



Control Number: 44212



Item Number: 8

Addendum StartPage: 0

House Bill (HB) 1600 and Senate Bill (SB) 567 83<sup>rd</sup>  
Legislature, Regular Session, transferred the functions  
relating to the economic regulation of water and sewer  
utilities from the TCEQ to the PUC effective  
September 1, 2014



CITY OF OVILLA, TEXAS  
ANNUAL FINANCIAL REPORT  
Year Ended September 30, 2004

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CITY OF OVILLA, TEXAS  
ANNUAL FINANCIAL REPORT  
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# Witherspoon, Yeldell & Wilson

CERTIFIED PUBLIC ACCOUNTANTS (A PROFESSIONAL CORPORATION)  
Members of American Institute of Certified Public Accountants / Members of Private Companies Practice Section

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Ovilla, Texas

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Ovilla, Texas ("City"), as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ovilla, Texas, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of September 30, 2004.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

City Council  
Page Two

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules, supplementary financial data and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for the statistical information on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements.

*Witherspoon, Yeldell & Wilson, P.C.*

Witherspoon, Yeldell & Wilson, P.C.  
*Certified Public Accountants*

November 19, 2004



*105 South Cockrell Hill Road  
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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Ovilla, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2004. The City implemented Governmental Accounting Standards Board Statement 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments for the first time this year.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$3,390,524 (net assets).
- The City's total net assets increased by \$780,337.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$281,390. Over 93.07% of this total amount, \$261,892 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 \$225,503 or 18% of the total general fund expenditures.

### 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 most recent 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 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, public safety, streets, culture and recreation and animal control. The business-type activities of the City include utility operations (water, sewer and solid waste services).

The government-wide financial statements can be found on pages 11-12 of this report.

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

**Governmental Funds.** Governmental funds are used to account for essentially the 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 fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains six individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Debt Service, and Fire Safety and Emergency Medical Services funds, all of which are considered to be major funds. Data from the other three funds (Fire Department Auxiliary, Police Department Special and Heritage Day) are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13-16 of this report.



**Proprietary Funds.** The City maintains one type of proprietary fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its utility operations (water, sewer and solid waste services).

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Utility fund since it is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 17-20 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 21-47 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, assets exceeded liabilities by \$3,390,524 as of September 30, 2004.

A large portion of the City's net assets reflects its investments in capital assets (e.g., land, buildings, improvements, machinery and equipment, 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.

With the first year implementation of GASB Statement 34, the City is not presenting comparable columns in the various comparisons and analysis for the prior year.

**CITY OF OVILLA'S NET ASSETS**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current and other assets	\$ 557,373	\$ 5,670,252	\$ 6,227,625
Capital assets	<u>1,730,582</u>	<u>4,531,649</u>	<u>6,262,231</u>
Total assets	<u>2,287,955</u>	<u>10,201,901</u>	<u>12,489,856</u>
Long term liabilities	7,463,914	1,249,815	8,713,729
Other liabilities	<u>95,802</u>	<u>289,801</u>	<u>385,603</u>
Total liabilities	<u>7,559,716</u>	<u>1,539,616</u>	<u>9,099,332</u>
Net assets:			
Invested in capital assets, net of related debt	1,524,583	3,314,822	4,839,405
Restricted	24,220	5,040,745	5,064,965
Unrestricted	<u>(6,820,564)</u>	<u>306,718</u>	<u>(6,513,846)</u>
Total net assets	<u>\$ (5,271,761)</u>	<u>\$ 8,662,285</u>	<u>\$ 3,390,524</u>

An additional portion of the City's net assets represents resources that are subject to external restriction on how they may be used.

At the end of the current fiscal year, the City is able to report positive balances in Invested in capital assets, net of related debt and Restricted net assets, both for the government as a whole, as well as for its separate categories- governmental and business-type activities.

**Analysis of the City's Operations.** The following table provides a summary of the City's operations for the year ended September 30, 2004. The City first implemented GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, in 2004; therefore comparative data is not presented. Governmental activities increased the City's net assets by \$563,487, accounting for 72% of the total growth in net assets. Business-type activities increased the City's net assets by \$216,850, accounting for 28% of the total growth in net assets.

## CITY OF OVILLA'S CHANGE IN NET ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 40,160	\$ 1,026,738	\$ 1,066,898
Capital grants and contributions	477,978	175,152	653,130
General revenues:			
Property taxes	1,480,930	-	1,480,930
Sales, franchise and other taxes	197,796	-	197,796
Building permits	17,890	-	17,890
Administration	27,852	-	27,852
Investment earnings	7,283	5,796	13,079
Miscellaneous	9,508	-	9,508
<b>Total revenues</b>	<u>2,259,397</u>	<u>1,207,686</u>	<u>3,467,083</u>
Expenses:			
General government	305,211	-	305,211
Public safety	946,666	-	946,666
Streets	66,057	-	66,057
Cultural and recreational	11,289	-	11,289
Animal control	39,856	-	39,856
Interest on long-term debt	349,571	-	349,571
Utility	-	968,096	968,096
<b>Total expenses</b>	<u>1,718,650</u>	<u>968,096</u>	<u>2,686,746</u>
Increases in net assets before transfers	540,747	239,590	780,337
Transfers	22,740	(22,740)	-
Increase in net asset	563,487	216,850	780,337
Net assets - beginning	<u>(5,835,248)</u>	<u>8,445,435</u>	<u>2,610,187</u>
<b>Net assets - ending</b>	<u>\$ (5,271,761)</u>	<u>\$ 8,662,285</u>	<u>\$ 3,390,524</u>

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

**Governmental Funds.** The focus of the City'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.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$281,390. Approximately 93% of this total amount (\$261,892) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay for debt service (\$19,498).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$225,503. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 18% of total general fund expenditures.

The fund balance of the City's general fund increased \$10,012 during the current fiscal year.

The debt service fund has a total fund balance of \$19,498. The net increase in fund balance during the current year in the debt service fund was \$728.

**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.

Unrestricted net assets of the Utility fund at the end of the year amounted to \$306,718. Net assets increased in 2004 by \$216,850.

**General Fund Budgetary Highlights.** The general fund benefited from increased economic activity, which resulted in budgeted revenues being exceeded by actual revenues by \$18,037. Although actual expenditures exceeded budgeted expenditures by \$4,975, the exceeded amount was covered by the increased revenues.

## **CAPITAL ASSETS**

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2004 amounts to \$6,262,231 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress.

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

- Through a grant from FEMA, the Fire Department acquired \$86,000 of new equipment and building improvements.
- Approximately \$1,100,000 in various water and sewer projects was completed.

