

CITY OF BRUCEVILLE-EDDY, TEXAS

FINANCIAL STATEMENTS

September 30, 2009

TOGETHER WITH INDEPENDENT AUDITORS' REPORT THEREON

AND SUPPLEMENTARY INFORMATION

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Independent Auditors' Report

Honorable Mayor and
Members of the City Council
City of Bruceville-Eddy, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bruceville-Eddy, Texas (the City) as of September 30, 2009, and for the nine months then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bruceville-Eddy, Texas as of September 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the general fund for the nine months then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, schedule of funding progress, and budgetary comparison information 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Brockway, Gersbach, Franklin & Niemeier, P.C.

July 14, 2010

**Management's Discussion and Analysis
City of Bruceville-Eddy, Texas**

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial Report, we, the managers of City of Bruceville-Eddy, Texas, discuss and analyze the City's financial performance for the nine month period from January 1, 2009 through September 30, 2009. Please read it in conjunction with the Independent Auditors' Report on page 1, and the City's Basic Financial Statements which begin on page 12.

FINANCIAL HIGHLIGHTS

- The City's net assets increased by \$ 46,003 as a result of this period's operations.
- The General Fund ended the period with a fund balance of \$ 372,306.
- During the period from January 1, 2009 through September 30, 2009, the City had expenses that were \$ 42,912 more than the \$ 287,717 generated in tax and other revenues for governmental programs.
- The total cost of all the City's programs was \$ 1,265,988. Of this amount, \$ 1,077,813 was directly attributed to Public Safety (Police Department) and Water Services. The remainder of the cost was mainly for general government and street repair.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 12 through 14) These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 15) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. Proprietary statements provide the same type of information as the government-wide financial statements, only in more detail.

The notes to the financial statements (starting on page 24) provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements.

Management's Discussion and Analysis
City of Bruceville-Eddy, Texas

USING THIS ANNUAL REPORT (continued)

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 12. Its primary purpose is to show whether the City is better or worse off as a result of the period's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the period while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the period.

All of the current period's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes). Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting.

These two statements report the City's net assets and the changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider nonfinancial factors as well, such as changes in the property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities.

Governmental activities—Most of the City's basic services are reported here, including the police, streets, culture & recreation, and general government. Property taxes, sales taxes and franchise fees finance most of these activities.

Business-type activities - The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water system activities are reported here.

**Management's Discussion and Analysis
City of Bruceville-Eddy, Texas**

USING THIS ANNUAL REPORT (continued)

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by state law and by bond covenants. The City's two kinds of funds - governmental, and proprietary - utilize different accounting approaches.

Governmental funds—The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

Proprietary funds - The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net assets were \$ 1,993,709 as of September 30, 2009. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business-type activities net assets are \$ 1,403,146 and the governmental activities net assets are \$ 590,563. The following condensed financial statements focuses on the net assets (Table I) and general revenues and significant expenses of the City's governmental and business-type activities (Table II) as of and for the nine month period ended September 30, 2009. A comparative analysis will be made in future years when prior year information becomes available.

**Management's Discussion and Analysis
City of Bruceville-Eddy, Texas**

Table I

NET ASSETS

	Governmental Activities 2009	Business-type Activities 2009	Total Primary Government 2009
Current and other assets	\$ 423,277	\$ 521,686	\$ 944,963
Noncurrent and capital assets	260,903	1,404,469	1,665,372
Total assets	684,180	1,926,155	2,610,335
Other liabilities	45,220	99,009	144,229
Long-term liabilities	48,397	424,000	472,397
Total liabilities	93,617	523,009	616,626
Net Assets:			
Invested in capital assets, net of related debt	212,506	980,469	1,192,975
Restricted	5,703	102,251	107,954
Unrestricted	372,354	320,426	692,780
Total net assets	<u>\$ 590,563</u>	<u>\$ 1,403,146</u>	<u>\$ 1,993,709</u>

**Management's Discussion and Analysis
City of Bruceville-Eddy, Texas**

Table II

CHANGE IN NET ASSETS

	Governmental Activities 2009	Business-type Activities 2009	Total Primary Government 2009
Revenues:			
Program Revenues			
Charges for services	\$ 122,781	\$ 1,018,459	\$ 1,141,240
General Revenues:			
Property tax	22,161	-	22,161
Sales tax	51,559	-	51,559
Other taxes	58,177	-	58,177
Investment earnings	1,671	559	2,230
Miscellaneous	31,368	5,256	36,624
Total Revenue	287,717	1,024,274	1,311,991
Expenses:			
General government	169,518	-	169,518
Public safety	142,454	-	142,454
Highways and streets	14,682	-	14,682
Culture and recreation	1,451	-	1,451
Interest on long-term debt	2,524	-	2,524
Water	-	935,359	935,359
Total Expenses	330,629	935,359	1,265,988
Change in net assets	(42,912)	88,915	46,003
Net assets - beginning	633,475	1,314,231	1,947,706
Net assets - ending	\$ 590,563	\$ 1,403,146	\$ 1,993,709

**Management's Discussion and Analysis
City of Bruceville-Eddy, Texas**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

A large portion of the City's net assets (60 percent) reflect its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (5 percent) represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net assets*, \$ 692,780, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the fiscal period, the City is able to report positive balances in all three categories of net assets for the government as a whole.

