



WEAVER
AND
TIDWELL

L.L.P.

CERTIFIED PUBLIC
ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
And Members of the City Council
City of Midlothian, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of the City of Midlothian, Texas as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic 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 *Governmental 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of the City of Midlothian, Texas as of September 30, 2007, 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.

The accompanying management's discussion and analysis (pages 3 through 10), budgetary comparison information (pages 60 through 61), and the schedule of funding progress for participation in Texas Municipal Retirement System (page 62), are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

1600 West Seventh Street
Suite 300
Fort Worth, Texas 76102-2506
817.332.7905
F 817.429.5936

WWW.WEAVERANDTIDWELL.COM

AN INDEPENDENT MEMBER OF
BAKER TILLY
INTERNATIONAL

DALLAS

OFFICES IN
FORT WORTH

HOUSTON

To the Honorable Mayor
And the Members of the City Council
City of Midlothian, Texas

In accordance with *Government Auditing Standards*, we have issued a report dated February 20, 2008, on our consideration of the City's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of 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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining nonmajor fund financial statements, and statistical tables listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such data.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
February 20, 2008

CITY OF MIDLOTHIAN, TEXAS

Management's Discussion and Analysis For The Year Ended September 30, 2007 (Unaudited)

As management of the City of Midlothian, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2007.

FINANCIAL HIGHLIGHTS

- The assets of the City Of Midlothian exceeded its liabilities at the close of the most recent fiscal year by \$122,702,140 (net assets). Of this amount, \$30,929,611 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$5,919,307 of which \$3,637,464 was capital contributions from developers, and infrastructure.
- As of the close of the current fiscal year, the City of Midlothian's governmental funds reported combined ending fund balances of \$26,693,731. Eighty-Nine percent (89%) of this total amount, or \$23,790,682 is unreserved and available for use within the City's designation and policies.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$10,987,674 or 84.9% of the total general fund expenditures.
- The City's long-term debt increased \$4,835,737 or 4.8%, primarily due to its 2007 bond issues and capital lease obligations.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, development services, and cultural and recreation. The business-type activities of the City include Water and Sewer operations. The government-wide financial statements can be found on page 11-13 of this report.

CITY OF MIDLOTHIAN, TEXAS

Management's Discussion and Analysis
For The Year Ended September 30, 2007
(Unaudited)

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories- governmental funds and proprietary funds.

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

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

The City maintains 9 governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Debt Service, and Capital Project Funds, all of which are considered to be major funds. Data from the other 6 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental funds financial statements can be found on pages 14-17.

Proprietary Fund - Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Midlothian uses an enterprise fund to account for its Water and Sewer fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer fund which is considered to be a major fund of the City. The basic proprietary fund financial statements can be found on pages 18-22 of this report.

Notes to the Financial Statements — The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-59.

CITY OF MIDLOTHIAN, TEXAS

Management's Discussion and Analysis
For The Year Ended September 30, 2007
(Unaudited)

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and General Fund budgetary information. Required supplementary information can be found on pages 60-62 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information. Combining statements and schedules can be found on pages 64-67 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Midlothian, assets exceeded liabilities by \$122,702,140 as of September 30, 2007.

The largest portion of the City's net assets \$80,993,166 (66%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2007	2006	2007	2006	2007	2006
Current and other Assets	\$39,252,924	\$34,286,058	\$19,540,738	\$16,858,762	\$58,793,662	\$51,144,820
Capital Assets	\$89,741,827	\$87,464,745	\$82,591,412	\$82,385,118	\$172,333,239	\$169,849,863
Total Assets	\$128,994,751	\$121,750,803	\$102,132,150	\$99,243,880	\$231,126,901	\$220,994,683
Long Term Liabilities	\$50,735,151	\$43,752,313	\$54,299,999	\$56,447,100	\$105,035,150	\$100,199,413
Other Liabilities	\$2,304,733	\$2,764,782	\$1,084,878	\$1,247,655	\$3,389,611	\$4,012,437
Total Liabilities	\$53,039,884	\$46,517,095	\$55,384,877	\$57,694,755	\$108,424,761	\$104,211,850
Invested in Capital Assets, net of related debt	\$52,791,760	\$53,094,615	\$28,201,406	\$28,077,782	\$80,993,166	\$81,172,397
Restricted	\$7,520,809	\$7,395,689	\$3,258,554	\$1,971,967	\$10,779,363	\$9,367,656
Unrestricted	\$15,642,298	\$14,743,404	\$15,287,313	\$11,499,376	\$30,929,611	\$26,242,780
Net Assets	\$75,954,867	\$75,233,708	\$46,747,273	\$41,549,125	\$122,702,140	\$116,782,833

An additional portion of the City's net assets (9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$30,929,611 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF MIDLOTHIAN, TEXAS

Management's Discussion and Analysis
For The Year Ended September 30, 2007
(Unaudited)

As of September 30, 2007, the City is able to report positive balances in all three categories of net assets, both for the primary government as a whole, as well as for its separate governmental and business-type activities

The following table provides a summary of the City's operations for the year ended September 30, 2007.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
Program Revenues:	2007	2006	2007	2006	2007	2006
Fees, fines and	2,698,471	2,658,073	8,550,522	9,124,667	11,248,993	11,782,740
Operating Grants and Contributions	424,274	407,000	-	-	424,274	407,000
Capital Grants and Contributions	1,573,854	8,850,152	2,063,610	3,426,243	3,637,464	12,276,395
General Revenues:						
Ad Valorem Taxes	8,526,517	7,439,903	3,378,525	3,027,166	11,905,042	10,467,059
Other Taxes	20,097	20,410	-	-	20,097	20,410
Franchise Taxes	2,759,205	3,773,723	-	-	2,759,205	3,773,723
Sales Tax	1,664,955	1,477,006	-	-	1,664,955	1,477,006
Investment Earnings	1,179,698	1,105,733	919,443	677,488	2,099,141	1,783,221
Penalties & Interest	62,194	43,555	-	-	62,194	43,555
Miscellaneous	296,434	531,456	140,597	81,067	437,031	612,523
Total Revenues	19,205,699	26,307,011	15,052,697	16,336,621	34,258,396	42,643,632
Expenses:						
General Government and Administration	4,320,348	3,628,754	-	-	4,320,348	3,628,754
Public Safety	5,626,175	4,783,998	-	-	5,626,175	4,783,998
Public Works	5,989,835	4,918,349	-	-	5,989,835	4,918,349
Cultural and Recreation	766,926	721,481	-	-	766,926	721,481
Intergovernmental	-	-	-	-	-	-
Interest on Long Term Debt	2,125,540	1,989,803	0	0	2,125,540	1,989,803
Water and Sewer	-	-	9,510,265	9,761,351	9,510,265	9,761,351
Total Expenses	18,828,824	16,042,385	9,510,265	9,761,351	28,339,089	25,803,736
Increases in net assets before transfers	376,875	\$10,264,626	5,542,432	6,575,270	5,919,307	16,839,896
Transfers	344,284	206,754	-344,284	-206,754	-	-
Increase in Net Assets	721,159	\$10,471,380	5,198,148	\$6,368,516	5,919,307	16,839,896
Net Assets-Oct. 1	75,233,708	64,762,328	41,549,125	35,180,609	\$116,782,833	99,942,937
Net Assets-Sept. 30	\$75,954,867	\$75,233,708	\$46,747,273	\$41,549,125	\$122,702,140	116,782,833

CITY OF MIDLOTHIAN, TEXAS

Management's Discussion and Analysis
For The Year Ended September 30, 2007
(Unaudited)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds - The focus of the City of Midlothian's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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.

