee deposit rate	6%	6%
Matching ratio (city to employee):	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/25	60/5,0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	0% of CPI Repeating	0% of CPI Repeating

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 10: Retirement Commitments (Continued)

Pension Plan (Continued)

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9-30-10	\$ 317,809	100%	-

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

<u>Valuation Date</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2009</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	25 yrs; closed period	24 yrs; closed period	23 yrs; closed period
Asset Valuation Method	Amortized Cost	Amortized Cost	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.5%	7.5%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 10: Retirement Commitments (Continued)

Pension Plan (Continued)

Contributions (continued)

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/09	\$7,055,118	\$ 8,240,234	85.6%	\$ 1,185,116	\$4,498,135	26.3%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Note 11: Group Insurance

The City provides a partially self-funded group comprehensive health care program for all employees and approximately 100 employees are covered. Under the program, the City has contracted with an insurance company to process employee claims and provide reinsurance for annual individual coverage exceeding \$10,000. This plan provides employee health benefits up to a \$1,000,000 lifetime maximum.

Note 12: Commitments/Contingent Liabilities

Grants

The City participates in federally assisted grant programs which are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Litigation

The City is subject to pending lawsuits. Although the outcome of lawsuits are not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

Construction Contracts

The City had outstanding at September 30, 2010 contract commitments totaling approximately \$1,088,720 related to improvements and rehabilitation of the City's water and sewer system and the water meter Fixed Read AMI System.

CITY OF BONHAM, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2010

Note 13: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters. The City manages these various risks of loss by purchasing commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

Note 14: Major Customer

The City's financial statements include revenues of \$671,594 from one customer.

Note 15: Subsequent Events

Management has evaluated subsequent events through January 10, 2011, the date on which the financial statements were available to be issued.

CITY OF BONHAM, TEXAS  
Required Supplementary Information  
Budgetary Comparison Schedule - General Fund  
Year Ended September 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes	\$ 3,081,133	\$ 3,081,133	\$ 3,026,667	\$ (54,466)
Licenses and Permits	2,800	2,800	1,350	(1,450)
Intergovernmental Revenues	1,650	1,650	516,721	515,071
Charges for Services	798,000	798,000	793,618	(4,382)
Fines	234,350	234,350	140,492	(93,858)
Interest	2,600	2,600	3,545	945
Miscellaneous Revenue	266,180	266,180	351,922	85,742
Total Revenues	<u>4,386,713</u>	<u>4,386,713</u>	<u>4,834,315</u>	<u>447,602</u>
Expenditures:				
Current				
Administration	760,706	760,706	755,342	5,364
Police Department	1,764,548	1,764,548	1,693,791	70,757
Fire Department	801,694	801,694	898,294	(96,600)
Equipment Services	50,739	50,739	47,130	3,609
Street Department	761,785	761,785	959,663	(197,878)
Sanitation	430,000	430,000	418,796	11,204
Library	202,360	202,360	208,081	(5,721)
Parks and Recreation	227,643	227,643	226,025	1,618
Lake Bonham	68,660	68,660	70,924	(2,264)
Grants	-	-	528,348	(528,348)
Capital Outlay	92,960	92,960	57,886	35,074
Debt Service				
Principal Retirement	10,725	10,725	20,532	(9,807)
Interest and Fiscal Charges	394	394	11,306	(10,912)
Total Expenditures	<u>5,172,214</u>	<u>5,172,214</u>	<u>5,896,118</u>	<u>(723,904)</u>
Excess of Revenues Over (Under) Expenditures	<u>(785,501)</u>	<u>(785,501)</u>	<u>(1,061,803)</u>	<u>(276,302)</u>
Other Financing Sources (Uses)				
Operating Transfers In	790,000	790,000	968,852	178,852
Operating Transfers Out	-	-	-	-
Proceeds From Issuance of Long-Term Debt	-	-	5,691	5,691
Sale of Capital Assets	-	-	266,417	266,417
Total Other Financing Sources (Uses)	<u>790,000</u>	<u>790,000</u>	<u>1,240,960</u>	<u>450,960</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>4,499</u>	<u>4,499</u>	<u>179,157</u>	<u>174,658</u>
Fund Balance - October 1	<u>832,672</u>	<u>832,672</u>	<u>832,672</u>	<u>-</u>
Fund Balance - September 30	<u>\$ 837,171</u>	<u>\$ 837,171</u>	<u>\$ 1,011,829</u>	<u>\$ 174,658</u>

CITY OF BONHAM, TEXAS  
Texas Municipal Retirement System  
Schedule of Funding Progress  
September 30, 2010

Texas Municipal Retirement System  
Schedule of Funding in Progress:  
(unaudited)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2007	\$ 5,791,081	\$ 6,878,423	84.2%	\$ 1,087,342	\$ 3,872,766	28.1%
12/31/2008	6,342,939	7,506,067	84.5%	1,163,128	4,469,372	26.0%
12/31/2009	7,055,118	8,240,234	85.6%	1,185,116	4,498,135	26.3%

CITY OF BONHAM, TEXAS  
Notes to Required Supplementary Information  
September 30, 2010

Budgetary Data

In accordance with state law, the City adopts an annual budget before September 30 for the subsequent year. The budget is prepared on the same basis of accounting as applied to the governmental funds in the basic financial statements.

GAAP require that a budgetary comparison be presented for the general fund. The budgetary comparison must include the original budget and the final amended budget. The City's original adopted budget was not amended; therefore, only one budget column is presented in the budgetary comparison schedule.

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Report On Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with  
*Government Auditing Standards*

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members  
of the City Council  
City of Bonham, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented Component Unit, each major fund, and the aggregate remaining fund information of City of Bonham, Texas (the City) as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Bonham, Texas' internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs 2010-1 and 2010-2 to be material weaknesses in internal control over financial reporting.



Honorable Mayor and Members  
of the City of Council  
City of Bonham, Texas  
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Bonham, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, Administration and federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

*McClanahan and Holmes, LLP*  
Certified Public Accountants

January 10, 2011

McCLANAHAN AND HOLMES, LLP  
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Report on Compliance with Requirements Applicable to  
each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members  
of the City Council  
City of Bonham, Texas

Compliance

We have audited the compliance of City of Bonham, Texas with the types of compliance requirements described in the U S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. The City's major federal programs is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Bonham, Texas' administrators. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Bonham, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Bonham, Texas' compliance with those requirements.

In our opinion, City of Bonham, Texas complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended September 30, 2010.