For the period from January 1, 2009, through September 30, 2009, revenues from governmental activities totaled \$ 287,717. Charges for public safety services account for 43% of these revenues, while property taxes account for 46% of the total.

For the period ending September 30, 2009, expenses for governmental activities totaled \$ 330,629. The City's three largest funded programs are for general government, public safety, and streets.

Revenues of the City's business-type activities were \$ 1,024,274 for the fiscal period ending September 30, 2009. Expenses for the City's business-type activities were \$ 935,359. The City's largest business-type activities expense is the purchase of water.

THE CITY'S FUNDS

As the City completed the period, its governmental fund (as presented in the balance sheet on page 15) reported a fund balance of \$ 372,306 which is higher than last year's total of \$ 312,846.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2009, the City had \$ 1,665,372 invested in a broad range of capital assets, including facilities and equipment and land. This amount represents a net decrease of \$ 60,333 due to current period depreciation being greater than purchases. This period's major additions include purchases of \$ 43,406 for machinery and equipment.

**Management's Discussion and Analysis
City of Bruceville-Eddy, Texas**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Debt

At period-end, the City had \$ 472,397 in bonds and notes outstanding versus \$ 514,800 last year which is a decrease due to current period principal payments exceeding new financing.

More detailed information about the City's long-term liabilities is presented in the Notes to the Financial Statements starting on page 33.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered population growth and available resources from water, public safety and tax revenues when setting the fiscal year 2010 budget and tax rate.

The City adopted a \$ 1,510,700 combined budget for fiscal year 2010. It will be funded through property taxes, water and utility charges, and other local revenues.

If the City does not incur any unforeseen expenditures or reductions in revenue, current revenues should cover current expenses with no change in the General Fund fund balance and an estimated \$19,816 increase in the Water Fund net assets.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office at City of Bruceville-Eddy, 143 Wilcox Drive, # A, Bruceville-Eddy, Texas 76524.

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BASIC FINANCIAL STATEMENTS

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CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF NET ASSETS
September 30, 2009

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 405,053	\$ 286,772	\$ 691,825
Receivables, net of allowance for uncollectibles:			
Accounts	7,853	113,894	121,747
Other	4,668	-	4,668
Cash and cash equivalents - restricted	5,703	102,251	107,954
Deferred charges	-	18,769	18,769
Capital assets, not being depreciated:			
Land and improvements	48,710	40,282	88,992
Capital assets, net of accumulated depreciation:			
Buildings and improvements	63,404	43,059	106,463
Machinery and equipment	76,746	29,459	106,205
Water facilities	-	1,291,669	1,291,669
Infrastructure	72,043	-	72,043
Total capital assets	<u>260,903</u>	<u>1,404,469</u>	<u>1,665,372</u>
Total Assets	684,180	1,926,155	2,610,335
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	43,900	79,251	123,151
Customer deposits	-	19,100	19,100
Compensated absences	1,320	658	1,978
Noncurrent liabilities:			
Due within one year	12,969	53,000	65,969
Due in more than one year	35,428	371,000	406,428
Total Liabilities	<u>93,617</u>	<u>523,009</u>	<u>616,626</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	212,506	980,469	1,192,975
Restricted for:			
Court technology and building security	5,686	-	5,686
Drug enforcement	17	-	17
Debt service	-	102,251	102,251
Unrestricted	<u>372,354</u>	<u>320,426</u>	<u>692,780</u>
Total Net Assets	<u>\$ 590,563</u>	<u>\$ 1,403,146</u>	<u>\$ 1,993,709</u>

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

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF ACTIVITIES
For the Nine Months Ended September 30, 2009

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<u>Functions/Programs</u>			
Primary government:			
Governmental activities:			
General government	\$ 169,518	\$ 495	\$ -
Public safety	142,454	122,286	-
Highways and streets	14,682	-	-
Culture and recreation	1,451	-	-
Interest on long-term debt	2,524	-	-
Total governmental activities	330,629	122,781	-
Business-type activities:			
Water Utility	935,359	1,018,459	-
Total business-type activities	935,359	1,018,459	-
 Total primary government	 \$1,265,988	 \$1,141,240	 \$ -

General revenues:
 Property taxes
 Sales and miscellaneous taxes
 Franchise taxes
 Investment income
 Miscellaneous
 Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