At the end of the current fiscal year, the City of Midlothian's governmental funds reported combined ending fund balances of \$26,693,731. Approximately 89% of this total amount (\$23,790,682) constitutes unreserved fund balance. Of this amount, \$12,803,008 is designated for Capital Project funds, and \$10,987,674 for the General Fund. The remainder of the fund balance (\$2,903,049) is reserved to indicate that it is not available for new spending because it has already been committed: 1) to provide for inventory and prepaid items \$9,703, 2) to pay for debt service \$2,567,391, 3) reserved for Police \$2,214, 4) reserved for Restoration \$1,816, 5) reserved for City promotion \$106,072, 6) reserved for City beautification \$88,080, 7) reserved for Police Academy \$234, and 8) reserved for Municipal Court \$127,539. The City also requires a 90 day reserve for the General Fund. The 07-08 90-day reserve is \$3,796,445. This leaves an unreserved balance of \$7,191,229 in the General Fund and \$12,803,008 in the Capital Projects Fund.

The increase in fund balance for the General fund is due primarily from higher than projected revenues from taxes with a 15% increase, electrical franchise 50% increase, and a 24% increase in usage for City services. The electrical franchise increase was due primarily from a change to quarterly payments, versus annual payments during the fiscal year. Thus during the 06-07 fiscal year the city received two quarterly payments in addition to the regularly scheduled annual payment. The difference between the original budget and the final amended budget in the general fund was \$280,016 and is the result of encumbrances for goods or services reappropriated from the 05-06 budget year.

The fund balance for Capital Projects increased by \$4,299,584 (50%) due to \$8,550,000 in new debt issued in 06-07, and several projects were completed and capitalized in the amount of \$4,175,419.

The General Debt Service fund balance increased by \$319,980 due primarily from greater than anticipated delinquent tax collections and interest earnings. Fund balance for the non major government funds increased by \$218,326 due to the addition of a new non major fund. This new fund was established to preserve court revenue mandated by the State of Texas to be expended for building security, court technology and judicial efficiency in the amount of \$127,539. The City Beautification fund, a non major fund, increased by \$86,990, from the newly established one time \$20,000 fee for an Environmental Mitigation Permit now required for certain drilling permits. This fund can be used only for street landscaping and city beautification.

Proprietary funds - The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net assets of the Water and Sewer Fund are \$15,287,313. Factors affecting the performance of the fund include a reduction in the cost of operations due to higher than average rainfall during the year. This savings was offset slightly due to a decrease in water sales; however, the decrease in expenditures was greater than the decrease in revenue. Sewer service revenue increased (8.5%) as the result of continued residential and commercial development.

CAPITAL ASSETS

The City of Midlothian's investment in capital assets for its governmental and business-type activities as of September 30, 2007, amounts to \$172,333,239 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, infrastructure and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 4.3% (6.2% increase for governmental activities and 2.1% increase in business-type activities.) The increase in the Governmental assets is primarily from the addition of improvements, and infrastructure (streets and Right-of-Way land).

CITY OF MIDLOTHIAN, TEXAS

Management's Discussion and Analysis
For The Year Ended September 30, 2007
(Unaudited)

Major capital asset events during the current fiscal year included the following:

- Began construction of street widening on Mt. Zion and Sudith Lane, to accommodate a new Elementary school and future development
- Park improvements and new playground equipment
- Sewer realignment and manhole rehabilitation
- Completed renovation of Law Enforcement Building
- Landscaping for N. 8th Street
- FM663 Water Tower rehabilitation
- Utility improvements for a new development called "Mid-Towne"
- Converted all water meters to "radio read" meters

CAPITAL ASSETS

	Governmental Activities 2007	Governmental Activities 2006	Business type Activities 2007	Business type Activities 2006	Total 2007	Total 2006
Land	13,327,124	13,176,412	630,850	630,850	13,957,974	13,807,262
Buildings	7,277,370	3,888,731	11,556,642	1,675,868	18,834,012	5,564,599
Equipment	4,881,892	4,189,383	1,903,260	1,692,579	6,785,152	5,881,962
Improvements	16,126,332	16,025,498	-	-	16,126,332	16,025,498
Infrastructure	60,247,764	58,504,795	34,312,760	38,495,689	94,560,524	97,000,484
Water Rights	-	-	29,949,793	29,949,793	29,949,793	29,949,793
Wastewater Rights	-	-	18,051,922	13,738,037	18,051,922	13,738,037
Construction in Progress	8,875,488	8,390,461	102,557	8,338,649	8,978,045	16,729,110
Accumulated Depreciation	(20,994,143)	(16,710,535)	(13,916,372)	(12,136,347)	(34,910,515)	(28,846,882)
Total	\$ 89,741,827	\$87,464,745	\$82,591,412	\$82,385,118	\$ 172,333,239	\$169,849,863

Additional information on the City of Midlothian's capital assets can be found in note 5 on pages 40-42 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City Of Midlothian had a total bonded debt and notes payable of \$105,035,150.

In May 2006, the voters approved a bond election for new street construction, a new 125+ acre multi-use community park, and renovation of fire station #1, for a total of \$31,090,000. This debt will be issued in increments on an annual basis through 2011 with Council approval. The first phase of this bond package began with the issuance of \$8,550,000 in debt in July 2007. An additional \$8,120,000 of Waterworks and Sewer System refunding bonds were issued to refund a portion of the outstanding debt to obtain an economic gain of \$296,596.