**Capital Assets at Year-End  
Net of Accumulated Depreciation**

	Governmental Activities 2004	Business-Type Activities 2004	Total
Land	\$ 92,685	\$ 86,700	\$ 179,385
Buildings	227,940	52,886	280,826
Machinery and equipment	1,002,708	65,807	1,068,515
Improvements	-	2,595,308	2,595,308
Infrastructure	407,249	-	407,249
Construction in progress	-	1,730,948	1,730,948
<b>Total</b>	<b>\$ 1,730,582</b>	<b>\$ 4,531,649</b>	<b>\$ 6,262,231</b>

Additional information on the City of Ovilla capital assets can be found in note 4 on pages 33-35 of this report.

**DEBT ADMINISTRATION**

At the end of the current fiscal year, the City had a total bonded debt of \$8,450,000. Of this amount, \$7,645,500 comprises bonded debt backed by the full faith and credit of the government and \$804,500 comprises debt secured solely by specified revenue sources.

**Outstanding Debt at Year End  
Bonds and Note Payable**

	Governmental Activities 2004	Business-Type Activities 2004	Total
Certificates of obligation	\$ 7,240,500	\$ 1,209,500	\$ 8,450,000
Note payable	7,569	-	7,569
<b>Total</b>	<b>\$ 7,248,069</b>	<b>\$ 1,209,500</b>	<b>\$ 8,457,569</b>

The City's General Obligation and Tax and Water Works and Sewer System Certificates of Obligation ratings are listed below.

	<u>Moody's</u>	<u>Standard &amp; Poor's</u>
Certificates of Obligation	BBB	BBB+

Additional information on the City of Ovilla long term-debt can be found in note 5 on pages 37-39 of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In the 2004-05 Budget, General Fund revenues and transfers in are budgeted to increase by 5.25% from the 2003-04 budget year with general property taxes making up about 80% of general fund budgeted revenues. Certified assessed taxable valuations increased only 2.4% over the preceding year, however the city has increased revenues in other areas such as rental income. The City has one of the lowest unemployment rates at 4.3% as compared to the State of Texas, which is 6.6%. General Fund revenues include an administrative transfer from the water fund. As is the case each year, this transfer may or may not be realized in full as rainfall and/or water usage will affect the availability of transferable funds. Management must monitor water sales to determine if the full transfer will be made, and if not, curb general fund expenditures to accommodate the shortfall in the transfer.

As a result of the above-stated potential negative impacts in revenue, the City has made a concerted effort to limit appropriations to only those items truly necessary.

The 2004-05 budget year does not include an increase in water or sewer rates. Debt service requirements for the water fund for water system expansions (10% of debt payment) have been absorbed with no rate increases. Management has opined that water rates will need to be increased to fund the normal operation of the water fund for the 2005-2006 operating budget.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Secretary, 105 South Cockrell Hill Rd., Ovilla, Texas 75154

CITY OF OVILLA, TEXAS  
STATEMENT OF NET ASSETS  
September 30, 2004

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash	\$ 295,175	\$ 268,682	\$ 563,857
Receivables (net of allowance for uncollectibles)	64,814	172,089	236,903
Interfund balances	16,500	(16,500)	-
Inventories	-	11,998	11,998
Deferred charges	180,884	27,584	208,468
Restricted assets:			
Cash	-	16,264	16,264
Investments	-	5,190,135	5,190,135
Capital assets:			
Non-depreciable	92,685	1,817,648	1,910,333
Depreciable (net of accumulated depreciation)	1,637,897	2,714,001	4,351,898
Total assets	<u>2,287,955</u>	<u>10,201,901</u>	<u>12,489,856</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	19,150	108,893	128,043
Accrued payroll payable	9,549	3,137	12,686
Accrued interest payable	40,473	3,159	43,632
Customer deposits payable	-	12,375	12,375
Due to other governments	26,630	-	26,630
Liabilities payable from restricted assets	-	162,237	162,237
Noncurrent liabilities:			
Due within one year	286,554	65,263	351,817
Due in more than one year	7,177,360	1,184,552	8,361,912
Total liabilities	<u>7,559,716</u>	<u>1,539,616</u>	<u>9,099,332</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,524,583	3,342,406	4,866,989
Restricted for:			
Public safety	2,741	-	2,741
Cultural and recreational	1,981	-	1,981
Debt service	19,498	6,851	26,349
Water system construction	-	5,033,894	5,033,894
Unrestricted	(6,820,564)	279,134	(6,541,430)
Total net assets (deficit)	<u>\$ (5,271,761)</u>	<u>\$ 8,662,285</u>	<u>\$ 3,390,524</u>

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS  
STATEMENT OF ACTIVITIES  
Year Ended September 30, 2004

Function/Program Activities	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government:						
Governmental activities:						
General government	\$ 305,211	\$ -	\$ -	\$ (305,211)	\$ -	\$ (305,211)
Public safety	946,666	33,882	168,551	(744,233)	-	(744,233)
Streets	66,057	-	309,427	243,370	-	243,370
Cultural and recreational	11,289	-	-	(11,289)	-	(11,289)
Animal control	39,856	6,278	-	(33,578)	-	(33,578)
Interest on long-term debt	349,571	-	-	(349,571)	-	(349,571)
Total governmental activities	<u>1,718,650</u>	<u>40,160</u>	<u>477,978</u>	<u>(1,200,512)</u>	<u>-</u>	<u>(1,200,512)</u>
Business-type activities:						
Utility	968,096	1,026,738	175,152	-	233,794	233,794
Total business-type activities	<u>968,096</u>	<u>1,026,738</u>	<u>175,152</u>	<u>-</u>	<u>233,794</u>	<u>233,794</u>
Total primary government	<u>\$ 2,686,746</u>	<u>\$ 1,066,898</u>	<u>\$ 653,130</u>	<u>(1,200,512)</u>	<u>233,794</u>	<u>(966,718)</u>
General revenues:						
Property taxes				1,480,930	-	1,480,930
Sales, franchise and other taxes				197,796	-	197,796
Building permits				17,890	-	17,890
Administration				27,852	-	27,852
Investment earnings				7,283	5,796	13,079
Miscellaneous				9,508	-	9,508
Transfers				22,740	(22,740)	-
Total general revenues and transfers				<u>1,763,999</u>	<u>(16,944)</u>	<u>1,747,055</u>
Change in net assets				563,487	216,850	780,337
Net assets - beginning				<u>(5,835,248)</u>	<u>8,445,435</u>	<u>2,610,187</u>
Net assets - ending				<u>\$ (5,271,761)</u>	<u>\$ 8,662,285</u>	<u>\$ 3,390,524</u>

See accompanying notes to financial statements.