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

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (169,023)	\$ -	\$ (169,023)
(20,168)	-	(20,168)
(14,682)	-	(14,682)
(1,451)	-	(1,451)
(2,524)	-	(2,524)
<u>(207,848)</u>	<u>-</u>	<u>(207,848)</u>
-	83,100	83,100
<u>-</u>	<u>83,100</u>	<u>83,100</u>
(207,848)	83,100	(124,748)
22,161	-	22,161
51,559	-	51,559
58,177	-	58,177
1,671	559	2,230
31,368	5,256	36,624
<u>164,936</u>	<u>5,815</u>	<u>170,751</u>
(42,912)	88,915	46,003
<u>633,475</u>	<u>1,314,231</u>	<u>1,947,706</u>
<u>\$ 590,563</u>	<u>\$ 1,403,146</u>	<u>\$ 1,993,709</u>

**CITY OF BRUCEVILLE-EDDY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2009**

	General Fund
<u>ASSETS</u>	
Cash	\$ 405,053
Cash - restricted	5,703
Receivables, net of allowance for uncollectibles:	
Taxes	7,853
Other	4,668
Total Assets	\$ 423,277
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Accounts payable	\$ 7,231
Deferred revenue	7,853
Other accrued liabilities	35,887
Total Liabilities	50,971
Fund Balance:	
Reserved for:	
Court technology and building security	5,686
Drug enforcement	17
Unreserved, reported in:	
General fund	366,603
Total Fund Balance	372,306
Total Liabilities and Fund Balance	\$ 423,277

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

CITY OF BRUCEVILLE-EDDY, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
September 30, 2009

Total fund balance-governmental fund (page 15) \$ 372,306

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. These assets consist of:

Land	\$ 48,710	
Buildings	110,844	
Equipment	209,021	
Infrastructure	90,830	
Accumulated depreciation	<u>(198,502)</u>	
Total capital assets	<u>\$ 260,903</u>	260,903

Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year end. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected.

Property taxes not collected	<u>\$ 7,853</u>	7,853
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Some long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Notes payable	<u>\$ (48,397)</u>	(48,397)
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Accrued interest is not due and payable in the current period and therefore is not reported in the funds.

Accrued interest	<u>\$ (782)</u>	(782)
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Accrued vacation and comp time payable is not due and payable in the current period and therefore is not reported in the funds.

Compensated absences	<u>\$ (1,320)</u>	<u>(1,320)</u>
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Net assets of governmental activities (page 12) \$ 590,563

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

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Nine Months Ended September 30, 2009

	<u>General Fund</u>
<u>Revenues</u>	
Ad valorem tax	\$ 142,814
Sales tax	51,559
Franchise tax	58,177
Fines and forfeitures	122,286
Licenses and permits	495
Interest income	1,671
Lease and miscellaneous income	17,633
	<hr/>
Total Revenues	394,635
 <u>Expenditures</u>	
Current:	
General government	165,177
Public safety	174,281
Streets	15,308
Culture and recreation	-
Debt service:	
Principal	40,828
Interest and fiscal charges	1,742
	<hr/>
Total Expenditures	397,336
	<hr/>
Excess (deficiency) of revenues over (under) expenditures	(2,701)
 <u>Other Financing Sources</u>	
Proceeds from capital lease	48,425
Proceeds from insurance claims	13,736
	<hr/>
Total Other Financing Sources	62,161
	<hr/>
Net Change in Fund Balance	59,460
	 <hr/>
Fund Balance- beginning of year	312,846
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Fund Balance- end of year	\$ 372,306
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The accompanying notes are an integral part of the financial statements.

CITY OF BRUCEVILLE-EDDY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
For the Nine Months Ended September 30, 2009

Net change in fund balance - total governmental fund (page 17) \$ 59,460

Amounts reported for governmental activities in the statement of activities (pages 13-14) 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 by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 46,541	
Depreciation expense	(18,561)	
	<u>\$ 27,980</u>	27,980

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes not collected	\$ 7,853	
Less prior year	(128,506)	
	<u>\$ (120,653)</u>	(120,653)

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.

Accrued interest	\$ (782)	
Increase in compensated absences liability	(1,320)	
	<u>\$ (2,102)</u>	(2,102)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Loan proceeds	\$ (48,425)	(48,425)
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Repayment of the principal of long-term debt consumes the current financial resources of governmental funds but reduces the long-term liability in the statement of activities.

Debt service - principal	\$ 40,828	40,828
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Change in net assets of governmental activities (pages 13-14)	<u>\$ (42,912)</u>	<u>(42,912)</u>
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The accompanying notes are an integral part of the financial statements.