CITY OF MIDLOTHIAN, TEXAS

**Management's Discussion and Analysis
For The Year Ended September 30, 2007
(Unaudited)**

At September 30, 2007, the City's long-term debt consisted of the following:

LONG-TERM DEBT	Governmental 2007	Governmental 2006	Business-type Activities 2007	Business-type Activities 2006	Total 2007	Total 2006
Tax Notes	655,000	750,000	-	-	655,000	750,000
General Obligation Bonds	43,863,700	36,585,117	31,091,224	33,049,809	74,954,924	69,634,926
Accreted Interest	-	-	2,419,087	2,024,839	2,419,087	2,024,839
Cert. Of Obligation	5,888,432	6,148,407	5,366,569	5,691,594	11,255,001	11,840,001
Revenue Bonds	-	-	17,435,000	17,325,000	17,435,000	17,325,000
Capital Lease Oblig.	63,545	91,425	115,687	141,067	179,232	232,492
Bond Discount/Premium	16,746	18,068	(384,892)	(362,998)	(368,146)	(344,930)
Deferred Refunding	(297,996)	(322,042)	(1,862,422)	(1,528,410)	(2,160,418)	(1,850,452)
Compensated absences	545,724	481,338	119,746	106,199	665,470	587,537
Total	\$50,735,151	\$43,752,313	54,299,999	56,447,100	\$105,035,150	\$100,199,413

Additional information on the City of Midlothian long-term debt can be found in Note 6 on pages 43-49 of this report.

Component Units

Financial reports for the City's component units are located at the City of Midlothian, Finance Department 104 West Ave. E Midlothian, Texas 76065

Economic Factors and next year's Budgets and Rates

For the 2007-08 fiscal year, General fund revenues and transfers in from other funds are budgeted to increase by 15.6% from the 2006-07 actual amounts, with property taxes making up about 32% of general fund budgeted revenues. Total ad valorem tax revenues are projected to increase 12% over the preceding year. Sales tax revenue is forecasted to increase by 6% in fiscal year 2007-08, due to the opening of new retail establishments. The City has budgeted for a 5.5% increase in electric franchise tax, and a 16% increase in charges for city services such as ambulance fees in FY 2007-08. However, the city is beginning to notice the economic decline and housing market slump, as 2007-08 revenues for building permits, fines, and services were 12% below budget as of January 2008. And due to the recent cut in interest rates by the Federal Open Market Committee, the city does not anticipate interest revenue exceeding what was conservatively budgeted for the 2007-08 fiscal year. At the present time, it is not clear if development will continue to decline, as numerous subdivisions have been approved for construction and some commercial sites are being developed in the City. The City anticipates issuing debt in the 2008 fiscal year for the construction of streets and park facilities per the voter approved bond referendum in May 2006. The City anticipates hiring six additional firefighters to staff fire station #3 which is scheduled to open in December 2008. The City Council authorized the use of fund balance in the amount of \$866,445 in 2007-08 for special projects at the Mid-Way Airport, and one time capital expenditures. Certified tax values for 2007-08 are \$1,921,291,866 less \$407,482,568 captured by the Tax Increment Reinvestment Zone. The net increase in taxable value is approximately 12%, with new improvements making up 7% of the total increase. The tax rate for 2007-08 is \$0.65 per \$100 valuation, a slight decrease of \$0.007530 from the 2006-07 tax rate as the result of greater than anticipated appraisal values.

CITY OF MIDLOTHIAN, TEXAS

Management's Discussion and Analysis For The Year Ended September 30, 2007 (Unaudited)

The Utility Services Fund is funded by water/wastewater fees and other utility services. Effective October 1, 2005 the City raised water and wastewater fees by 5%. The rate increase was the final adjustment from a multi-year rate adjustment Ordinance which funded approximately \$15 million in Capital projects. The utility fund saw a slight decrease in utility revenues for the 2007 fiscal year as compared to fiscal year 2006. This is attributed to the year long drought in 2006 resulting in higher water sales. The 2007 fiscal year had more rainfall than the previous year; however, water sales were still 4% greater than budgeted. In October 2004, as part of the City's long-term wastewater treatment planning, the City entered into an agreement with Trinity River Authority (TRA) to provide wastewater services at the Mountain Creek Regional Wastewater System. The water treatment plant is budgeted to account for 21% of the utility fund expenditures, wastewater 11%, and support services 51%. The water operations department maintains and repairs over 100 miles of water main lines, however only accounts for 5% of the utility expenses. The 07-08 budget year expenditures have been adjusted to anticipate the higher cost of fuel and electricity. Revenues are estimated conservatively to increase 4%, however unpredictable weather patterns can contribute significantly to revenue fluctuations.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Department of Finance, Attn: Finance Director, at 104 W. Ave E, Midlothian, Texas 76065, call (972) 775-3481.

BASIC FINANCIAL STATEMENTS

GOVERNMENT – WIDE FINANCIAL STATEMENTS

CITY OF MIDLOTHIAN, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 21,497,179	\$ 10,739,858	\$ 32,237,037	\$ 40,536,889
Investments	5,789,595	2,718,257	8,507,852	-
Receivables				
Taxes, net of allowance	161,197	69,532	230,729	-
Accounts, net of allowance	1,156,088	1,288,757	2,444,845	-
Direct financing lease	4,535,000	-	4,535,000	-
Other	146,493	72,890	219,383	1,072,322
Due from other governments	325,474	-	325,474	334,002
Due from primary government	-	-	-	4,138
Internal balances	35,030	(35,030)	-	-
Commitment receivable	650,000	-	650,000	-
Due from component units	12,630	-	12,630	-
Prepaid items	9,703	-	9,703	-
Restricted assets				
Cash and cash equivalents	-	3,531,428	3,531,428	-
Investments	-	-	-	98,700
Deferred charges	436,352	1,155,046	1,591,398	2,596,427
Investment in joint venture	4,498,183	-	4,498,183	-
Capital assets:				
Land	13,327,124	630,850	13,957,974	700
Buildings	7,277,370	11,556,642	18,834,012	6,240,986
Improvements other than buildings	16,126,332	-	16,126,332	-
Machinery and equipment	4,881,892	1,903,260	6,785,152	163,934
Infrastructure	60,247,764	34,312,760	94,560,524	7,693,429
Water and wastewater rights	-	48,001,715	48,001,715	-
Construction in progress	8,875,488	102,557	8,978,045	1,006,617
Accumulated depreciation	(20,994,143)	(13,916,372)	(34,910,515)	(2,121,208)
TOTAL ASSETS	128,994,751	102,132,150	231,126,901	57,626,936
LIABILITIES				
Accounts payable and accrued liabilities	953,370	456,041	1,409,411	66,812
Accrued interest payable	307,878	237,855	545,733	1,211,381
Due to other governments	874,493	1,043	875,536	-
Due to primary government	-	-	-	12,630
Due to component units	4,138	-	4,138	-
Customer deposits	-	389,939	389,939	-
Unearned revenue	164,854	-	164,854	-
Noncurrent liabilities:				
Debt due within one year	2,304,678	2,765,764	5,070,442	2,132,646
Debt due in more than one year	48,430,473	51,534,235	99,964,708	60,196,240
Total liabilities	53,039,884	55,384,877	108,424,761	63,619,709
NET ASSETS				
Invested in capital assets, net of related debt	52,791,760	28,201,406	80,993,166	(26,696,466)
Restricted for:				
Debt service	7,520,809	3,258,554	10,779,363	2,055,000
Unrestricted	15,642,298	15,287,313	30,929,611	18,648,693
Total net assets	\$ 75,954,867	\$ 46,747,273	\$ 122,702,140	\$ (5,992,773)