CITY OF OVILLA, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2004

	Governmental Fund Types				Total Governmental Funds
	General	Debt Service	Fire Safety and Emergency Medical Services Fund	Other Governmental Funds	
<b>ASSETS</b>					
Assets:					
Cash - operating	\$ 237,616	\$ 14,867	\$ 36,978	\$ 5,714	\$ 295,175
Receivables (net of allowance for uncollectibles)	64,814	-	-	-	64,814
Due from other funds	16,500	4,631	-	-	21,131
<b>Total assets</b>	<b><u>\$ 318,930</u></b>	<b><u>\$ 19,498</u></b>	<b><u>\$ 36,978</u></b>	<b><u>\$ 5,714</u></b>	<b><u>\$ 381,120</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 12,847	\$ -	\$ 5,311	\$ 992	\$ 19,150
Accrued payroll payable	9,549	-	-	-	9,549
Due to other funds	4,631	-	-	-	4,631
Due to other governments	26,630	-	-	-	26,630
Deferred revenue	39,770	-	-	-	39,770
<b>Total liabilities</b>	<b><u>93,427</u></b>	<b><u>-</u></b>	<b><u>5,311</u></b>	<b><u>992</u></b>	<b><u>99,730</u></b>
Fund balances:					
Reserved for:					
Debt service	-	19,498	-	-	19,498
Unreserved:					
Undesignated	225,503	-	31,667	-	257,170
Unreserved reported in nonmajor Special revenue funds	-	-	-	4,722	4,722
<b>Total fund balances</b>	<b><u>225,503</u></b>	<b><u>19,498</u></b>	<b><u>31,667</u></b>	<b><u>4,722</u></b>	<b><u>281,390</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 318,930</u></b>	<b><u>\$ 19,498</u></b>	<b><u>\$ 36,978</u></b>	<b><u>\$ 5,714</u></b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,730,582
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	39,770
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(7,504,387)
Other assets (deferred charge) shown in governmental activities are not financial resources and, therefore, are not reported in the governmental activities.	180,884
<b>Net assets of governmental activities</b>	<b><u>\$ (5,271,761)</u></b>

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 Year Ended September 30, 2004

	Governmental Fund Types				Total Governmental Funds
	General	Debt Service	Fire Safety and Emergency Medical Services Fund	Other Governmental Funds	
<b>REVENUES</b>					
Property taxes	\$1,465,368	\$ -	\$ -	\$ -	\$ 1,465,368
Sales tax	59,470	-	-	-	59,470
Franchise tax	138,326	-	-	-	138,326
Building permits	17,890	-	-	-	17,890
Law enforcement	33,882	-	-	-	33,882
Administration	27,852	-	-	-	27,852
Animal control	6,278	-	-	-	6,278
Revenues from use of money	2,990	971	122	3,200	7,283
Intergovernmental	-	-	168,551	-	168,551
Other revenue	1,333	-	-	8,175	9,508
<b>Total revenues</b>	<b>1,753,389</b>	<b>971</b>	<b>168,673</b>	<b>11,375</b>	<b>1,934,408</b>
<b>EXPENDITURES</b>					
<b>Current:</b>					
General government	298,754	-	-	-	298,754
Public safety	738,772	-	102,062	13,526	854,360
Streets	156,735	-	-	-	156,735
Cultural and recreational	8,464	-	-	1,875	10,339
Animal control	39,867	-	-	-	39,867
<b>Debt service:</b>					
Principal and interest	41,405	510,640	44,306	-	596,351
<b>Total expenditures</b>	<b>1,283,997</b>	<b>510,640</b>	<b>146,368</b>	<b>15,401</b>	<b>1,956,406</b>
Excess (deficiency) of revenues over (under) expenditures	469,392	(509,669)	22,305	(4,026)	(21,998)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	27,463	515,120	-	-	542,583
Transfers out	(515,120)	(4,723)	-	-	(519,843)
Capital leases	28,277	-	-	-	28,277
<b>Total other financing sources (uses)</b>	<b>(459,380)</b>	<b>510,397</b>	<b>-</b>	<b>-</b>	<b>51,017</b>
Net change in fund balances	10,012	728	22,305	(4,026)	29,019
Fund balances at beginning of year	215,491	18,770	9,362	8,748	252,371
Fund balances at end of year	\$ 225,503	\$ 19,498	\$ 31,667	\$ 4,722	\$ 281,390

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 Year Ended September 30, 2004

Amounts reported for governmental activities in the statement of activities (page 12) are different because:

Net change in fund balance-total governmental funds (page 14)	\$ 29,019
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 by which depreciation exceeded capital outlays in the current period.	(1,843)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	309,427
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	15,562
The issuance of long-term debt (e.g., bonds payable, leases) 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 these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	226,374
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(15,052)</u>
	<u>\$ 563,487</u>

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
Year Ended September 30, 2004

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Over (Under) Budget
<b>REVENUES</b>				
Property taxes	\$ 1,459,402	\$ 1,458,402	\$ 1,465,368	\$ 6,966
Sales tax	62,000	62,000	59,470	(2,530)
Franchise tax	125,000	125,000	138,326	13,326
Building permits	22,750	18,250	17,890	(360)
Law enforcement	30,200	34,200	33,882	(318)
Administration	35,865	30,200	27,852	(2,348)
Animal control	4,300	5,700	6,278	578
Revenues from use of money	-	-	2,990	2,990
Other revenue	100	1,600	1,333	(267)
<b>Total revenues</b>	<b>1,739,617</b>	<b>1,735,352</b>	<b>1,753,389</b>	<b>18,037</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
<b>General government:</b>				
Administration	246,473	275,486	282,142	6,656
Election	850	850	1,145	295
Tax	10,700	11,074	15,467	4,393
<b>Total general government</b>	<b>258,023</b>	<b>287,410</b>	<b>298,754</b>	<b>11,344</b>
<b>Cultural and recreational:</b>				
City parks	8,100	6,600	8,464	1,864
<b>Total cultural and recreational</b>	<b>8,100</b>	<b>6,600</b>	<b>8,464</b>	<b>1,864</b>
<b>Public safety:</b>				
Police protection	412,745	408,321	442,089	33,768
Judicial	3,750	3,950	3,786	(164)
Fire protection	272,174	255,067	238,434	(16,633)
Fire Marshall	5,250	4,450	4,674	224
Support services	79,600	77,600	49,789	(27,811)
<b>Total public safety</b>	<b>773,519</b>	<b>749,388</b>	<b>738,772</b>	<b>(10,616)</b>
Animal control	41,001	40,740	39,867	(873)
Streets	160,754	153,479	156,735	3,256
<b>Debt service:</b>				
Principal and interest	41,684	41,405	41,405	-
<b>Total debt service</b>	<b>41,684</b>	<b>41,405</b>	<b>41,405</b>	<b>-</b>
<b>Total expenditures</b>	<b>1,283,081</b>	<b>1,279,022</b>	<b>1,283,997</b>	<b>4,975</b>
<b>Excess of revenues over expenditures</b>	<b>456,536</b>	<b>456,330</b>	<b>469,392</b>	<b>13,062</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	55,000	55,000	27,463	(27,537)
Operating transfers out	(510,089)	(510,089)	(515,120)	(5,031)
Capital leases	-	-	28,277	28,277
<b>Total other financing sources and uses</b>	<b>(455,089)</b>	<b>(455,089)</b>	<b>(459,380)</b>	<b>(4,291)</b>
<b>Net change in fund balances</b>	<b>1,447</b>	<b>1,241</b>	<b>10,012</b>	<b>8,771</b>
<b>Fund balances at beginning of year</b>	<b>-</b>	<b>-</b>	<b>215,491</b>	<b>215,491</b>
<b>Fund balances at end of year</b>	<b>\$ 1,447</b>	<b>\$ 1,241</b>	<b>\$ 225,503</b>	<b>\$ 224,262</b>