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2009

	Business-type Activities Water Fund
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 286,772
Accounts receivable, net	113,894
Deferred charges - bond issue costs	17,428
Prepaid expenses	1,341
Total current assets	419,435
Noncurrent assets:	
Restricted cash and cash equivalents	102,251
Capital assets, net	1,404,469
Total Assets	1,926,155
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	8,796
Accrued liabilities	70,455
Customer deposits	19,100
Liabilities payable from restricted assets:	
Revenue bonds payable - current portion	53,000
Total current liabilities	151,351
Noncurrent liabilities:	
Compensated absences	658
Liabilities payable from restricted assets:	
Revenue bonds payable	371,000
Total Liabilities	523,009
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	980,469
Restricted for debt service	102,251
Unrestricted	320,426
Total Net Assets	\$ 1,403,146

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

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
For the Nine Months Ended September 30, 2009

	Business-type Activities Water Fund
<u>Operating Revenues</u>	
Water	\$ 928,473
Garbage	74,809
Water tap fees	4,550
Other operating revenues	10,627
	1,018,459
 <u>Operating Expenses</u>	
Water purchases	424,326
Water system utilities	55,544
Water system supplies	33,946
Repairs and maintenance	14,767
Other water system expenses	3,216
Personnel and support	129,271
Professional fees	36,271
Administrative expenses	44,909
Garbage collection fees	69,099
Depreciation and amortization	92,311
	903,660
 Operating Income	 114,799
 <u>Nonoperating Revenues (Expenses)</u>	
Interest income	559
Interest expense	(28,043)
Donations emergency services income	3,656
Donations emergency services expense	(3,656)
Grant Revenue	1,600
Total Nonoperating Revenues (Expenses)	(25,884)
 Change in Net Assets	 88,915
 Net Assets - beginning	 1,314,231
 Net Assets - ending	 \$ 1,403,146

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

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Nine Months Ended September 30, 2009

	Business-type Activities Water Fund
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 1,004,280
Cash paid to suppliers	(670,219)
Cash paid to employees	(100,853)
Net Cash Provided by Operating Activities	233,208
 <u>Cash Flows from NonCapital Financing Activities</u>	
Intergovernmental loan	64,057
Grant and contribution income	5,256
Contribution expense	(3,656)
Net Cash Provided by NonCapital Financing Activities	65,657
 <u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition of capital assets	(2,841)
Payments on long-term bonds	(50,000)
Interest paid	(28,043)
Net Cash Used by Capital and Related Financing Activities	(80,884)
 <u>Cash Flows from Investing Activities</u>	
Interest received	559
Net Cash Provided by Investing Activities	559
 Net Increase in Cash and Cash Equivalents	218,540
 Cash and cash equivalents - beginning of year	68,232
 Cash and cash equivalents - end of year	\$ 286,772

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

**CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND (CONTINUED)
For the Nine Months Ended September 30, 2009**

	Water Fund
<u>Reconciliation of operating income to net cash provided</u>	
<u>by operating activities:</u>	
Operating income	\$ 114,799
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	91,154
Increase in accounts receivable	(16,485)
Decrease in prepaid expenses	328
Decrease in other current assets	20,245
Decrease in accounts payable	(1,168)
Increase in accrued liabilities	22,029
Increase in customer deposits	2,306
Total Adjustments	118,409
 Net Cash Provided by Operating Activities	 \$ 233,208

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**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Bruceville-Eddy, Texas (the City) was incorporated in 1974 for the purpose of providing public safety, water and sanitation services, planning and general administrative services. The City's present population is approximately 1,570, and it serves approximately 2,032 metered customers.

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements of the City.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the City prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the City's nonfiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, grants and other intergovernmental revenues. Business-type activities include programs supported by primarily water revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include water payments, police fines, etc. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet. All interfund transactions between governmental funds are eliminated on the government-wide statements.

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

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after period end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

D. FUND ACCOUNTING

The City reports the following major governmental fund:

General Fund - 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 City reports the following major proprietary fund:

Water Fund - used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability.

CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FUND ACCOUNTING (CONTINUED)

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.

Reserved fund balances represent a portion of fund equity that is legally segregated for a specific future use or is not appropriable for expenditures. The following is a list of reserves used by the City and a description of each:

Fund Balance Reserves:

Debt Service- Funds reserved for the retirement of general long-term debt.

Court Technology and Building Security- Funds reserved for the purchase of goods and services that will benefit the court from specific court fees.

Drug Enforcement- Funds reserved for drug enforcement costs from restricted revenues.

E. OTHER ACCOUNTING POLICIES

1. The City follows these procedures in establishing the budgetary data reflected in the financial statements:
 - a. Prior to the beginning of each fiscal year, the Mayor submits to the City Council a proposed budget for the fiscal year beginning on the following October 1 (formerly January 1). The operating budget includes proposed expenditures and the means of financing those expenditures.
 - b. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
 - c. The budget is legally enacted by the City Council.
 - d. Budget revisions may be made during the period.
2. For purposes of the statement of cash flows, cash and cash equivalents include all cash and certificates of deposit having an original maturity date of less than three months.
3. Water utility customers deposits are restricted to disbursements for the application to customer account balances or refund to the customer. Amounts transferred to sinking fund cash accounts are restricted to paying for debt service on the revenue bonds indebtedness.

CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. OTHER ACCOUNTING POLICIES (CONTINUED)

4. The City's proprietary fund distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the City's water fund consist of charges for services (including tap fees) and the cost of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.
5. Fixed assets of the City are capitalized at cost. Gifts or contributions of fixed assets are recorded at fair market value at the time received. Repairs which do not increase the value or extended the life of such assets are charged against revenues in the year in which they are incurred. The City has elected to report major general infrastructure assets on a prospective basis.

Depreciation expense on the assets of the Primary Government is calculated by using the straight-line method and is based on estimated useful lives as follows:

<u>Category</u>	<u>Life</u>
Building and improvements	10-30 years
Machinery and equipment	3-10 years
Water facilities	30 years
Infrastructure	20 years

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The City adopts its annual budget on a basis consistent with accounting principles generally accepted in the United States of America (GAAP basis). All annual appropriations lapse at fiscal year-end. The appropriated budget is prepared by fund and function. The legal level of budgetary control is the fund level. The original budget for 2009 covered a full year ending December 31, 2009. Subsequently the City's fiscal year end date was revised from December 31 to September 30 and the 2009 fiscal period was changed to nine months. The Council made supplemental budgetary appropriations throughout the period for the General Fund and the Water Fund, however, the entire budget was not revised to reflect nine months rather than a twelve month period. In addition to the Water Fund operating budget, the City also anticipated \$50,000 in principal payments on the bond as part of its budget process. This liability reduction is not reflected on GAAP basis budgetary statements. The following budget amendments were significant:

- The budget for salaries and wages was transferred from a public safety expense (the police department) to a general government expense (administrative), though governmental reporting requires that expenditures are reported by function (i.e. general government vs. public safety).

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The City over-expended its budget as follows:

General Fund

General govt. repairs and maintenance	\$ 678
Payroll taxes and insurance - police department	\$ 1,381
Public safety equipment	\$ 1,628
Public safety repairs and maintenance	\$ 894
Debt service - principal	\$ 15,828
Debt service - interest	\$ 1,742

Proprietary Water Fund

Water purchases	\$ 4,326
Administrative expenses	\$ 5,159
Garbage collection fees*	\$ 69,099
Interest expense	\$ 3,043

* Garbage collection fees were not budgeted, but rather the corresponding revenue budget was reduced by anticipated expenditures.

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

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 solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. 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.

CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

III DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. DEPOSITS AND INVESTMENTS (CONTINUED)

Additional Contractual Provisions governing deposits and investments are as follows:

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's 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.

Policies Governing Deposits and Investments

1. Foreign Currency Risk – The City's deposits and investments are not exposed to foreign currency risk.
2. Custodial Credit Risk – The City's policy is to be collateralized. The City was not fully collateralized during the period.
3. Interest Rate Risk – The City has no debt securities which have interest rate risk.
4. Other Credit Risk Exposure – The City does not invest in debt securities.
5. Concentration Risk – The City's deposits and investments are exposed to concentration risk in that they are all deposited with the same bank.

Deposits Credit Risk

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

- Category 1 Deposits which are insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the City's cash deposits are classified as Category 1.

Deposits are stated at cost plus accrued interest and the carrying amounts are displayed on the balance sheet as "Cash and Cash Equivalents." Following is a summary of the City's deposits, by category:

1. Insured by FDIC	\$ 250,000
2. Collateralized by pledged securities	317,460
3. Uninsured and uncollateralized	<u>231,820</u>
 Total Bank Balance	 <u>\$ 799,280</u>
 Carrying Amount	 <u>\$ 799,779</u>

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. RESTRICTED CASH

The City had restricted cash of \$ 102,251 in the Water Fund and \$ 5,703 in the General Fund as of September 30, 2009. The restrictions stem from the need to protect customer utility deposits, to set aside a reserve for the payment of interest and principal on bonded indebtedness, and to set aside monies that are restricted by revenue sources as to use.

