

CITY OF BONHAM, TEXAS  
Statement of Cash Flows - Proprietary Funds  
Year Ended September 30, 2004

	Proprietary Fund Types	
	Enterprise	Internal Service
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 3,289,908	\$ -
Cash Payments to Suppliers for Goods and Services	(916,677)	-
Cash Payments to Employees for Services	(1,082,619)	-
Other Operating Revenues	13,923	-
Employer and Employee Contributions	-	1,010,933
Employee Insurance Claims Paid	-	(912,613)
Net Cash From Operating Activities	<u>1,304,535</u>	<u>98,320</u>
Cash Flows from Noncapital Financing Activities		
Transfers Out to Other Funds	(590,000)	-
Net Cash From Noncapital Financing Activities	<u>(590,000)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of Capital Assets and Construction in Progress	(105,299)	-
Proceeds from Issuance of Long-Term Debt	7,483,200	-
Issuance Costs Paid for Long-Term Debt	(328,200)	-
Principal Paid on Long-Term Debt	(7,443,078)	-
Interest Paid on Long-Term Debt	(429,656)	-
Net Cash From Capital and Related Financing Activities	<u>(823,033)</u>	<u>-</u>
Cash Flows from Investing Activities		
Net Change in Investments	9,495	-
Interest Received	27,401	1,054
Net Cash From Investing Activities	<u>36,896</u>	<u>1,054</u>
Net Increase (Decrease) in Cash	(71,602)	99,374
Cash and Cash Equivalents, October 1	<u>2,039,778</u>	<u>98,564</u>
Cash and Cash Equivalents, September 30	<u>\$ 1,968,176</u>	<u>\$ 197,938</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 (Continued)  
Year Ended September 30, 2004

Reconciliation of Operating Income (Loss) to Net  
Cash From Operating Activities

Operating Income (Loss)	<u>\$ 731,627</u>	<u>\$ 117,475</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities		
Depreciation and Amortization	449,160	-
Change in Assets and Liabilities		
Decrease (Increase) in Accounts Receivable	125,124	-
Decrease (Increase) in Inventory	6,394	-
Increase (Decrease) in Accounts Payable and Accrued Expenses	(15,333)	(19,155)
Increase (Decrease) in Customer Meter Deposits	7,563	-
Total Adjustments	<u>572,908</u>	<u>(19,155)</u>
Net Cash From Operating Activities	<u><u>\$ 1,304,535</u></u>	<u><u>\$ 98,320</u></u>

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, 2004

	<u>Volunteer Firemen Incentive Program</u>	<u>Agency Fund</u>
<u>ASSETS</u>		
Cash and Cash Equivents	\$ 110,704	\$ 17,752
Due from Other Funds	<u>15,674</u>	<u>192</u>
Total Assets	<u>126,378</u>	<u>17,944</u>
<u>LIABILITIES</u>		
Accounts Payable and Accrued Expense	<u>-</u>	<u>17,944</u>
Total Liabilities	<u>-</u>	<u>17,944</u>
<u>NET ASSETS</u>		
Held in Trust for Pension Benefits	<u>\$ 126,378</u>	<u>\$ -</u>

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, 2004

	<u>Volunteer Firemen Incentive Program</u>
Additions	
Interest on Investments	<u>\$          1,252</u>
Change in Net Assets	1,252
Net Assets - Beginning	<u>125,126</u>
Net Assets - Ending	<u><u>\$         126,378</u></u>

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

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements  
September 30, 2004

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.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

Financial Statements prepared using full accrual accounting for all the City's activities.

The reporting of infrastructure capital assets (such as roads, bridges, etc.) of governmental activities beginning October 1, 2003.

A change in the fund financial statements to focus on the major funds.

Beginning net assets reported in government-wide financial statements will differ from the amounts reported as ending fund equity in the prior year financial statements due to this implementation.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

The accounting and reporting policies of the City relating to the funds included in the accompanying basic 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.

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 1: Summary of Significant Accounting Policies (Continued)

A. The Reporting Entity (continued)

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.

B. Basis of Presentation

Government-Wide Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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.

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 has presented 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.

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.

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.

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (continued)  
September 30, 2004

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued)

Proprietary Fund

Enterprise Fund – The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's one enterprise fund is the Water and Sewer Fund which is used to account for the provision of water and sewer services to the City's residents.

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 Fund which provides a partially self-funded group comprehensive health care program for all employees.

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.

C. 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

D. Basis of Accounting

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 Basic Financial Statements (Continued)  
September 30, 2004

Note 1: Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting (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 property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. 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.