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
September 30, 2004

	Business-type Activities - Enterprise (Utility) Fund
<b>ASSETS</b>	
Current assets:	
Cash	\$ 268,682
Restricted assets:	
Cash - revenue bond debt service	16,264
Investments	156,241
Accounts receivables (net of allowance for uncollectibles)	157,224
Other receivables	14,865
Inventory	11,998
Total current assets	625,274
Noncurrent assets:	
Restricted assets:	
Investments	5,033,894
Total restricted assets	5,033,894
Bond issuance costs	27,584
Fixed assets (net, where applicable of accumulated depreciation)	4,531,649
Total noncurrent assets	9,593,127
Total assets	10,218,401
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	108,893
Bonds payable	52,006
Customer deposits payable	12,375
Accrued payroll payable	3,137
Accrued interest payable	3,159
Employee earned vacation and compensation	6,988
Leases payable	2,852
Due to other funds	16,500
Total current liabilities	205,910
Current liabilities payable from restricted assets:	
Payable from restricted assets:	
Accounts payable	156,241
Revenue bonds payable	3,417
Accrued interest payable	5,996
Total current liabilities payable from restricted assets	165,654
Noncurrent liabilities:	
Leases payable	6,176
Bonds payable	1,152,376
Refundable contract and escrows	26,000
Total noncurrent liabilities	1,184,552
Total liabilities	1,556,116
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	3,342,406
Restricted for:	
Debt service	6,851
Water system construction	5,033,894
Unrestricted	279,134
Total net assets	\$ 8,662,285

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUND  
 Year Ended September 30, 2004

	Business-type Activities - Enterprise (Utility) Fund
	Fund
Operating revenues:	
Water sales	\$ 745,657
Solid waste	109,599
Reconnect fees	3,402
Meters	6,050
Miscellaneous	7,430
Water connect fees	2,450
Sewer fees	6,800
Sewer service	137,646
Total operating revenues	1,019,034
Operating expenses:	
Salaries	145,639
Overtime	8,220
Payroll taxes	2,220
Insurance, group	21,723
Insurance, liability	1,252
Worker's compensation	3,042
Retirement	10,384
Uniforms	6,116
Office	3,814
Equipment maintenance	9,977
Education	2,709
Maintenance, supplies and repairs	20,492
Miscellaneous	3,412
Postage	3,818
Utilities - water tower	1,414
Audit and accounting	5,459
Outside services	1,155
Engineering fees	27,000
Equipment rental	219
Water testing	1,555
Water purchase	433,634
Water tower maintenance	5,077
TRA wastewater treatment	19,468
Electricity - wells	7,664
Repairs - wells	230

CITY OF OVILLA, TEXAS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUND (Continued)  
 Year Ended September 30, 2004

	Business-type Activities - Enterprise (Utility) Fund
Dues	\$ 175
Fuel	8,283
Water well fees	1,055
Solid waste	108,032
Sewer lines	4,621
Depreciation	97,025
Amortization	1,864
Total operating expenses	<u>966,748</u>
Operating income	<u>52,286</u>
Nonoperating revenue (expenses):	
Impact fees	7,704
Interest earned	5,796
Interest and fees paid on bonds and leases	<u>(1,348)</u>
Total nonoperating revenue (expenses)	<u>12,152</u>
Income before contributions and transfers	64,438
Capital contributions	175,152
Operating transfers in	4,723
Operating transfers out	<u>(27,463)</u>
	<u>152,412</u>
Change in net assets	216,850
Total net assets - beginning	8,445,435
Total net assets - ending	<u>\$ 8,662,285</u>

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended September 30, 2004

	Business-type Activities - Enterprise (Utility) Fund
<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 1,046,601
Payments to suppliers	(782,688)
Payments to employees	(189,782)
Net cash provided by operating activities	<u>74,131</u>
<b>Cash flows from noncapital financing activities:</b>	
Advances from other funds	16,500
Net transfers to other funds	(22,740)
Net cash provided (used) by noncapital financing activities	<u>(6,240)</u>
<b>Cash flows from capital and related financing activities:</b>	
Impact fees collected	7,704
Acquisition and construction of capital assets	(1,403,104)
Principal paid on capital leases	(2,706)
Principal paid on revenue bond maturities	(50,000)
Interest and fiscal charges paid on revenue bonds	(67,004)
Net cash provided (used) by capital and related financing activities	<u>(1,515,110)</u>
<b>Cash flows from investing activities:</b>	
Interest on investments	69,492
Net cash provided (used) by investing activities	<u>69,492</u>
Net increase (decrease) in cash and cash equivalents	(1,377,724)
Cash and cash equivalents at beginning of year	<u>6,852,808</u>
Cash and cash equivalents at end of year	<u>\$ 5,475,084</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 52,286
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	98,889
(Increase) decrease in accounts receivable	23,942
(Increase) decrease in inventory	(1,942)
Increase (decrease) in accounts payable and accrued expenses	(102,666)
Net increase in customer deposits	3,625
Total adjustments	<u>21,848</u>
Net cash provided by operating activities	<u>\$ 74,134</u>
<b>Noncash investing, capital and financing activities:</b>	
Fixed assets purchased on account	\$ 156,241
Contributions of capital assets from developers	\$ 175,152

See accompanying notes to financial statements.



CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Ovilla, Texas (the "City") is a general law municipality and was incorporated in 1963. The accompanying financial statements present the activity of the City.

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:
  - A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
  - Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).
  - A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). The City has elected to implement the general provisions of the Statement in the current year.

The City applies the criteria set forth in GASB Statement No. 14, The Financial Reporting Entity, to determine which governmental organizations should be included in the reporting entity. The inclusion or exclusion of component units is based on the elected officials accountability to their constituents. The financial reporting entity follows the same accountability. In addition, the financial statements of the reporting entity should allow the user to distinguish between the primary government (including its blended component units, which are, in substance, part of the primary government) and discretely presented component units. Criteria for inclusion of an entity into the primary governmental unit (in blended or discrete presentation) includes, but is not limited to, legal standing, fiscal dependency, imposition of will and the primary recipient of services. The City presently has no component units included within its reporting entity.

CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, inventories of materials and supplies are considered expenditures when used and debt service expenditures, as well as expenditures related to accumulated unpaid sick pay, are recorded only when payment is due.

Property and taxpayer-assessed taxes estimated to be collectible within sixty days after balance sheet date, interest, and expenditure driven grants are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The debt service fund accounts for the resources accumulated and payments made for principal and interest and related costs on long-term general obligation debt of governmental funds.

The Fire Safety and Emergency Medical Services fund accounts for funds received from emergency service districts and intergovernmental grants to be used for fire safety and emergency medical services.

The City reports the following major proprietary fund:

The utility fund accounts for the activities of garbage collection, sewage pumping stations and collection systems, and the water distribution system.

CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, generally are followed in the government-wide governmental and business type activities to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected not to apply private-sector guidance issued after November 30, 1989.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the city's utility function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services and the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the utility fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity

Deposits and Investments -

For purposes of the statement of cash flows the City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the City are reported at fair value.

Receivables and payables -

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivables in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is the lesser of .2 percent of the tax levy for each fiscal year or the outstanding property taxes for each fiscal year at September 30, 2004.

CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property. Appraised values are established by the Ellis Central Appraisal District as market value and assessed at 100% of appraised value. Property taxes attach as an enforceable lien on property as of January 1. The Ellis County Tax Assessor/Collector bills and collects the City's property taxes, which are due October 1. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Over time substantially all property taxes are collected.

Inventory and prepaid items -

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted assets -

Certain proceeds of the City's enterprise fund bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "bond construction" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The "bond debt service" account is used to segregate resources accumulated for debt service payments.

Capital assets -

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. General infrastructure assets acquired prior to October 1, 2003 are not reported in the basic financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

CITY OF OVILLA, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period. The total interest expense incurred by the utility fund during the current fiscal year was \$64,329. Of this amount, \$63,696 was included as part of the cost of capital assets under construction.

Property, plant, equipment and infrastructure are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Improvements	10-20
Machinery and equipment	5-15
Infrastructure	10-40

Compensated absences –

The City's employees earn vacation and compensation pay benefits which may either be taken or accumulated up to a maximum and paid upon retirement or termination. Vacation and compensation pay is accrued when incurred in government-wide and proprietary funds financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations -

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF OVILLA, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$7,504,387 difference are as follows:

Bonds payable	\$ (7,240,500)
Less: Deferred charge for issuance costs (to be amortized as interest expense	15,310
Accrued interest payable	(40,473)
Note payable	(7,569)
Capital lease payable	(198,430)
Compensated absences	<u>(32,725)</u>
Net adjustments to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ (7,504,387)</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balance – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element explains that “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.” The details of this \$99,665 difference are as follows:



CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (continued)

Capital outlay	\$	219,471
Depreciation expense		(221,314)
Net adjustments to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	(1,843)

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) 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 these amounts are deferred and amortized in the statement of activities.” The details of this \$226,373 difference are as follows:

Debt issued or incurred:		
Capital lease financing	\$	(28,277)
Principal repayments:		
Certificate of obligation debt		180,000
Note		3,671
Leases		70,980
Net adjustments to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	226,374

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$15,052 difference are as follows:

CITY OF OVILLA, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2004

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (continued)

Compensated absences	\$	(7,181)
Accrued interest		788
Amortization of issuance costs		<u>(8,659)</u>
Net adjustments to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	<u>(15,052)</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and debt service funds. The annual budget for the utility fund is prepared on the budgetary basis of accounting. All annual appropriations lapse at fiscal year end. The legal level of budgetary control is the fund level.

B. Compliance with finance related legal and contractual provisions

The City has no material violations of finance related legal and contractual provisions.

C. Excess of expenditures over appropriations in individual funds

The City has no material excess of expenditures/expenses over appropriations in individual funds.

CITY OF OVILLA, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2004

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

A. Deposits and investments

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At year end the reported amount of the City’s deposits was \$580,046 and the bank balance was \$593,645. Of the bank balance, \$237,714 was covered by federal depository insurance and the remaining was covered by collateral pledged in the City’s name. The collateral was held in the City’s name by the safekeeping departments of the Federal Reserve Bank and Federal Home Loan Bank, which act as the pledging banks’ agent and had a fair value of approximately \$1,808,098.

Investments – Public funds of the City of Ovilla may be invested in the following obligations: (1) fully insured demand deposits in a national or state bank with FDIC membership, domiciled within the State of Texas, (2) fully insured or collateralized certificates of deposit at a national or state bank with FDIC membership, domiciled within the State of Texas, (3) investment pools meeting the criteria established by section 2256.016 of the Public Funds Investment Act as amended. The investment pools are not evidenced by securities that exist in physical or book entry form and accordingly, not categorized for credit risk.

The City’s investments carried at fair value as of September 30, 2004 are:

<u>Investment Pool</u>	<u>Category of Risk</u>	<u>Fair Value</u>
TexPool	N/A	\$ 3,134,309
TexSTAR	N/A	2,055,826
		<u>\$ 5,190,135</u>

The local government investment pools such as TexPool and TexSTAR are managed conservatively to provide safe, efficient and liquid investments to Texas governmental entities. The pools both seek to maintain a \$1 value per share as required by the Texas Public Funds Investment Act.

The daily operations of TexPool are managed by Lehman Brothers and Federated Investors under a contract with the State Comptroller of Public Accounts. The state comptroller maintains oversight responsibility for TexPool including the ability to influence operations, designation of management and accountability for fiscal matters. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. GASB 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price. The fair value of the City’s position in TexPool is the same as the value of TexPool shares.