The Notes to Basic Financial Statements
are an integral part of this statement

**CITY OF MIDLOTHIAN, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2007**

Program Activities	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 4,320,348	\$ 1,086,306	\$ -	\$ -
Public safety	5,626,175	875,772	424,274	-
Public works	5,989,835	652,315	-	1,573,854
Culture and recreation	766,926	84,078	-	-
Interest on long term debt	2,125,540	-	-	-
Total governmental activities	18,828,824	2,698,471	424,274	1,573,854
Business-type activities				
Water and sewer	9,510,265	8,550,522	-	2,063,610
Total business-type activities	9,510,265	8,550,522	-	2,063,610
Total government	\$ 28,339,089	\$ 11,248,993	\$ 424,274	\$ 3,637,464
Component units:				
Corporation for Economic Development	\$ 463,131	\$ -	\$ -	\$ -
Midlothian Community Development Corporation	760,637	160,105	163,227	-
Midlothian Development Authority	4,346,661	-	-	-
Total component units	\$ 5,570,429	\$ 160,105	\$ 163,227	\$ -

General Revenues:

Taxes:

Ad valorem

Sales

Franchise taxes

Other taxes

Penalties and interest

Investment income

Miscellaneous revenues

Transfers

Total general revenues and transfers

Change in net assets

Net Assets - beginning of year

Net Assets - end of year

Exhibit 2

Net (Expenses) Revenues and Changes in Net Assets			
Governmental Activities	Business- type Activities	Total	Component Units
\$ (3,234,042)	\$ -	\$ (3,234,042)	\$ -
(4,326,129)	-	(4,326,129)	-
(3,763,666)	-	(3,763,666)	-
(682,848)	-	(682,848)	-
(2,125,540)	-	(2,125,540)	-
(14,132,225)	-	(14,132,225)	-
-	1,103,867	1,103,867	-
-	1,103,867	1,103,867	-
<u>\$ (14,132,225)</u>	<u>\$ 1,103,867</u>	<u>\$ (13,028,358)</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (463,131)
-	-	-	(437,305)
-	-	-	(4,346,661)
-	-	-	(5,247,097)
8,526,517	3,378,525	11,905,042	9,061,209
1,664,955	-	1,664,955	1,664,954
2,759,205	-	2,759,205	-
20,097	-	20,097	-
62,194	-	62,194	-
1,179,698	919,443	2,099,141	1,879,127
296,434	140,597	437,031	524,568
344,284	(344,284)	-	-
<u>14,853,384</u>	<u>4,094,281</u>	<u>18,947,665</u>	<u>13,129,858</u>
721,159	5,198,148	5,919,307	7,882,761
<u>75,233,708</u>	<u>41,549,125</u>	<u>116,782,833</u>	<u>(13,875,534)</u>
<u>\$ 75,954,867</u>	<u>\$ 46,747,273</u>	<u>\$ 122,702,140</u>	<u>\$ (5,992,773)</u>

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**CITY OF MIDLOTHIAN, TEXAS
BALANCE SHEET -
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007**

	General	Debt Service	Capital Projects	Non Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 7,112,832	\$ 2,567,391	\$ 11,472,866	\$ 344,090	\$ 21,497,179
Investments	4,130,819	-	1,658,776	-	5,789,595
Receivables					
Taxes, net	84,899	76,298	-	-	161,197
Accounts	1,156,088	-	-	-	1,156,088
Direct financing lease	-	4,535,000	-	-	4,535,000
Other	140,606	-	1,366	4,521	146,493
Due from other governments	325,399	-	-	75	325,474
Due from other funds	35,030	-	-	-	35,030
Due from component units	12,630	-	-	-	12,630
Commitment receivable	-	650,000	-	-	650,000
Prepays	9,703	-	-	-	9,703
TOTAL ASSETS	\$ 13,008,006	\$ 7,828,689	\$ 13,133,008	\$ 348,686	\$ 34,318,389
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 538,113	\$ -	\$ 165,146	\$ 22,731	\$ 725,990
Accrued liabilities	227,380	-	-	-	227,380
Due to other governments	874,493	-	-	-	874,493
Due to component units	4,138	-	-	-	4,138
Deferred revenue	366,505	5,261,298	164,854	-	5,792,657
Total liabilities	2,010,629	5,261,298	330,000	22,731	7,624,658
Fund balances					
Reserved for debt service	-	2,567,391	-	-	2,567,391
Reserved for police department	-	-	-	2,214	2,214
Reserved for restoration	-	-	-	1,816	1,816
Reserved for city promotion	-	-	-	106,072	106,072
Reserved for city beautification	-	-	-	88,080	88,080
Reserved for police training academy	-	-	-	234	234
Reserved for municipal court	-	-	-	127,539	127,539
Reserved for prepaids	9,703	-	-	-	9,703
Unreserved reported in:					
General fund	10,987,674	-	-	-	10,987,674
Capital project funds	-	-	12,803,008	-	12,803,008
Total fund balances	10,997,377	2,567,391	12,803,008	325,955	26,693,731
TOTAL LIABILITIES AND FUND BALANCES	\$ 13,008,006	\$ 7,828,689	\$ 13,133,008	\$ 348,686	\$ 34,318,389

**CITY OF MIDLOTHIAN, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007**

Total fund balances - governmental funds	\$ 26,693,731
Amounts reported for governmental activities in the statement of net assets are different because:	
Investment in joint venture is not a current financial resource and, therefore, is not reported in the governmental funds balance sheet.	4,498,183
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	89,741,827
Costs associated with the issuance of governmental long term debt are expensed when incurred in the fund statements and capitalized and amortized over the life of the debt in the government-wide financial statements.	436,352
Interest payable on long term debt does not require current financial resources, and, therefore, is not reported as a liability in the governmental funds balance sheet.	(307,878)
Revenues earned but not available within sixty days of the fiscal year-end are not recognized as revenue in the fund financial statements.	5,627,803
Compensated absences are not due and payable in the current period and therefore are not reported in the fund financial statements.	(545,724)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the fund financial statements.	<u>(50,189,427)</u>
Net assets of governmental activities	<u><u>\$ 75,954,867</u></u>