C. RECEIVABLES

Receivables at period end for the government's individual major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Water Fund
Receivables:		
Taxes	\$ 21,346	\$ -
Accounts	4,668	113,894
Less: allowance for uncollectibles	(13,493)	-
Net total receivables	\$ 12,521	\$ 113,894

D. 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."

As of September 30, 2009, there were no outstanding internal balances between funds.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. CAPITAL ASSETS

Capital asset activity for the period from January 1, 2009 through September 30, 2009 was as follows:

	Beginning Balance	Additions	(Deletions)	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 48,710	\$ -	\$ -	\$ 48,710
Total capital assets, not being depreciated	<u>48,710</u>	<u>-</u>	<u>-</u>	<u>48,710</u>
Capital assets, being depreciated:				
Buildings and improvements	110,844	-	-	110,844
Machinery and equipment	216,071	42,365	(49,415)	209,021
Infrastructure	86,654	4,176	-	90,830
Total capital assets, being depreciated	<u>413,569</u>	<u>46,541</u>	<u>(49,415)</u>	<u>410,695</u>
Less accumulated depreciation for:				
Buildings and improvements	(44,826)	(2,614)	-	(47,440)
Machinery and equipment	(168,992)	(12,698)	49,415	(132,275)
Infrastructure	(15,538)	(3,249)	-	(18,787)
Total accumulated depreciation	<u>(229,356)</u>	<u>(18,561)</u>	<u>49,415</u>	<u>(198,502)</u>
Total capital assets, being depreciated, net	<u>184,213</u>	<u>27,980</u>	<u>-</u>	<u>212,193</u>
Governmental activities capital assets, net	<u>\$ 232,923</u>	<u>\$ 27,980</u>	<u>\$ -</u>	<u>\$ 260,903</u>

CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. CAPITAL ASSETS (CONTINUED)

	Balance	Additions	(Deletions)	Balance
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 40,282	\$ -	\$ -	\$ 40,282
Construction in progress	151,543	1,600	(153,143)	-
Total capital assets, not being depreciated	191,825	1,600	(153,143)	40,282
Capital assets, being depreciated:				
Buildings and improvements	126,738	-	-	126,738
Water facilities	2,902,511	-	153,143	3,055,654
Machinery and equipment	218,993	1,241	(2,662)	217,572
Total capital assets, being depreciated	3,248,242	1,241	150,481	3,399,964
Less accumulated depreciation for:				
Buildings and improvements	(75,298)	(8,381)	-	(83,679)
Water facilities	(1,691,769)	(72,216)	-	(1,763,985)
Machinery and equipment	(180,218)	(10,557)	2,662	(188,113)
Total accumulated depreciation	(1,947,285)	(91,154)	2,662	(2,035,777)
Total capital assets, being depreciated, net	1,300,957	(89,913)	153,143	1,364,187
Business-type activities capital assets, net	\$ 1,492,782	\$ (88,313)	\$ -	\$ 1,404,469

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

Governmental activities:

General government	\$ 3,022
Public safety	10,538
Highways and streets	3,550
Culture and recreation	1,451
Total depreciation expense - governmental activities	\$ 18,561

Business-type activities:

Water and sewer	\$ 91,154
Total depreciation expense - business-type activities	\$ 91,154

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. LONG-TERM DEBT

The City's long-term debt at September 30, 2009 is comprised of the following individual issues:

General Government Notes Payable:

\$ 20,425 refinance of auto loan with local bank, maturing March 2012;
payable \$ 7,436 principal and interest annually; interest at 5%,
secured by automobile \$ 20,397

\$ 28,000 auto loan with local bank; maturing June 2013; payable \$ 7,923
principal and interest annually; interest at 5%, secured by automobile 28,000

Proprietary Water Fund Revenue Bonds:

\$ 750,000 Series 2001 Certificates of Obligation, maturing October 2016;
15 certificates with interest rates varying from 5.75% to 6%; payable
between \$ 73,151 to \$ 78,168 principal and interest annually;
secured by the revenues of the City's water system 424,000

Total Long-term Debt \$ 472,397

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. LONG-TERM DEBT (CONTINUED)

Debt service requirements to maturity for the above long-term debt are as follows:

General Government Note Payable 1 of 2

Year Ending	Principal	Interest	Total
September 30			
2010	\$ 6,583	\$ 853	\$ 7,436
2011	6,728	708	7,436
2012	7,086	364	7,450
Total	<u>\$ 20,397</u>	<u>\$ 1,925</u>	<u>\$ 22,322</u>

General Government Note Payable 2 of 2

Year Ending	Principal	Interest	Total
September 30			
2010	\$ 6,386	\$ 1,537	\$ 7,923
2011	6,814	1,109	7,923
2012	7,162	761	7,923
2013	7,638	391	8,029
Total	<u>\$ 28,000</u>	<u>\$ 3,798</u>	<u>\$ 31,798</u>

Revenue Bonds - Series 2001

Year Ending	Principal	Interest	Total
September 30			
2010	\$ 53,000	\$ 25,168	\$ 78,168
2011	56,000	22,120	78,120
2012	57,000	18,952	75,952
2013	60,000	15,480	75,480
2014	63,000	11,880	74,880
2015	66,000	8,100	74,100
2016	69,000	4,151	73,151
Total	<u>\$ 424,000</u>	<u>\$ 105,851</u>	<u>\$ 529,851</u>

CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. LONG-TERM DEBT (CONTINUED)

There are a number of limitations and restrictions contained in the various bond indentures, including, among others, the requirements of the payment of principal and interest from the ad valorem tax levy or from the net revenues of the water fund and the provision of certain reserve funds. The City is in compliance with all such significant financial limitations and restrictions. There is no specific maximum debt limit established by law for the City, therefore, the limit is governed by the City's ability to levy and collect taxes to service the debt.