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, 2004, 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. Reported inventories are equally offset by a fund balance reserve showing that they do not constitute available expendable resources. Inventory in the proprietary fund is recorded as an expense at the time individual inventory items are consumed.

H. Long-Term Debt

All long-term debt arising from cash transactions 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 arising from cash transactions 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.



CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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. There were no material instances of noncompliance for the year ended September 30, 2004.

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 3: Deposits

At September 30, 2004, the carrying amount of the City of Bonham's deposits (cash and interest-bearing money market accounts) was \$3,078,484 and bank balance was \$3,165,022. The City's cash deposits at September 30, 2004 were covered by FDIC insurance in the amount of \$136,560 and by collateral held by the financial institution's agent in the City's name in the amount of \$4,819,261.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1 – Deposits which are insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Deposits which are not collateralized or insured.

Based on these three levels of risk, the City's cash deposits in the amount of \$136,560 are classified as category 1 and \$3,028,462 are classified as category 2.

At September 30, 2004, the carrying amount and bank balance of deposits for Bonham Economic Development Corporation, a discretely presented component unit, was \$497,698. The Corporation's cash deposits at September 30, 2004, were covered by FDIC Insurance or by collateral held by the financial institution's agent in the Corporation's name.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1 – Deposits which are insured or collateralized with securities held by the Corporation or by its agent in the Corporation's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Corporation's name.

Category 3 - Deposits which are not collateralized or insured.

Based on these three levels of risk, the Corporation's cash deposits in the amount of \$100,000 are classified as category 1 and \$397,698 are classified as category 2.

Note 4: Investments

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 4: Investments (Continued)

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The entities investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

The entities investments are categorized to give an indication of the level of risk assumed by the entity at year-end. These custodial risk categories are as follows:

Category 1 - Investments that are insured, registered or held by the entity or by its agent in the entities name.

Category 2 - Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the entities name.

Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the entities name.

The City's investments at September 30, 2004 are shown below:

<u>Investment</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Category</u>
Texpool (Texas State Treasury, Texas Local Government Investment Pool)	\$ 700,552	\$ 700,552	3
	<u>\$ 700,552</u>	<u>\$ 700,552</u>	

Bonham Economic Development Corporation, a discretely presented component unit, investments at September 30, 2004 are shown below:

<u>Investment</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Category</u>
Texpool (Texas State Treasury, Texas Local Government Investment Pool)	\$ 1,798	\$ 1,798	3
	<u>\$ 1,798</u>	<u>\$ 1,798</u>	

Note 5: 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 2003 levy amounted to .4361 for maintenance and operation and .1139 for the interest and sinking fund. The 2003 assessed valuation was \$251,315,273.

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 6: Capital Assets

Capital asset activity for the year ended September 30, 2004, was as follows:

	<u>Balance 9/30/03</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 9/30/04</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 104,086	\$ -	\$ -	\$ 104,086
Construction in Progress	<u>52,080</u>	<u>201,674</u>	<u>-</u>	<u>253,754</u>
Total Assets not being Depreciated	<u>156,166</u>	<u>201,674</u>	<u>-</u>	<u>357,840</u>
Capital Assets being Depreciated:				
Infrastructure	-	385,721	-	385,721
Buildings and Improvements	2,962,695	-	-	2,962,695
Furniture, Equipment and Vehicles	<u>2,484,797</u>	<u>148,504</u>	<u>-</u>	<u>2,633,301</u>
	<u>5,447,492</u>	<u>534,225</u>	<u>-</u>	<u>5,981,717</u>
Less Accumulated Depreciation for:				
Infrastructure	-	9,644	-	9,644
Buildings and Improvements	1,329,114	61,112	-	1,390,226
Furniture, Equipment and Vehicles	<u>1,394,758</u>	<u>267,616</u>	<u>-</u>	<u>1,662,374</u>
	<u>2,723,872</u>	<u>338,372</u>	<u>-</u>	<u>3,062,244</u>
Capital Assets being Depreciated, Net	<u>2,723,620</u>	<u>195,853</u>	<u>-</u>	<u>2,919,473</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,879,786</u>	<u>\$ 397,527</u>	<u>\$ -</u>	<u>\$3,277,313</u>
Business-type Activities				
Capital Assets, not being Depreciated:				
Land	\$ 51,367	\$ -	\$ -	\$ 51,367
Construction in Progress	<u>-</u>	<u>32,550</u>	<u>-</u>	<u>32,550</u>
Total Capital Assets, not Being Depreciated	<u>51,367</u>	<u>32,550</u>	<u>-</u>	<u>83,917</u>
Capital Assets being Depreciated:				
Furniture, Equipment and Vehicles	875,606	-	-	875,606
Buildings and Improvements	21,756	-	-	21,756
Water and Sewer System	<u>16,644,494</u>	<u>72,749</u>	<u>-</u>	<u>16,717,243</u>
	<u>17,541,856</u>	<u>72,749</u>	<u>-</u>	<u>17,614,605</u>