CITY OF MIDLOTHIAN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2007

	General	Debt Service	Capital Projects	Non Major Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$10,445,901	\$ 3,747,804	\$ -	\$ 17,434	\$ 14,211,139
Licenses and permits	737,964	-	-	-	737,964
Intergovernmental	1,302,749	50,000	-	-	1,352,749
Charges for services	912,021	-	-	-	912,021
Fines	573,937	-	-	-	573,937
Investment income	541,203	192,808	436,645	9,042	1,179,698
Receipts from direct financing lease	-	11,415	-	-	11,415
Miscellaneous revenues	28,012	301,942	489	162,424	492,867
Total revenues	14,541,787	4,303,969	437,134	188,900	19,471,790
Expenditures:					
Current:					
General government	3,889,888	-	-	50,312	3,940,200
Public safety	5,429,149	-	-	-	5,429,149
Public works	2,088,928	-	-	-	2,088,928
Culture and recreation	691,615	-	-	-	691,615
Intergovernmental:					
Payment to TIRZ	841,718	232,320	-	-	1,074,038
Capital outlay	-	-	4,637,286	-	4,637,286
Debt Service:					
Principal retirement	-	1,626,391	-	-	1,626,391
Interest charges	-	2,017,176	-	-	2,017,176
Fiscal agent's fees and debt issuance costs	-	6,102	65,264	-	71,366
Total expenditures	12,941,298	3,881,989	4,702,550	50,312	21,576,149
Excess (deficiency) of revenues over expenditures	1,600,489	421,980	(4,265,416)	138,588	(2,104,359)
Other financing sources (uses):					
Capital lease proceeds	25,880	-	-	-	25,880
Issuance of debt	-	-	8,550,000	-	8,550,000
Transfers in	451,284	150,880	15,000	99,738	716,902
Transfers out	(99,738)	(252,880)	-	(20,000)	(372,618)
Total other financing sources (uses)	377,426	(102,000)	8,565,000	79,738	8,920,164
Net change in fund balances	1,977,915	319,980	4,299,584	218,326	6,815,805
Fund Balances - beginning of year	9,019,462	2,247,411	8,503,424	107,629	19,877,926
Fund Balances - end of year	<u>\$10,997,377</u>	<u>\$ 2,567,391</u>	<u>\$12,803,008</u>	<u>\$ 325,955</u>	<u>\$ 26,693,731</u>

The Notes to Basic Financial Statements
are an integral part of this statement

CITY OF MIDLOTHIAN, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2007

Net change in fund balances - total governmental funds	\$ 6,815,805
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of (net) capital assets recorded in the current period.	4,980,242
Governmental funds do not recognize assets contributed by developers. However, in the statement of activities the fair market value of those assets are recognized as revenue, then allocated over their estimated useful lives and reported as depreciation expense.	1,623,406
Investment in joint venture reported in the statement of net assets does not require the use of current financial resources; therefore, the current year net change in the investments is not reported in the governmental funds.	451,807
Depreciation expense on capital assets is reported in the statement of activities, and does not require the use of current financial resources; therefore, depreciation expense is not reported as expenditures in the governmental funds.	(4,313,044)
The issuance of long term debt (e.g. bonds) 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 costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount (net bond proceeds of \$8,550,000 plus amortization of deferred refunding amount of \$24,045 plus amortization of bond issue costs of \$25,569, less capitalization of current year bond issue costs of \$64,500, less principal payments of \$1,626,391, less amortization of bond premium of \$1,322, less \$27,880 net capital lease transactions, is the net effect of these differences in the treatment of long-term debt and related items.	(6,879,521)
Current year changes in the long term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in the governmental funds.	(64,386)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, they are not reported as expenditures in the governmental funds.	(53,206)
The disposal of fixed assets results in an increase in net assets, but the net effect is not reported in governmental funds.	(13,522)
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	(1,826,422)
Change in net assets of governmental activities	<u>\$ 721,159</u>

PROPRIETARY FUNDS FINANCIAL STATEMENTS

**CITY OF MIDLOTHIAN, TEXAS
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2007**

ASSETS	<u>Water and Sewer Fund</u>
Current assets:	
Cash and cash equivalents	\$ 10,739,858
Investments	2,718,257
Receivables	
Taxes	69,532
Accounts receivable, net	1,288,757
Other receivables	72,890
Restricted assets	
Cash and cash equivalents	<u>3,531,428</u>
Total current assets	<u>18,420,722</u>
Noncurrent assets:	
Capital assets, at cost	
Land and land improvements	630,850
Buildings and improvements	11,556,642
Waterworks and sewer system	34,312,760
Machinery and equipment	1,903,260
Water and wastewater rights	48,001,715
Construction in progress	102,557
Accumulated depreciation	<u>(13,916,372)</u>
Total capital assets, net of accumulated depreciation	82,591,412
Deferred charges	<u>1,155,046</u>
Total noncurrent assets	<u>83,746,458</u>
TOTAL ASSETS	<u>102,167,180</u>

**CITY OF MIDLOTHIAN, TEXAS
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2007
(continued)**

	<u>Water and Sewer Fund</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	456,041
Accrued interest payable	237,855
Due to other funds	35,030
Due to other governments	1,043
Customer deposits	389,939
Debt due within one year	<u>2,765,764</u>
Total current liabilities	<u>3,885,672</u>
Noncurrent liabilities:	
Debt due in more than one year	<u>51,534,235</u>
Total noncurrent liabilities	<u>51,534,235</u>
Total liabilities	<u>55,419,907</u>
NET ASSETS	
Invested in capital assets, net of related debt	28,201,406
Restricted for:	
Debt service	3,258,554
Unrestricted	<u>15,287,313</u>
Total net assets	<u><u>\$ 46,747,273</u></u>

**CITY OF MIDLOTHIAN, TEXAS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2007**

	Water and Sewer Fund
Operating revenues:	
Water sales	\$ 5,660,986
Sewer sales	2,556,738
Tap fees, penalties and other	332,798
Total operating revenue	<u>8,550,522</u>
Operating expenses:	
Cost of sales and services	1,787,481
Administrative	3,111,403
Depreciation	1,780,025
Total operating expenses	<u>6,678,909</u>
Operating income	<u>1,871,613</u>
Nonoperating revenues (expenses):	
Taxes	3,378,525
Impact fees	917,046
Other income	140,597
Investment income	919,443
Interest expense and agent fees	(2,831,356)
Total nonoperating revenues (expenses)	<u>2,524,255</u>
Income before contributions and transfers	4,395,868
Capital contributions	1,146,564
Transfers in	252,880
Transfers out	(597,164)
Change in net assets	5,198,148
Net assets, beginning of year	<u>41,549,125</u>
Net assets, end of year	<u><u>\$ 46,747,273</u></u>

**CITY OF MIDLOTHIAN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2007**

	Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 8,737,527
Other miscellaneous cash receipts	140,597
Cash paid to employees	(973,587)
Cash paid to suppliers	<u>(3,936,658)</u>
Net cash provided by operating activities	<u>3,967,879</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Payments under interfund loan agreements	37,750
Transfers to other funds	(597,164)
Transfers from other funds	252,880
Property tax receipts	<u>3,356,544</u>
Net cash provided by noncapital financing activities	<u>3,050,010</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Impact fees	917,046
Proceeds on debt	-
Principal paid on debt	(2,833,611)
Capital expenditures	(839,755)
Interest paid on debt	<u>(2,392,293)</u>
Net cash (used in) capital and related financing activities	<u>(5,148,613)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Sale of investments (net)	3,128,518
Interest on investments	<u>919,443</u>
Net cash provided by investing activities	<u>4,047,961</u>
Net increase in cash	5,917,237
Cash and cash equivalents, beginning of year	<u>8,354,049</u>
Cash and cash equivalents, end of year	<u><u>\$ 14,271,286</u></u>