CITY OF OVILLA, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2004

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

A. Deposits and investments (continued)

TexSTAR is co-administered by JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. The fair value of funds in TexSTAR is also the same as the value of the TexSTAR shares.

A reconciliation of cash and investments as shown on the Statement of Net Assets for the City follows:

Cash on hand	\$	75
Carrying amount of deposits		580,046
Carrying amount of investments		5,190,135
		<u>\$ 5,770,256</u>
Cash	\$	563,857
Cash-restricted		16,264
Investments-restricted		5,190,135
		<u>\$ 5,770,256</u>

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Utility	Total
Receivables:			
Taxes	\$ 80,089	\$ -	\$ 80,089
Accounts	-	164,551	164,551
Other	-	14,865	14,865
Gross receivables	<u>80,089</u>	<u>179,416</u>	<u>259,505</u>
Less: allowance for			
Uncollectibles	(15,275)	(7,327)	(22,602)
Net total receivables	<u>\$ 64,814</u>	<u>\$ 172,089</u>	<u>\$ 236,903</u>

CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables (continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Delinquent property taxes receivable (general fund)	\$ 39,770

C. Capital assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 92,685	\$ -	\$ -	\$ 92,685
Total capital assets not being depreciated	92,685	-	-	92,685
Capital assets being depreciated:				
Buildings	287,623	-	-	287,623
Machinery and equipment	1,959,072	115,986	-	2,075,058
Infrastructure	-	412,912	-	412,912
Totals capital assets being depreciated	2,246,695	528,898	-	2,775,593
Less accumulated depreciation for:				
Buildings	(50,095)	(9,588)	-	(59,683)
Machinery and equipment	(866,287)	(206,063)	-	(1,072,350)
Infrastructure	-	(5,663)	-	(5,663)
Total accumulated depreciation	(916,382)	(221,314)	-	(1,137,696)
Total capital assets, being depreciated, net	1,330,313	307,584	-	1,637,897
Governmental activities capital assets, net	\$ 1,422,998	\$ 307,584	\$ -	\$ 1,730,582

CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

C. Capital assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 86,700	\$ -	\$ -	\$ 86,700
Construction in progress	1,264,512	1,559,345	(1,092,909)	1,730,948
Total capital assets not being depreciated	<u>1,351,212</u>	<u>1,559,345</u>	<u>(1,092,909)</u>	<u>1,817,648</u>
Capital assets being depreciated:				
Buildings	60,587	-	-	60,587
Improvements	2,112,050	1,268,061	-	3,380,111
Machinery and equipment	227,016	-	-	227,016
Total capital assets being depreciated	<u>2,399,653</u>	<u>1,268,061</u>	<u>-</u>	<u>3,667,714</u>
Less accumulated depreciation for:				
Buildings	(6,186)	(1,515)	-	(7,701)
Improvements	(709,658)	(75,145)	-	(784,803)
Machinery and equipment	(140,844)	(20,365)	-	(161,209)
Total accumulated depreciation	<u>(856,688)</u>	<u>(97,025)</u>	<u>-</u>	<u>(953,713)</u>
Total capital assets being depreciated, net	<u>1,542,965</u>	<u>1,171,036</u>	<u>-</u>	<u>2,714,001</u>
Business-type capital assets, net	<u><u>\$ 2,894,177</u></u>	<u><u>\$ 2,730,381</u></u>	<u><u>\$ (1,092,909)</u></u>	<u><u>\$ 4,531,649</u></u>

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

Governmental activities:	
General government	\$ 5,597
Public safety	201,512
Streets	13,255
Cultural and recreational	950
Total depreciation expense - governmental activities	<u><u>\$ 221,314</u></u>
Business-type activities:	
Utility	<u><u>\$ 97,025</u></u>

CITY OF OVILLA, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2004

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

C. Capital assets (continued)

The construction in progress consists of water system improvements.

Construction Commitments –

The City has construction projects outstanding as of September 30, 2004. These projects are evidenced by contractual commitments with contractors and include:

<u>Projects</u>	<u>Spent-to-date</u>	<u>Commitment Remaining</u>
Elevated storage tank	\$ 28,100	\$ 9,140
Pump station/ground storage	1,396,995	14,659
Supply line/meter vault	305,852	42,648
<b>Total Projects</b>	<b>\$ 1,730,947</b>	<b>\$ 66,447</b>

The water and sewer system improvements projects are a commitment of the City's utility fund. These projects are being funded by the proceeds of certificates of obligation.

D. Interfund receivables, payables and transfers

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Debt Service	General	\$ 4,631
General	Water and sewer	16,500
		<b>\$ 21,131</b>

Interfund transfers:

	<u>Transfer In:</u>			
	<u>Utility</u>	<u>Debt Service</u>	<u>General</u>	<u>Total</u>
Transfer out:				
General	\$ -	\$ 515,120	\$ -	\$ 515,120
Utility	-	-	27,463	27,463
Debt Service	4,723	-	-	4,723
	<b>\$ 4,723</b>	<b>\$ 515,120</b>	<b>\$ 27,463</b>	<b>\$ 547,306</b>

Transfers are primarily used to move funds from:

- The General Fund to the Debt Service Fund for payment of bonds.

CITY OF OVILLA, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2004

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

E. Leases

The City is currently purchasing equipment under lease purchase agreements. The interest on the leases range from 2.00-6.55%.

The assets acquired through capital leases are as follows:

<u>Asset</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Machinery and equipment	\$ 383,487	\$ 15,074
Less: accumulated depreciation	(60,172)	(2,763)
Total	<u>\$ 323,315</u>	<u>\$ 12,311</u>

Annual debt service requirements to maturity are as follows –

<u>Year Ending September 30</u>	<u>Capital Leases</u>			
	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 66,280	\$ 8,970	\$ 2,852	\$ 488
2006	49,050	5,914	3,007	333
2007	40,658	3,648	3,169	171
2008	42,442	1,863	-	-
	<u>\$ 198,430</u>	<u>\$ 20,395</u>	<u>\$ 9,028</u>	<u>\$ 992</u>



CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

F. Long-term debt

Certificates of Obligation -

The City issues certificates of obligation to provide fund for the acquisition and construction of major capital facilities. Certificates of obligation have been issued for both governmental and business-type activities. Certificates of obligation are direct obligations and pledge the full faith and credit of the government and are further secured by and payable from a pledge of the surplus net revenues derived from the operation of the City's water and sewer system.