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 6: Capital Assets (Continued)

	Balance 9/30/03	<u>Additions</u>	<u>Retirements</u>	Balance 9/30/04
Less Accumulated Depreciation for:				
Furniture, Equipment and Vehicles	652,245	78,495	-	730,740
Buildings and Improvements	1,904	544	-	2,448
Water and Sewer System	<u>6,962,612</u>	<u>370,121</u>	-	<u>7,332,733</u>
	<u>7,616,761</u>	<u>449,160</u>	-	<u>8,065,921</u>
Capital Assets being Depreciated, Net	<u>9,925,095</u>	<u>( 376,411)</u>	-	<u>9,548,684</u>
Business-type Activities Capital Assets, Net	<u>\$ 9,976,462</u>	<u>\$( 343,861)</u>	<u>\$ -</u>	<u>\$9,632,601</u>

Discretely presented component unit

Capital asset activity for Bonham Economic Development Corporation for the year ended September 30, 2004, follows:

	Balance 9/30/03	<u>Additions</u>	<u>Retirements</u>	Balance 9/30/04
Capital Assets, not being Depreciated:				
Land	<u>\$ 154,868</u>	<u>\$ 104,170</u>	<u>\$ 2,473</u>	<u>\$ 256,565</u>
Capital Assets being Depreciated:				
Land Improvements	-	64,669	-	64,669
Buildings	151,331	29,385	-	180,716
Equipment	<u>3,070</u>	<u>25,178</u>	-	<u>28,248</u>
	<u>154,401</u>	<u>119,232</u>	-	<u>273,633</u>
Less Accumulated Depreciation for:				
Land Improvements	-	647	-	647
Buildings	5,675	4,328	-	10,003
Equipment	<u>3,070</u>	<u>1,798</u>	-	<u>4,868</u>
Total Accumulated Depreciation	<u>8,745</u>	<u>6,773</u>	-	<u>15,518</u>
Capital Assets being Depreciated, Net	<u>145,656</u>	<u>112,459</u>	-	<u>258,115</u>
Capital Assets, Net	<u>\$ 300,524</u>	<u>\$ 216,629</u>	<u>\$ 2,473</u>	<u>\$ 514,680</u>

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 6: Capital Assets (Continued)

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

Governmental Activities:

Administration	\$ 21,140
Police	53,034
Fire	58,983
Emergency Medical Services	63,739
Equipment Services	2,223
Streets	92,058
Sanitation	1,221
Library	16,329
Parks and Recreation	20,596
Lake Bonham	2,795
Airport	<u>6,254</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 338,372</u>

Business-type Activities:

Water and Sewer	<u>\$ 449,160</u>
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Note 7: Long-Term Debt

A summary of long-term debt transactions for the year ended September 30, 2004, follows:

	Balance October 1, <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2004</u>	Due Within <u>One Year</u>
Governmental Type Activities					
Certificates of					
Obligation	\$ 3,174,000	\$ -	\$ 420,000	\$ 2,754,000	\$ 105,000
Bonds and Tax Notes	335,000	561,800	10,000	886,800	40,800
Notes Payable	<u>38,425</u>	<u>-</u>	<u>3,127</u>	<u>35,298</u>	<u>3,268</u>
	<u>3,547,425</u>	<u>561,800</u>	<u>433,127</u>	<u>3,676,098</u>	<u>149,068</u>
Business Type Activities					
Certificates of					
Obligation	4,925,000	-	4,760,000	165,000	165,000
Bonds	<u>3,340,000</u>	<u>7,483,200</u>	<u>2,660,000</u>	<u>8,163,200</u>	<u>134,200</u>
	<u>8,265,000</u>	<u>7,483,200</u>	<u>7,420,000</u>	<u>8,328,200</u>	<u>299,200</u>
Total	<u>\$ 11,812,425</u>	<u>\$ 8,045,000</u>	<u>\$ 7,853,127</u>	<u>\$ 12,004,298</u>	<u>\$ 448,268</u>

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 7: Long-Term Debt (Continued)

Long-term debt is comprised of the following:

Governmental Type Activities

\$2,890,000, Series 1998, Combination Tax and Revenue Certificates of Obligation, serial certificates, due in annual installments of \$85,000 to \$200,000 through 2023, with interest at 4.25% to 5.0%. Certificates are subject to redemption on February 15, 2008, or on any date thereafter at par plus accrued interest.	\$ 2,550,000
\$345,000, Series 1998, General Obligation Refunding Bonds, due in annual installments of \$10,000 to \$25,000 with final payment due in 2023, with interest at 4.25% to 5.0% payable semi-annually. On February 15, 2008, or any date thereafter, Refunding Bonds may be redeemed at par plus any accrued interest.	325,000
\$390,000, Series 2001A, Certificates of Obligation, due in annual installments of \$13,000 to \$15,000 through 2006, with interest at 4.75% to 10.0%.	28,000
\$195,000, Series 2001B, Certificates of Obligation due in annual installments of \$7,000 to \$15,000 through 2021, with interest at 4.75% to 10.0%. Certificates are subject to redemption on February 15, 2007 at par plus accrued interest.	176,000
\$311,800, Series 2004, General Obligation Refunding Bonds, due in annual installments of \$800 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.	311,800
\$250,000, Series 2004, Tax Notes, due in annual installments of \$30,000 to \$45,000 through 2011, with interest at 4.0% to 10.0%. On February 1, 2006, or any date thereafter, principal installments that are due after February 15, 2007 may be redeemed at par value plus accrued interest.	250,000
\$38,425 note payable to U.S. Department of Agriculture; dated July 31, 2003, due in annual installments of \$4,856 through July 2013, interest at 4.5%.	<u>35,298</u>
Total Governmental Type Activities	<u>\$ 3,676,098</u>

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 7: Long-Term Debt (Continued)

Business Type Activities

\$5,750,000, Series 1996, Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$165,000 with final payment due in 2005, with interest at 4.7% payable semi-annually.	\$ 165,000
\$3,730,000, Series 1996, General Obligation Refunding Bonds, due in annual installments of \$20,000 to \$115,000 with final payment due in 2022, with interest at 4.6% to 5.4% payable semi-annually. On February 15, 2005, or on any date thereafter, Refunding Bonds may be redeemed at par plus any accrued interest.	680,000
\$7,483,200, Series 2004, General Obligation Refunding Bonds, due in annual installments of \$19,200 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.	<u>7,483,200</u>
Total Business Type Activities	<u>\$ 8,328,200</u>

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.

On May 10, 2004, the City refunded and defeased in substance: \$4,600,000 of Series 1996, Combination and Tax Revenue Certificates of Obligation; \$2,550,000 Series 1996 General Obligation Refunding Bonds; and \$321,000 of Series 2001A, Certificates of Obligation. The City issued \$7,795,000, Series 2004, General Obligation Refunding Bonds at 4.48% to accomplish the refunding. The City contributed \$140,000 from their debt service. The City deposited \$7,816,629 in an irrevocable escrow account with a trust agent to ensure payment of debt service on the refunded bonds. The remainder of the proceeds, \$118,371, was used for bond costs which will be amortized over the life of the new debt issue. The City realized a gross debt service savings of \$411,740 and an economic gain of \$272,111.

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, 2004, \$7,476,000 of bonds outstanding are considered defeased.



CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 7: Long-Term Debt (Continued)

The annual requirements to amortize the bonds, certificates of obligation, and notes outstanding as of September 30, 2004, are as follows:

Year Ending September 30,	Governmental Type Activities		Business Type Activities		Total
	Principal	Interest	Principal	Interest	
2005	\$ 149,068	\$ 175,862	\$ 299,200	\$ 371,040	\$ 995,170
2006	172,215	164,189	303,200	357,207	996,811
2007	159,568	161,058	337,000	342,794	1,000,420
2008	175,729	161,209	361,000	327,066	1,025,004
2009	181,297	155,510	370,600	310,561	1,017,968
2010	188,272	144,584	389,800	293,385	1,016,041
2011	199,255	132,799	409,000	275,325	1,016,379
2012	161,047	122,613	428,400	256,361	968,421
2013	167,047	114,312	447,600	236,508	965,467
2014	173,200	105,515	471,800	215,663	966,178
2015	179,800	96,342	486,200	193,934	956,276
2016	196,600	86,457	505,400	171,453	959,910
2017	197,400	76,111	524,600	148,085	946,196
2018	209,400	65,425	553,600	123,588	952,013
2019	220,400	54,143	577,600	97,882	950,025
2020	232,400	42,267	606,600	70,965	952,232
2021	249,200	29,626	625,800	42,945	947,571
2022	239,200	17,167	630,800	14,360	901,527
2023	<u>225,000</u>	<u>5,625</u>	<u>-</u>	<u>-</u>	<u>230,625</u>
	<u>\$ 3,676,098</u>	<u>\$ 1,910,814</u>	<u>\$ 8,328,200</u>	<u>\$ 3,849,122</u>	<u>\$ 17,764,234</u>

Discretely Presented Component Unit

A summary of the Bonham Economic Development Corporation's long term debt transactions for the year ended September 30, 2004, follows:

Balance, September 30, 2003	\$ 2,630,000
Additions	-
Retirements	<u>85,000</u>
Balance, September 30, 2004	<u>\$ 2,545,000</u>

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 7: Long-Term Debt (Continued)

The amount of bonds due within one year is \$85,000.