**CITY OF MIDLOTHIAN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2007
(continued)**

	Water and Sewer Fund		Statement of
	Current	Restricted	Cash Flows
	Assets	Assets	Totals
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF NET ASSETS:			
Cash and cash equivalents - beginning	\$ 3,424,678	\$ 4,929,371	\$ 8,354,049
Net increase	7,315,180	(1,397,943)	5,917,237
Cash and cash equivalents - ending	<u>\$ 10,739,858</u>	<u>\$ 3,531,428</u>	<u>\$ 14,271,286</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

	Water and Sewer Fund
Operating income	\$ 1,871,613
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	1,780,025
Miscellaneous revenues	140,597
Increase in accounts receivable	187,005
Increase in prepaid expenses	1,094
Decrease in accounts payable and accrued expenses	(35,410)
Increase in customer deposits	22,955
Net cash provided by operating activities	<u>\$ 3,967,879</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Developer contributions	<u>\$ 1,146,564</u>
-------------------------	---------------------

DISCRETELY PRESENTED COMPONENT UNITS

CITY OF MIDLOTHIAN, TEXAS
COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2007

	<u>Corporation for Economic Development</u>	<u>Community Development Corporation</u>	<u>Midlothian Development Authority</u>	<u>Totals September 30, 2007</u>
ASSETS				
Cash and cash equivalents	\$ 2,199,624	\$ 1,279,801	\$ 37,057,464	\$ 40,536,889
Receivables (net of allowances for uncollectibles):				
Accounts receivable	1,067,688	-	4,634	1,072,322
Due from primary government	230	3,908	-	4,138
Due from other governments	156,960	153,283	23,759	334,002
Restricted assets:				
Investments	-	98,700	-	98,700
Capital assets:				
Land	-	700	-	700
Buildings and improvements	7,540	6,233,446	-	6,240,986
Machinery and equipment	14,590	149,344	-	163,934
Infrastructure	-	-	7,693,429	7,693,429
Construction in progress	-	-	1,006,617	1,006,617
Accumulated depreciation	(22,130)	(896,979)	(1,202,099)	(2,121,208)
Deferred charges	-	-	2,596,427	2,596,427
Total assets	<u>3,424,502</u>	<u>7,022,203</u>	<u>47,180,231</u>	<u>57,626,936</u>
LIABILITIES				
Accounts payable and accrued liabilities	24,024	16,823	25,965	66,812
Accrued interest payable	-	16,976	1,194,405	1,211,381
Due to primary government	1,131	4,072	7,427	12,630
Noncurrent liabilities:				
Debt due within one year	-	225,000	1,907,646	2,132,646
Debt due in more than one year	-	4,680,000	55,516,240	60,196,240
Total liabilities	<u>25,155</u>	<u>4,942,871</u>	<u>58,651,683</u>	<u>63,619,709</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	581,511	(27,277,977)	(26,696,466)
Restricted for debt service	-	-	2,055,000	2,055,000
Unrestricted	<u>3,399,347</u>	<u>1,497,821</u>	<u>13,751,525</u>	<u>18,648,693</u>
Total net assets	<u>\$ 3,399,347</u>	<u>\$ 2,079,332</u>	<u>\$ (11,471,452)</u>	<u>\$ (5,992,773)</u>

**CITY OF MIDLOTHIAN, TEXAS
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
YEAR ENDED SEPTEMBER 30, 2007**

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Corporation for Economic Development				
General government	\$ 313,131	\$ -	\$ -	\$ -
Economic development	150,000	-	-	-
Total Corporation for Economic Development	463,131	-	-	-
Midlothian Community Development Corporation				
General government	128,744	-	-	-
Conference center	470,624	160,105	163,227	-
Interest on long term debt	161,269	-	-	-
Total for Midlothian Community Development Corporation	760,637	160,105	163,227	-
Midlothian Development Authority				
General government	1,437,027	-	-	-
Interest on long term debt	2,909,634	-	-	-
	4,346,661	-	-	-
Total component units	\$ 5,570,429	\$ 160,105	\$ 163,227	\$ -

General Revenues:

Taxes
Sales taxes
Investment income
Miscellaneous income
Total general revenues

Change in net assets
Net Assets - beginning of year

Net Assets - end of year

Exhibit 11

Net (Expenses) Revenues and Change in Net Assets			
Corporation for Economic Development	Midlothian Community Development Corporation	Midlothian Development Authority	Total
\$ (313,131)	\$ -	\$ -	\$ (313,131)
(150,000)	-	-	(150,000)
(463,131)	-	-	(463,131)
-	(128,744)	-	(128,744)
-	(147,292)	-	(147,292)
-	(161,269)	-	(161,269)
-	(437,305)	-	(437,305)
-	-	(1,437,027)	(1,437,027)
-	-	(2,909,634)	(2,909,634)
-	-	(4,346,661)	(4,346,661)
\$ (463,131)	\$ (437,305)	\$ (4,346,661)	\$ (5,247,097)
-	-	9,061,209	9,061,209
832,477	832,477	-	1,664,954
92,579	64,007	1,722,541	1,879,127
400,000	-	124,568	524,568
1,325,056	896,484	10,908,318	13,129,858
861,925	459,179	6,561,657	7,882,761
2,537,422	1,620,153	(18,033,109)	(13,875,534)
\$ 3,399,347	\$ 2,079,332	\$ (11,471,452)	\$ (5,992,773)

NOTES TO FINANCIAL STATEMENTS

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Midlothian (the "City") is a "home rule city" incorporated in 1888. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, water and sewer, public improvements, planning and zoning, and general administrative services.

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 by *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.

B. Financial Reporting Entity

As required by accounting principals generally accepted in the United States of America, these financial statements include the primary government and organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Financial Reporting Entity – Continued

exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the primary government. Complete financial statements for the individual component units may be obtained at the City's office.

The following entities were found to be component units of the City and are included in the combined financial statements:

Discretely Presented Component Units

The Corporation for Economic Development of the City of Midlothian (CEDM) serves all citizens of the City and is governed by a board appointed by the City's elected council. The City can impose its will on the CEDM and affect the day-to-day operations of the CEDM by removing appointed board members at will. The scope of public service of the CEDM benefits the City and its citizens and is operated primarily within the geographic boundaries of the City. The CEDM is presented as a governmental fund type.