Certificates of obligation currently outstanding and reported as liabilities of the City's governmental activities are:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2002	\$ 7,420,500	8/15/28	3.5-5.0	<u>\$ 7,240,500</u>
Amount due within one year				<u>\$ 184,500</u>

Certificates of obligation currently outstanding and reported as liabilities of the City's business-type activities are:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
1991	\$ 640,000	2/1/2013	6.9	\$ 405,000
2002	824,500	8/15/2028	3.5-5.0	804,500
Total				<u>\$ 1,209,500</u>
Amount due within one year				<u>\$ 55,500</u>

Note Payable -

The City's note payable currently outstanding and reported as a liability of the City's governmental activities is:

<u>Note Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
\$ 35,000	9/1/2006	2.0	<u>\$ 7,569</u>
Amount due within one year			<u>\$ 3,745</u>

CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

F. Long-term debt (continued)

Annual debt service requirements to maturity are as follows -

Year Ending September 30	Governmental Activities				Business-type Activities	
	Certificates of Obligation		Note Payable		Certificates of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 184,500	\$ 323,790	\$ 3,745	\$ 151	\$ 55,500	\$ 62,714
2006	189,000	317,331	3,824	72	56,000	59,583
2007	198,000	310,717	-	-	62,000	56,258
2008	207,000	303,787	-	-	63,000	52,730
2009	211,500	296,541	-	-	68,500	48,992
2010-2014	1,192,500	1,353,900	-	-	342,500	180,100
2015-2019	1,449,000	1,089,054	-	-	161,000	121,004
2020-2024	1,804,500	725,534	-	-	200,500	80,616
2025-2028	1,804,500	231,076	-	-	200,500	25,674
	<u>\$ 7,240,500</u>	<u>\$ 4,951,730</u>	<u>\$ 7,569</u>	<u>\$ 223</u>	<u>\$ 1,209,500</u>	<u>\$ 687,671</u>

Changes in long-term liabilities –

Long-term liability activity for the year ended September 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balances	Due Within One Year
<b>Governmental activities:</b>					
Certificate of obligation	\$ 7,420,500	\$ -	\$ (180,000)	\$ 7,240,500	\$ 184,500
Less deferred amounts for issuance discounts	(16,006)	-	696	(15,310)	(696)
Vacation Payable	25,544	7,181	-	32,725	32,725
Note Payable	11,240	-	(3,671)	7,569	3,745
Capital lease obligations	241,133	28,277	(70,980)	198,430	66,280
	<u>7,682,411</u>	<u>35,458</u>	<u>(253,955)</u>	<u>7,463,914</u>	<u>286,554</u>
<b>Business-type activities:</b>					
Certificates of obligation	1,259,500	-	(50,000)	1,209,500	55,500
Less deferred amounts for issuance discounts	(1,778)	-	77	(1,701)	(77)
Capital lease obligations	11,734	-	(2,706)	9,028	2,852
Refundable contracts and escrows	26,000	-	-	26,000	-
Vacation Payable	6,209	779	-	6,988	6,988
	<u>1,301,665</u>	<u>779</u>	<u>(52,629)</u>	<u>1,249,815</u>	<u>65,263</u>
	<u>\$ 8,984,076</u>	<u>\$ 36,237</u>	<u>\$ (306,584)</u>	<u>\$ 8,713,729</u>	<u>\$ 351,817</u>

CITY OF OVILLA, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2004

NOTE 4 – DETAILED NOTES ON ALL FUNDS (continued)

F. Long-term debt (continued)

Certificates of obligation issued for governmental activity purposes are liquidated by the debt service fund. Certificates of obligations issued for business-type activities are repaid from those activities.

Governmental vacation payable and capital lease obligations will be liquidated by the general fund.

Among other provisions, the ordinances authorizing issuance of the City's certificates of obligation required the following:

Interest and Sinking Fund

This section requires substantially equal monthly transfers from the operating fund to the interest and sinking fund in the amount equal to the next maturing principal and interest payment for debt payments to be made from utility fund revenues pledged, per the ordinance authorizing issuance of the 2002 Combination Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation.

Requirements for interest and sinking accounts in connection with the certificates are as follows:

	Required at 9/30/2004	Actual at 9/30/2004	Excess or (Deficiency)
2002 Certificates of Obligation	\$ 9,413	\$ 16,264	\$ 6,851

G. Restricted assets

The balances of the restricted asset accounts in the utility fund are as follows:

Bond construction account	\$ 5,190,135
Bond debt service account	16,264
	\$ 5,206,399

CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 5 – OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

B. Commitments

The City has entered into a contract with the City of Cedar Hill, Texas to purchase treated water for a term of twenty years, expiring in 2011. The City pays for water based on the volume received. The City may terminate this contract at any time and obtain all its water supply from any other source. Within fifteen days of such termination, the City will remit all outstanding amounts owed for water service owed up to the date of termination. As additional consideration for the City's right to terminate the contract, the City agrees to pay the City of Cedar Hill monthly service charges as calculated in the contract, for a period of five years from the date of termination or until September 1, 2011, whichever occurs first.

Such obligation will continue in effect until one of the following events, whichever first occurs:

- a) The City pays the City of Cedar Hill for the remaining balance of the contract term; or
- b) Until the City of Cedar Hill absorbs the highest daily peak demand of the City prior to termination.

Purchases for the year ended September 30, 2004 totaled \$433,634.

The City has entered into a contract with the Trinity River Authority of Texas - Red Oak Creek Regional Wastewater System to obtain wastewater treatment services, expiring in 2017. In the contract, the Authority agreed to acquire and construct a regional wastewater treatment system to serve the City and other contractual parties, in the area of the watershed or drainage basin of Red Oak Creek, being a tributary of the Trinity River, and located in Ellis and Dallas Counties, Texas. The Trinity River Authority (TRA) is a governmental agency, which is controlled by directors appointed by the governor.

The City is responsible for a proportionate share of the system's annual operation, maintenance and debt service costs for the term of the contract. These costs are determined annually and are payable in monthly installments. The estimated future monthly payment due under the contract at September 30, 2004 totaled \$1,648.

Actual payments for the year ended September 30, 2004 were \$19,468.

CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 5 – OTHER INFORMATION (continued)

The payments to be received from the City of Ovilla are used as collateral for the bonds issued by TRA to construct the facility.

Complete separate financial statements for the Trinity River Authority may be obtained at Trinity River Authority of Texas, 5300 South Collins, P.O. Box 60, Arlington, Texas 76004.

C. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor, cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The City is a defendant in two lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City attorney the resolution of these matters will not have a material adverse effect on the financial condition of the City.

D. Texas Municipal Retirement System

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 over 794 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that may be obtained by writing to Texas Municipal Retirement System, P. O. Box 149153 Austin, Texas 78714-9153.