Changes in long-term liabilities

Long-term liability activity for the period ended September 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental activities:					
Notes payable	\$ 40,800	\$ 48,425	\$ (40,828)	\$ 48,397	\$ 12,969
Governmental activity long-term liabilities	<u>\$ 40,800</u>	<u>\$ 48,425</u>	<u>\$ (40,828)</u>	<u>\$ 48,397</u>	<u>\$ 12,969</u>
Business-type activities:					
Revenue bonds payable	\$ 474,000	\$ -	\$ (50,000)	\$ 424,000	\$ 53,000
Business-type activity long-term liabilities	<u>\$ 474,000</u>	<u>\$ -</u>	<u>\$ (50,000)</u>	<u>\$ 424,000</u>	<u>\$ 53,000</u>
Total long-term liabilities	<u>\$ 514,800</u>	<u>\$ 48,425</u>	<u>\$ (90,828)</u>	<u>\$ 472,397</u>	<u>\$ 65,969</u>

G. PROPERTY TAXES

The appraisal of property within the City is the responsibility of the McLennan County Appraisal District (the "District"). The District is required under the Property Tax Code to assess all property within the District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the District must be reviewed every four years.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. The net assessed value, net of exemptions, upon which the fiscal year ended September 30, 2009, levy was based was \$ 48,798,333. The tax rate for the 2009 tax roll was \$ 0.442618 per \$ 100 of assessed value.

Property taxes not collected in the current period are considered not to be available, and therefore, are not accrued as revenue in the current period. Since the City recognizes taxes as revenues only when collected, an allowance for current and delinquent taxes receivable at the end of the period has been established. On the government-wide statements, the amount deferred in the fund statements is recognized as revenue.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. PROPERTY TAXES (CONTINUED)

The City has contracted with the McLennan County Appraisal District to collect ad valorem taxes on behalf of the City. The City paid the Appraisal District \$ 1,842 for these services during the period from January 1, 2009, through September 30, 2009.

H. PENSION PLAN

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS. TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P. O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows (as of February 1, 2009):

	Plan Year 2008	Plan Year 2009
Employee deposit rate:	7.0%	7.0%
Matching Ratio (City to Employee):	1.5 to 1	1.5 to 1
Years required for vesting:	5	5
Updated Service Credit:	100% repeating, transfers	100% repeating, transfers
Annuity Increase (to retirees)	0% of CPI	0% of CPI

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

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

H. PENSION PLAN (CONTINUED)

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity increases. The City's actuarially determined rate is 6.14% for 2008, 6.82% for 2009, and 2.65% for 2010. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2007 valuation is effective for rates beginning January 2009). The City contributes at 100% of the annual required contribution, so the net pension obligation continues to be \$ 0. The pension cost for January 1, 2009 through September 30, 2009, was \$ 16,626.

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefit Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBG by adopting an ordinance before November 1 of any year to be effective the following January 1. The death benefits for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$ 7,500.

See the Schedule of Funding Progress on Page 41 for additional information.

CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

I. COMMITMENTS

The City has entered into a long-term agreement to purchase water from a water supply company. The contract requires the City to take and/or pay for a minimum quantity of water. The cost of water per gallon is based each year on the amount the water supply corporation needs to recover all operation and maintenance expenses and debt service of the system (i.e. its annual requirement). The water supply company's net annual requirement divided by all contracting parties' minimum take (annual water purchases in gallons) determines the rate per gallon each year. Based on the estimated annual requirements of the water supply company (estimated \$ 2.70 per thousand gallons) and the minimum take (147,036,000 gallons) for the City, the City is committed to pay an estimated \$ 396,997 for water during calendar year 2009 under this contract.

J. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other governments in Texas to form the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability, property and workers' compensation coverage. The City pays a quarterly contribution to the pool for its insurance coverage. The agreement for formation of the Texas Municipal League Intergovernmental Risk Pool provides the Pool will be self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits.

The Texas Municipal League Intergovernmental Risk Pool has published its own financial report, which can be obtained by writing to the Texas Municipal League Intergovernmental Risk Pool, 1821 Rutherford Lane, Austin, Texas 78754.

For the period ended September 30, 2009, the City received \$ 13,736 related to insurance claims for loss of a transmitter tower from a storm and vandalism to City Hall. The insurance proceeds were used to purchase a new tower and to repair vandalism damage.