The Midlothian Community Development Corporation (MCDC) serves all citizens of the City and is governed by a board appointed by the City's elected council. The City can impose its will on the MCDC and affect the day-to-day operations of the MCDC by removing appointed board members at will. The scope of public service of the MCDC benefits the City and its citizens and is operated primarily within the geographic boundaries of the City. The MCDC is presented as a governmental fund type.

The Midlothian Development Authority (MDA) serves all citizens of the City and is governed by a nine member board, five of which are appointed by the City's elected council. The City can impose its will on the MDA and affect the day-to-day operations of the MDA by removing appointed board members at will. The scope of public service of the MDA benefits the City and its citizens and is operated primarily within the geographic boundaries of the City and Tax Increment Reinvestment Zone No. 2. The MDA is presented as a governmental fund type.

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Financial Reporting Entity – Continued

Discretely Presented Component Units – Continued

Discretely Presented Component Units – Complete financial statements for the individual component units may be obtained at the entity's administration offices – 104 W. Avenue E Midlothian, Texas 76065.

C. Government Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City, except for fiduciary funds. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid 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

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:

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Government Wide and Fund Financial Statements – Continued

General Fund

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

Capital Projects Funds

The Capital Projects Funds are used to account for funds received and expended for the construction and renovation of thoroughfares, arterial streets and drainage improvements in the City and construction, renovation, expansion and major improvement of various City facilities, acquisition of land and other large nonrecurring projects.

In addition, the City presents the following non-major governmental funds:

Police Imprest Fund

The Police Imprest Fund is used to account for funds accumulated through police seizures.

Midlothian Restoration Fund

The Midlothian Restoration Fund is used to account for monies collected from the sale of memorial bricks and donations from citizens.

Hotel / Motel Tax Fund

The Hotel / Motel Tax Fund was established to account for local hotel and motel occupancy tax receipts.

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Government Wide and Fund Financial Statements – Continued

Kiosk Fund

The Kiosk Fund was established to account for monies collected from the leasing of kiosks to be used for the beautification of the City of Midlothian.

Police Training Academy Fund

The Police Training Academy Fund was established to account for funds accumulated for in-service training provided by the City of Midlothian Police Department for City police officers as well as for those of neighboring cities.

Municipal Court Fund

The Municipal Court Fund was established to account for the accumulation of funds to be used for court building security, court technology, judicial efficiency and child safety program.

Proprietary Fund

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary fund:

Water and Sewer Fund

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

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.

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial 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.

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 receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

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

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Cash and Investments

The City's cash and cash equivalents includes cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Because the City, at its option, can withdraw funds within a twenty-four hour period from TexPool and TexSTAR, investments in TexPool and TexSTAR are considered to be cash equivalents.

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligation of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (A) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (B) secured by obligations that are described by (1) – (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1), pledged with third party selected or approved by the City, and placed through a primary government securities dealer. The City's investments are governed by the same state statutes. Investments are stated at fair value.

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

F. Inventory and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Prepaid items represent costs such as postage deferred to subsequent periods.

G. Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

H. 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 proprietary funds. 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 are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on general capital assets.

Assets capitalized have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	10-40 Years
Improvements other than buildings	10-40 Years
Water and Sewer System	40 Years
Infrastructure	7-20 Years
Machinery and Equipment	3-20 Years

I. Accumulated Vacation, Compensated Time and Sick Leave

All full-time employees are granted vacation and other leave time benefits, and compensatory time for overtime worked in varying amounts. In the event of termination, an employee is entitled to receive accumulated vacation and compensatory pay. Accumulated vacation pay and compensatory pay are recorded in the government-wide statements for governmental funds and at the fund level for proprietary funds. Vested or accumulated vacation leave are recorded as an expense and liability of those funds as the benefits accrue to employees.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by parties for use for a specific purpose.

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

K. 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.

L. Joint Venture

The Midlothian/Waxahachie Airport Joint Venture was created by an agreement in 1989. Under the agreement, both cities equally/share ownership, rights and obligations. The City recognizes its joint venture equity in the government wide financial statements. Summary financial information of the joint venture is included elsewhere in the notes to the basic financial statements. Separate financial statements for the joint venture are available at the administrative offices of the City of Waxahachie, Texas.

NOTE 2. CASH AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2007 the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$4,627,232 and the bank balance was \$5,352,552. The City's cash deposits at September 30, 2007 and during the year ended September 30, 2007 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Legal and contractual provisions governing deposits and investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity, allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. CASH AND INVESTMENTS – CONTINUED

solicitation preferences for certificates of deposit. Statutes and the City's investment policy authorized the City to invest in the following investments as summarized in the table below:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	3 years	80%	None
U.S. Agencies and Instrumentalities	3 years	75%	None
Certificates of Deposits	1 year	20%	None
Repurchase Agreements	90 days	10%	None
Money Market Funds	None	20%	None
Local Government Investment Pools	2 years	100%	None

The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Cash and investments as of September 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:

Primary Government:

Cash and cash equivalents	\$ 32,237,037
Investments	8,507,852
Restricted cash and cash equivalents	<u>3,531,428</u>

Total Primary Government	<u><u>\$ 44,276,317</u></u>
--------------------------	-----------------------------

Component Units:

Cash and cash equivalents	\$ 40,536,889
Restricted investments	<u>98,700</u>

Total Component Units	<u><u>\$ 40,635,589</u></u>
-----------------------	-----------------------------

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Cash and investments as of September 30, 2007 consist of the following:

Primary Government:	
Deposits with financial institutions	\$ 4,627,232
Investments	<u>39,649,085</u>
Total cash and investments	<u><u>\$ 44,276,317</u></u>

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

As of September 30, 2007, the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
Texpool	\$ 23,754,237	34 days
TexSTAR	7,386,996	20 days
Government agency notes	<u>8,507,852</u>	106 days
Total	<u><u>\$ 39,649,085</u></u>	

As of September 30, 2007 the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
Texpool	\$ 23,754,237	N/A	AAAm
TexSTAR	7,386,996	N/A	AAAm
Government agency notes	<u>8,507,852</u>	N/A	Not rated
Total	<u><u>\$ 39,649,085</u></u>		

Concentration of credit risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2007 other than external investment pools the City did not have 5% or more of its investment with one issuer.

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Custodial credit risk – Continued

As of September 30, 2007 the City deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

Investment in State Investment Pools

The City is a voluntary participant in TexPool and TexSTAR. Both are public funds investment pools operating in full compliance with the Public Funds Investment Act, to include oversight by an established advisory board composed of both participants and other persons who do not have a business relationship with the pools. Both the pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The pools use amortized costs rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pools is the same as the value of the shares.