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

CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 5 – OTHER INFORMATION (continued)

D. Texas Municipal Retirement System (continued)

Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. 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.

Contributions -

The contribution rate for the employees is 7%, and the City matching percent is currently 1.5 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2003 valuation is effective for rates beginning January 2005).

Annual pension cost, net pension obligation:

Net Pension Obligation (NPO) at the Beginning of Period	\$		-
Annual Pension Cost:			
Annual required contribution (ARC)	\$	39,183	
Interest on NPO		-	
Adjustment to the ARC		-	39,183
Contributions Made			39,183
Increase in NPO			-
NPO at the end of the period	\$		-

CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 5 – OTHER INFORMATION (continued)

D. Texas Municipal Retirement System (continued)

Six year historical trend information is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/99	\$ 25,716	100%	\$ -
09/30/00	30,736	100%	-
09/30/01	39,351	100%	-
09/30/02	35,292	100%	-
09/30/03	38,602	100%	-
09/30/04	39,183	100%	-

Schedule of Actuarial Liabilities and Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)
12/31/1998	\$ 196,526	\$ 204,303	\$ 7,777
12/31/1999	261,325	282,867	21,542
12/31/2000	344,704	373,220	28,516
12/31/2001	393,850	427,490	33,640
12/31/2002	406,986	446,809	39,823
12/31/2003	501,407	544,240	42,833

Actuarial Valuation Date	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll {(b-a)/c}
12/31/1998	96.2%	\$ 407,613	1.9%
12/31/1999	92.4%	417,338	5.2%
12/31/2000	92.4%	521,887	5.5%
12/31/2001	92.1%	500,083	6.7%
12/31/2002	91.1%	529,503	7.5%
12/31/2003	92.1%	573,448	7.5%

CITY OF OVILLA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004

NOTE 5 – OTHER INFORMATION (continued)

D. Texas Municipal Retirement System (continued)

Significant actuarial assumptions and methods used in the valuation include:

- a. a rate of return on the investment of present and future assets of 7% per year compounded annually;
- b. the level percent of payroll amortization method with a 25 year remaining open amortization period;
- c. the amortized cost asset valuation method; and
- d. there were no cost of living adjustments, inflation adjustments, or projected salary increases.

E. Texas Statewide Emergency Services Personnel Retirement Fund

Plan Description and Contribution Information -

The Fire Fighters' Pension Commissioner is the administrator of the Texas Statewide Emergency Services Personnel Retirement Fund (Fund), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. The Fund does not issue a stand-alone financial report but is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. A report may be obtained by contacting the Texas Comptroller (Post Office Box 13528, Capitol Station, Austin, Texas 78711-3528). At August 31, 2004 there were 177 member fire or emergency services departments participating in the Fund. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2004, the Fund membership consisted of:

Retirees and beneficiaries currently receiving benefits*	1,557
Terminated participants entitled to benefits but not yet receiving them	1,827
Active participants (vested and nonvested)	<u>4,610</u>
	7,994

Senate Bill 411, 65th Legislature, Regular Session (1977), created the Fund, and established the applicable benefit provisions. These benefit provisions include retirement benefits as well as death and disability benefits. Members are vested beginning with the fifth year of service, at 5% per year of service for the first ten years and 10% for each of the next five years of service.



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NOTE 5 – OTHER INFORMATION (continued)

E. Texas Statewide Emergency Services Personnel Retirement Fund (continued)

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 7% compounded annually. On and off duty death benefits and on duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children. The Texas Legislature has authority to amend the benefit provisions.

Funding Policy -

Contribution provisions were established by S.B. 411, 65th Legislative, Regular Session (1977). No contributions are required by volunteer emergency services personnel. The governing bodies of participating departments are required to contribute at least \$12 per month for each active member and can elect to increase the monthly amount. Additional contributions may be required by a governing body to pay for unfunded prior service costs from a prior plan or to establish credit in the Fund for service prior to entry in the Fund. The State may also be required to make annual contributions up to a limited amount to make the fund actuarially sound. The costs of administering the Fund are paid from the Fund.

Annual Required Contributions -

For the fiscal year ending August 31, 2004 the required contributions of \$2,896,557.24 exceeded the total contributions (dues and prior services) of \$1,891,243 paid into the Fund, according to the funding policy, by the political subdivisions served by the member volunteer emergency services personnel.

Fiscal Year Ending August 31	Annual Required Contribution (ARC)	Percentage of ARC Contributed
1999	\$ 1,374,961	100%
2000	1,469,777	100%
2001	1,738,084	100%
2002	1,768,059	100%
2003	2,896,557	63%
2004	2,896,557	65%

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NOTE 5 – OTHER INFORMATION (continued)

E. Texas Statewide Emergency Services Personnel Retirement Fund (continued)

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability <sup>1</sup> (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Total Members Covered	UAAL Per Member Covered
	(a)	(b)	(b) - (a)	(a / b)	(c)	{(b-a)/c}
8/31/1999	N/A	N/A	N/A	N/A	N/A	N/A
8/31/2000	\$ 36,767,553	\$ 36,048,771	\$ (718,782)	102.0%	7,114	\$ (101)
8/31/2001	N/A	N/A	N/A	N/A	N/A	N/A
8/31/2002 <sup>2</sup>	32,797,262	45,976,387	13,179,125	71.3%	7,669	1,718
8/31/2003	N/A	N/A	N/A	N/A	N/A	N/A
8/31/2004	38,140,501	51,567,426	13,426,925	74.0%	7,994	1,680

Notes:

<sup>1</sup> The actuarial accrued liability is based upon the entry age actuarial cost method.

<sup>2</sup> Actuarial assumptions and methodology were changed for the August 31, 2002 valuation.

The required contributions for the fiscal year ending August 31, 2004 were actuarially determined based on the August 31, 2002 actuarial valuation with a 30-year amortization of the unfunded actuarial accrued liability. The purpose of the biennial actuarial valuation is to test the adequacy of the contributions to determine if they are adequate to fund the benefits that are promised. The actuarial assumptions are methods for the two most recent biennial valuations are shown below.

Significant actuarial assumptions and methods used in the valuation include:

- 1) The actuarial value of assets through August 31, 2004 is based upon the fair market value of the fund, smoothed by a 5-year deferred recognition method with a 90%/110% corridor on market value.
- 2) The actuarial cost method is based upon the entry age. The investment rate of return assumption was 8.00% and includes inflation at 4.00%.
- 3) Amortization method is level dollar, open basis, and the remaining amortization period is infinity.