Bonds are comprised of the following:

Revenue Bonds:

\$3,000,000, Series 1998 Sales Tax Revenue Bonds, due in annual installments of \$85,000 to \$200,000 through 2023, interest at 4.25% to 5.0%.

\$ 2,545,000

Debt service requirements are as follows:

Year Ending September 30,	Sales Tax Revenue Bonds		Total
	Principal	Interest	
2005	\$ 85,000	\$ 122,938	\$ 207,938
2006	90,000	119,283	209,283
2007	95,000	115,413	210,413
2008	100,000	111,256	211,256
2009	105,000	106,856	211,856
2010	105,000	102,131	207,131
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>\$ 2,545,000</u>	<u>\$ 1,429,878</u>	<u>\$ 3,974,878</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.

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 8: Lease Purchase Obligations

The lease purchase obligations consist of the following:

Business Type Activities

\$71,698, dated August 13, 2002, for the purchase of a 2003 GMC Model TW55042 Truck, due in annual installments of \$15,892. Interest is computed at 5.42%.

Debt service requirements for the lease purchase is as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 14,300	\$ 1,592	\$ 15,892
2006	<u>15,075</u>	<u>817</u>	<u>15,892</u>
Total	<u>\$ 29,375</u>	<u>\$ 2,409</u>	<u>\$ 31,784</u>

Governmental Type Activities

\$18,256, dated March 4, 2004 for the purchase of software due in one advanced payment of \$10,300 and 24 monthly payments of \$389. Interest is computed at 16%.

Debt service requirements for the lease purchases are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 3,962	\$ 709	\$ 4,671
2006	<u>2,234</u>	<u>105</u>	<u>2,339</u>
Total	<u>\$ 6,196</u>	<u>\$ 814</u>	<u>\$ 7,010</u>

Note 9: Interfund Transactions and Balances

Interfund transfers for the year ended September 30, 2004, consisted of the following individual amounts:

Transfers to Special Revenue Fund From:

General Fund	\$ 16,000
Capital Projects Fund	<u>193,000</u>
Total Transferred to Special Revenue Fund	<u>\$ 209,000</u>

Transfers to General Fund From:

Water and Sewer Fund	\$ 590,000
Total Transferred to General Fund	<u>\$ 590,000</u>

The transfers to the Special Revenue Fund were to fund the costs of airport improvements. The transfer from the Water and Sewer Fund to the General Fund is to cover the costs of administrative functions.

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 9: Interfund Transactions and Balances (continued)

Due To/Due From's for the year ended September 30, 2004 consisted of the following:

Due From General Fund Due To:

Water and Sewer Fund	\$ 40,404
Firemen Incentive Program	15,674
Agency Fund	<u>192</u>
Total Due From General Fund	<u>\$ 56,270</u>

Note 10: Disaggregation of Receivables and Payables

Receivables at September 30, 2004, 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 Activities:						
General Fund	\$ 126,311	\$ 213,382	\$ 750,873	\$ 1,090,566	\$( 385,053)	\$ 705,513
Special Revenue	-	6,935	4,235	11,170	-	11,170
Debt Service	<u>26,602</u>	<u>-</u>	<u>-</u>	<u>26,602</u>	<u>( 5,321)</u>	<u>21,281</u>
Total – Governmental Activities	<u>\$ 152,913</u>	<u>\$ 220,317</u>	<u>\$ 755,108</u>	<u>\$ 1,128,338</u>	<u>\$( 390,374)</u>	<u>\$ 737,964</u>
Business Type Activities:						
Water and Sewer Fund	\$ -	\$ -	\$ 288,533	\$ 288,533	\$( 3,000)	\$ 285,533
Total – Business Type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 288,533</u>	<u>\$ 288,533</u>	<u>\$( 3,000)</u>	<u>\$ 285,533</u>

Payables at September 30, 2004, were as follows:

	<u>Accounts</u>	<u>Wages</u>	<u>Interest</u>	<u>Due to State</u>	<u>Totals</u>
Governmental Activities					
General Fund	\$ 148,973	\$ 90,523	\$ -	\$ 16,132	\$ 255,628
Special Revenue	<u>9,159</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,159</u>
Total-Governmental Activities	<u>\$ 158,132</u>	<u>\$ 90,523</u>	<u>\$ -</u>	<u>\$ 16,132</u>	<u>\$ 264,787</u>
Business Type Activities					
Water and Sewer Fund	\$ 79,762	\$ 20,829	\$ 47,254	\$ -	\$ 147,845
Total-Business Type Activities	<u>\$ 79,762</u>	<u>\$ 20,829</u>	<u>\$ 47,254</u>	<u>\$ -</u>	<u>\$ 147,845</u>

Note 11: 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, 2004, was not available.

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 11: Retirement Commitments (Continued)

Pension Plan

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 794 administered by TMRS, an agent multiple-employer public employee retirement system.

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

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

Deposit Rate:	5%
Matching Ratio (City of Employee):	1 to 1
A member is vested after:	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the city are: 5 yrs/age 60, 25 yrs/any age.

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect, (i.e. December 31, 2003 valuation is effective for rates beginning January 2005).

CITY OF BONHAM, TEXAS  
Notes to Basic Financial Statements (Continued)  
September 30, 2004

Note 11: Retirement Commitments (Continued)

Contributions (continued)

Three-Year Trend Information for  
Bonham Employees Pension Plan

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9-30-02	\$ 125,059	100%	-
9-30-03	177,711	100%	-
9-30-04	168,937	100%	-

Schedule of Funding Progress for Bonham Employees Pension Plan

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/01	\$3,225,009	\$ 3,543,139	\$ 318,130	91.0%	\$2,362,369	13.5%
12/31/02	3,711,845	4,052,471	340,626	91.6%	3,201,734	10.6%
12/31/03	3,912,854	4,358,956	446,102	89.8%	3,819,432	11.7%

Note 12: 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 13: Commitments/Contingent Liabilities

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.

The City is subject to pending lawsuits. Although the outcome of lawsuits are nor 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.

Note 14: 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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BONHAM, TEXAS  
Budgetary Comparison Schedule - General Fund  
Year Ended September 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes	\$ 2,739,918	\$ 2,739,918	\$ 2,570,721	\$ (169,197)
Licenses and Permits	4,050	4,050	2,831	(1,219)
Intergovernmental Revenues	31,150	31,150	91,048	59,898
Charges for Services	2,307,996	2,307,996	2,022,431	(285,565)
Fines	185,340	185,340	170,569	(14,771)
Interest	6,000	6,000	6,677	677
Miscellaneous Revenue	269,100	269,100	265,734	(3,366)
Total Revenues	<u>5,543,554</u>	<u>5,543,554</u>	<u>5,130,011</u>	<u>(413,543)</u>
Expenditures:				
Administration	592,839	592,839	643,077	(50,238)
Police Department	1,681,426	1,681,426	1,652,122	29,304
Fire Department	612,642	612,642	535,390	77,252
Emergency Medical Services	1,444,040	1,444,040	1,364,354	79,686
Equipment Services	44,568	44,568	42,817	1,751
Street Department	725,663	725,663	784,802	(59,139)
Sanitation	488,000	488,000	458,013	29,987
Library	191,673	191,673	187,304	4,369
Parks and Recreation	263,162	263,162	242,735	20,427
Lake Bonham	60,541	60,541	54,616	5,925
Total Expenditures	<u>6,104,554</u>	<u>6,104,554</u>	<u>5,965,230</u>	<u>139,324</u>
Excess of Revenues Over (Under) Expenditures	<u>(561,000)</u>	<u>(561,000)</u>	<u>(835,219)</u>	<u>(274,219)</u>
Other Financing Sources (Uses)				
Donated Assets	-	-	116,832	116,832
Operating Transfers In	590,000	590,000	590,000	-
Operating Transfers Out	(29,000)	(29,000)	(16,000)	13,000
Total Other Financing Sources (Uses)	<u>561,000</u>	<u>561,000</u>	<u>690,832</u>	<u>129,832</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	(144,387)	(144,387)
Fund Balance - October 1	<u>598,660</u>	<u>598,660</u>	<u>598,660</u>	-
Fund Balance - September 30	<u>\$ 598,660</u>	<u>\$ 598,660</u>	<u>\$ 454,273</u>	<u>\$ (144,387)</u>



CITY OF BONHAM, TEXAS  
Notes to Required Supplementary Information  
September 30, 2004

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 modified cash 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.