NOTE 3. RESTRICTED ASSETS

Restricted assets in the Water and Sewer Fund are held for the following purposes in accordance with bond ordinances or other legal restrictions:

Debt Service - Interest and Sinking Fund	
Cash and investments	\$ 1,584,848
Construction	1,556,641
Refundable water and sewer deposits	<u>389,939</u>
Total	<u>\$ 3,531,428</u>

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. DIRECT FINANCING LEASE RECEIVABLE

During 2004, the City entered into a 25-year lease purchase agreement with Navarro College (the College) whereby the City issued \$4,750,000 of combination tax and revenue bonds (Series 2005) in order to construct and equip a building within the City limits to be leased to the College. Under the terms of the agreement, the College agrees to make semi-annual lease payments to the City in the amount of the scheduled debt service payments of Series 2005; the City, in turn, pays the bondholder(s). Upon final payment by the College to the City of the entire indebtedness of the \$4,750,000, plus accrued interest, on a timely schedule, title to the building will be transferred to the College.

During fiscal year 2006, the building was completed and occupied by the College.

Accordingly, the City has recorded receivable and deferred revenue in the Debt Service Fund for the remaining balance owed by the College under the agreement.

The annual amounts due from the College are as follows as of September 30, 2007:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 115,000	\$ 238,087	\$ 353,087
2009	120,000	232,050	352,050
2010	125,000	225,750	350,750
2011	135,000	219,188	354,188
2012	140,000	212,100	352,100
2013-2017	820,000	941,588	1,761,588
2018-2022	1,060,000	703,238	1,763,238
2023-2027	1,365,000	394,012	1,759,012
2028-2029	655,000	51,974	706,974
	<u>\$ 4,535,000</u>	<u>\$ 3,217,987</u>	<u>\$ 7,752,987</u>

CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 13,176,412	\$ 79,641	\$ -	\$ 71,071	\$ 13,327,124
Construction in progress	8,390,461	4,660,446	-	(4,175,419)	8,875,488
	<u>21,566,873</u>	<u>4,740,087</u>	<u>-</u>	<u>(4,104,348)</u>	<u>22,202,612</u>
Capital assets being depreciated:					
Buildings	3,888,731	-	-	3,388,639	7,277,370
Improvements other than buildings	16,025,498	-	-	100,834	16,126,332
Infrastructure	58,504,795	1,685,638	-	57,331	60,247,764
Machinery and equipment	4,189,383	177,923	(42,958)	557,544	4,881,892
	<u>82,608,407</u>	<u>1,863,561</u>	<u>(42,958)</u>	<u>4,104,348</u>	<u>88,533,358</u>
Accumulated depreciation:					
Buildings	(690,450)	(111,617)	-	-	(802,067)
Improvements other than buildings	(1,776,118)	(812,614)	-	-	(2,588,732)
Infrastructure	(12,181,479)	(2,978,907)	-	-	(15,160,386)
Machinery and equipment	(2,062,488)	(409,906)	29,436	-	(2,442,958)
	<u>(16,710,535)</u>	<u>(4,313,044)</u>	<u>29,436</u>	<u>-</u>	<u>(20,994,143)</u>
Capital assets being depreciated, net	<u>65,897,872</u>	<u>(2,449,483)</u>	<u>(13,522)</u>	<u>4,104,348</u>	<u>67,539,215</u>
Governmental activities capital assets, net	<u>\$ 87,464,745</u>	<u>\$ 2,290,604</u>	<u>\$ (13,522)</u>	<u>\$ -</u>	<u>\$ 89,741,827</u>

CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS – CONTINUED

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

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type Activities:					
Capital assets not being depreciated:					
Land	\$ 630,850	\$ -	\$ -	\$ -	\$ 630,850
Water capacity rights	29,949,793	-	-	-	29,949,793
Construction in progress	8,338,649	551,641	-	(8,787,733)	102,557
	<u>38,919,292</u>	<u>551,641</u>	<u>-</u>	<u>(8,787,733)</u>	<u>30,683,200</u>
Capital assets being depreciated:					
Buildings	1,675,868	-	-	9,880,774	11,556,642
Equipment	1,692,579	159,741	-	50,940	1,903,260
Wastewater rights	13,738,037	-	-	4,313,885	18,051,922
Infrastructure	38,495,689	1,274,937	-	(5,457,866)	34,312,760
	<u>55,602,173</u>	<u>1,434,678</u>	<u>-</u>	<u>8,787,733</u>	<u>65,824,584</u>
Accumulated depreciation:					
Buildings	(1,135,373)	(271,977)	-	(4,458,690)	(5,866,040)
Equipment	(1,221,104)	(118,016)	-	-	(1,339,120)
Wastewater rights	(382,016)	(415,397)	-	-	(797,413)
Infrastructure	(9,397,854)	(974,635)	-	4,458,690	(5,913,799)
	<u>(12,136,347)</u>	<u>(1,780,025)</u>	<u>-</u>	<u>-</u>	<u>(13,916,372)</u>
Capital assets being depreciated, net	<u>43,465,826</u>	<u>(345,347)</u>	<u>-</u>	<u>8,787,733</u>	<u>51,908,212</u>
Business-type activities capital assets, net	<u>\$ 82,385,118</u>	<u>\$ 206,294</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,591,412</u>

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. CAPITAL ASSETS – CONTINUED

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

Governmental activities:

General government	\$ 52,723
Public safety	3,861,836
Public works	272,120
Culture and recreation	<u>126,365</u>
 Total depreciation expense- governmental activities	 <u><u>\$ 4,313,044</u></u>

Business type activities:

Water and Sewer	<u><u>\$ 1,780,025</u></u>
-----------------	----------------------------

The City has active construction projects as of September 30, 2007. Total accumulated commitments for ongoing capital projects are composed of the following:

Capital Projects Funds	<u><u>\$ 4,266,862</u></u>
	<u><u>\$ 4,266,862</u></u>

**CITY OF MIDLOTHIAN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM DEBT

The City issues general obligation bonds, certificates of obligation and tax notes to provide funds for the acquisition and construction of major capital facilities and infrastructure. General obligation bonds and certificates of obligation have been issued for both governmental and business type activities while tax notes have been issued only for governmental activities.

During the year, \$8,550,000 of general obligation bonds were issued to finance the improvement of City streets, constructing various park facilities and to construct, equip and improve fire stations. \$8,120,000 of water and sewer revenue refunding bonds were issued to refund a portion of the City's outstanding debt.

The \$8,120,000 refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$489,640. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2021 using the straight-line method. The City completed the refunding to reduce its total debt service payments over the next fourteen years by \$493,394 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$296,596.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds generally are issued as 20-year serial bonds, except for refunding issues, with level debt service requirements each year.

The City also issues certificates of obligation which are direct obligations of, and pledge the full faith and credit of the City, and are further secured by a limited pledge of the surplus net revenues of the City's combined waterworks and sewer system. Certificates of obligation are generally issued as 20 year serial bonds with level debt service requirements each year.

Revenue bonds are issued by the City and these bonds are secured by a pledge of income derived from acquired or constructed assets to pay debt service.