## INTERNAL CONTROL SECTION

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Independent Auditors' Report  
On Internal Control

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

We have audited the financial statements of the City of Bonham as of and for the year ended September 30, 2004, and have issued our report thereon dated January 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the City of Bonham for the year ended September 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

The management of the City of Bonham is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

We noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Limited Segregation of Duties

Due to City's small number of personnel, there is limited segregation of duties in all areas of the accounting system.

Fund Balance

The City's fund balance policy requires the General Fund to achieve and maintain a fund balance of not less than fifteen percent of expenditures. The City's fund balance as of September 30, 2004 amounts to less than ten percent of expenditures.

Payroll

There were instances where timesheets were not approved by an appropriate department head or City Manager.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the first two reportable conditions identified above are material weaknesses.

This report is intended solely for the information and use of the City Commission, management and grant agencies and is not intended and should not be used by anyone other than these specific parties.

*McClannahan and Halley, LLP*  
Certified Public Accountants

Bonham, Texas  
January 28, 2005

City of Bonham

Water and Sewer CCN Amendment Application

ATTACHMENT E

## B. MONTHLY RATES FOR WATER SERVICE

**SECTION 1.** The monthly rates or charges for water service for all users or customers including, but not limited to, residential, multi-family, non-profit, religious, educational, institutional, governmental, commercial, industrial, and/or health care related customers of the City of Bonham shall be as follows:

- a) For water consumption not to exceed 200 cubic feet (Minimum Bill) based on meter size:

Minimum Monthly Bill (200 cu ft.)	Rate
Meter Size	
Under 1"	\$18.00
1"	\$50.00
1.5"	<u>\$95.00</u>
2.0"	\$155.00
3.0"	\$320.00
4.0"	\$430.00
6.0"	\$1,170.00
8.0"	\$3,400.00

- b) For water consumption exceeding 200 cubic feet

Water Use Exceeding 200 cu. Ft.	
Winter (Nov. – Apr.) Per 100 cu. Ft.	\$1.05
Summer (May – Oct.) Per 100 cu. Ft.	\$1.16

## C. MONTHLY RATES FOR WASTEWATER SERVICE SECTION

**SECTION 1.** The monthly rates or charges for water service for all users or customers including, but not limited to, residential, multi-family, non-profit, religious, educational, institutional, governmental, commercial, industrial, and/or health care related customers of the City of Bonham shall be as follows:

- a) A user charge rate for water used at metered locations connected to the wastewater collection system not to exceed 200 cubic feet. (Minimum Bill)

Minimum Monthly Bill (200 cu. Ft.)	Rates
Meter Size	
Under 1"	\$15.00
1"	\$23.00
1.5"	\$29.00
2.0"	\$46.00
3.0"	\$176.00
4.0"	\$224.00
6.0"	\$336.00
8.0"	\$464.00

- b)

Water Use Exceeding 200 cu. Ft.	\$2.58 Per 100 cu. Ft.
---------------------------------	------------------------

**SECTION 2.** The monthly rates or charges for wastewater service for all individually metered residential customers shall be based on the average water consumption for the months of December, January, and February of each year. Said charge shall be computed annually.

**SECTION 3.** In cases or events wherein a user's or customer's three month average set forth in Section 2 above cannot be established due to the user or customer having not been a resident during the specified three month period or for any other reason, and a monthly wastewater billing charge shall be established based upon the minimum set forth in subsection a) of Section 1 above plus an assumed average monthly water consumption of 600 cubic feet for computation of the user charge set forth in subsection b) of the same Section 1 above.

**SECTION 4.** The monthly rates for wastewater service for all residential users consisting of more than one family unit served through a common meter, single metered duplexes, single metered triplexes, single metered quadraplexes, and/or master metered multi-family complexes shall be based on the full water consumption for each month as recorded or estimated for water billing purposes at the rates set forth above in Section 1 a) and b) without benefit of winter month averaging as allowed for individually metered single-family users of wastewater service.

City of Bonham

Water and Sewer CCN Amendment Application

ATTACHMENT F



City of Bonham  
Exhibit F

Water and Sewer CCN Amendment Application

List of Neighboring Utilities within a 2 mile Radius

1. Bartley Woods WSC  
CCN Number 10153  
P.O. Box 705  
Bonham, Texas 75418
2. Brotherton WSC  
CCN Number 10154  
P.O. Box 42  
Dodd City, Texas 75438
3. Ravenna Nunnelee WSC  
CCN Number 10155  
P.O. Box 792  
Bonham, Texas 75418
4. White Shed WSC  
CCN Number 10170  
P.O. Box 80  
Ivanhoe, Texas 75447
5. Arledge Ridge WSC  
CCN Number 10175  
P.O. Box 233  
Bailey, Texas 75413
6. Bois D'arc MUD  
CCN Number 11753  
14101 East FM 1396  
Honey Grove, Texas 75446
7. Southwest Fannin County SUD  
CCN Number 12406  
8046 West State Highway 56  
Savoy, Texas 75479

8. City of Dodd City  
P.O. Box 129  
Dodd City, Texas 75438

9. City of Ector  
P.O. Box 188  
Ector, Texas 75439

10. Lannius WSC  
CCN Number 11163  
293 County Road 2945  
Dodd City, Texas 75438

McCLANAHAN AND HOLMES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

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PARIS, TEXAS 75460  
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FAX 903-784-4310

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304 WEST CHESTNUT  
DENISON, TEXAS 75020  
903-465-6070  
FAX 903-465-6093

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1400 WEST RUSSELL  
BONHAM, TEXAS 75418  
903-583-5574  
FAX 903-583-9453

Independent Auditors' Report  
On Internal Control

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

We have audited the financial statements of the City of Bonham as of and for the year ended September 30, 2004, and have issued our report thereon dated January 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the City of Bonham for the year ended September 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

The management of the City of Bonham is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

We noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Limited Segregation of Duties

Due to City's small number of personnel, there is limited segregation of duties in all areas of the accounting system.

Fund Balance

The City's fund balance policy requires the General Fund to achieve and maintain a fund balance of not less than fifteen percent of expenditures. The City's fund balance as of September 30, 2004 amounts to less than ten percent of expenditures.

Payroll

There were instances where timesheets were not approved by an appropriate department head or City Manager.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the first two reportable conditions identified above are material weaknesses.

This report is intended solely for the information and use of the City Commission, management and grant agencies and is not intended and should not be used by anyone other than these specific parties.

*McClannahan and Hickey, LLP*  
Certified Public Accountants

Bonham, Texas  
January 28, 2005

## Checklist For Obtaining or Amending CCN

### Purpose of Application:

Administrative Review # A-150 - 5

- |   |  |
|---|--|
| <p><input type="checkbox"/> Obtain New Water CCN<br/>Registration # <u>A</u></p> <p><input checked="" type="checkbox"/> Amend Water CCN # <u>11186</u></p> <p><input checked="" type="checkbox"/> Filing Fee \$100 (Page 4 of Instructions &amp; Check List)</p> <p><input checked="" type="checkbox"/> Crystal</p> <p><input type="checkbox"/> Utility Name (Item 1 on page 5 of the application)</p> <p><input type="checkbox"/> Utility Address and phone number (Item 1 on page 5 of the application)</p> <p><input type="checkbox"/> Contact Person (Item 1 on page 5 of the application)</p> <p><input type="checkbox"/> Contact person Address and phone number (Item 1 on page 5 of the application)</p> <p><input type="checkbox"/> Original and three copies of application received (Item 2 on page 2 of Instructions &amp; Checklist)</p> <p><input type="checkbox"/> Current State Comptroller's "Certification of Account Status" for all for profit corporations, if applicable.</p> <p><input type="checkbox"/> <u>If the applicant is a Water Code Chapter 67 water supply or sewer service corporation or other non-profit corporation:</u></p> <p><input type="checkbox"/> copy of the Articles of Incorporation (1.D.i)</p> <p><input type="checkbox"/> copy of By-Laws (1.D.i)</p> <p><input type="checkbox"/> corporation's charter number as recorded with the Office of the Texas Secretary of State (1.D.ii)</p> <p><input checked="" type="checkbox"/> <b>Governmental Agencies:</b> Federal, city, or local government-type entities. Examples: I.S.D.; County; State Agencies; Federal Agencies; Water Authority.</p> | <p><input type="checkbox"/> Obtain New Sewer CCN<br/>Registration # <u>A</u></p> <p><input checked="" type="checkbox"/> Amend Sewer CCN # <u>20460</u></p> |
|---|--|

### New System Information or Utilities Requesting a CCN for the First Time:

- ☐ certified copy of most current water and/or sewer agreement (5.G.iv)
- ☐ Core Data Sheet

### Existing System Information:

- ☒ PWS ID numbers for water system(s) (5.A.i)
- ☒ copy of the most recent inspection report letter (5.A.iv.)
- ☒ copy of response to most recent inspection report letter (5.A.v.)
- ☒ certified copy of most current water and/or sewer agreement (5.G.iv)
- ☒ proposed rate schedule or tariff (6.B.ii)
- ☒ Financial Information (Audit, Balance Sheet, Profit & Loss Statement, etc.) (Pages 18-24 of the application)