K. COMPENSATED ABSENCES

Employees accrue vacation leave based on the number of years employed up to a maximum of 20 days per year. The accrual year starts with the date employee starts full-time and subsequent anniversary dates. Employees may carry over earned vacation past the accrual year with approval of Mayor and Council. However, the accrual is not to exceed forty days beyond the end of the fiscal year. Upon separation from service employees are paid for any unused vacation time. Vested vacation is recorded in the proprietary fund as a liability and expense and in the government fund as a fund liability and expenditure, if payable from current resources. The value of the earned and unused portion of governmental compensated absences at year-end is reported as a governmental activity non-current liability.

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BRUCEVILLE-EDDY, TEXAS
SCHEDULE OF FUNDING PROGRESS
TMRS PENSION PLAN (UNAUDITED)
September 30, 2009**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (c)=(a/b)	Unfunded (Over-funded) AAL (UAAL) (d)=(b-a)	Covered Payroll (e)	UAAL as a Percentage of Covered Payroll (d)/(e)
12/31/06	\$ 447,132	\$ 481,683	92.8%	\$ 34,551	\$ 363,855	9.5%
12/31/07	\$ 506,239	\$ 525,465	96.3%	\$ 19,226	\$ 368,372	5.2%
12/31/08	\$ 313,719	\$ 270,702	115.9%	\$ (43,017)	\$ 261,711	-16.4%

Actuarial Assumptions

Valuation Date:	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>
Actuarial Cost Method:	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method:	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period:	25 years; open period	25 years; closed period	24 years; closed period
Asset Valuation Method:	Amortized Cost	Amortized Cost	Amortized Cost
Actuarial Assumptions: Investment Rate of Return: *	7.0%	7.0%	7.5%
Projected Salary Increases: *	Varies by age and service	Varies by age and service	Varies by age and service

* Includes 3% inflation and no cost of living adjustments

See independent auditors' report.

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CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND – BUDGETARY BASIS
For the Nine Months Ended September 30, 2009

	2009			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
<u>Revenues</u>				
Property taxes	\$ 205,000	\$ 205,000	\$ 142,814	\$ (62,186)
Sales and miscellaneous taxes	70,000	70,000	51,559	(18,441)
Franchise taxes	65,000	65,000	58,177	(6,823)
Fines and forfeitures	106,000	106,000	122,286	16,286
Licenses and permits	-	-	495	495
Charges for services	1,000	-	-	-
Interest income	3,600	3,600	1,671	(1,929)
Lease and miscellaneous income	14,250	14,250	17,633	3,383
Total Revenues	464,850	463,850	394,635	(69,215)
<u>Expenditures</u>				
General government:				
Salaries & wages	-	123,000	78,256	44,744
Payroll taxes and insurance	7,200	18,300	17,916	384
Administrative costs	36,500	35,600	18,530	17,070
Utilities	25,000	24,500	21,487	3,013
Legal and accounting	20,000	25,600	15,310	10,290
Repairs and maintenance	11,100	13,000	13,678	(678)
Public safety:				
Salaries & wages	110,000	82,290	78,710	3,580
Payroll taxes and insurance	17,900	9,900	11,281	(1,381)
Operating costs	152,375	41,875	40,448	1,427
Equipment	4,500	4,500	6,128	(1,628)
Repairs and maintenance	3,200	3,700	4,594	(894)
Highways and streets:				
Streets	50,000	16,500	15,308	1,192
Capital outlay:				
Fixed asset expenditures	-	33,500	33,120	380
Debt service:				
Principal	25,000	25,000	40,828	(15,828)
Interest	-	-	1,742	(1,742)
Total Expenditures	462,775	457,265	397,336	59,929
Excess (deficiency) of revenues over (under) expenditures	2,075	6,585	(2,701)	(9,286)

See independent auditors' report.

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND – BUDGETARY BASIS (CONTINUED)
For the Nine Months Ended September 30, 2009

	2009			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
<u>Other Financing Sources</u>				
Proceeds from capital loans	\$ -	\$ -	\$ 48,425	\$ 48,425
Proceeds from insurance claims	-	-	13,736	13,736
Total Other Financing Sources	-	-	62,161	62,161
Net Change in Fund Balance	2,075	6,585	59,460	52,875
Fund Balance - beginning of year	312,846	312,846	312,846	-
Fund Balance - end of year	<u>\$ 314,921</u>	<u>\$ 319,431</u>	<u>\$ 372,306</u>	<u>\$ 52,875</u>

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS – BUDGET AND ACTUAL
PROPRIETARY FUND – BUDGETARY BASIS
For the Nine Months Ended September 30, 2009

	2009			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
<u>Operating Revenues</u>				
Water	\$ 995,000	\$ 995,000	\$ 928,473	\$ (66,527)
Garbage	9,000	9,000	74,809	65,809
Water tap fees	15,000	15,000	4,550	(10,450)
Other operating revenues	17,850	17,850	10,627	(7,223)
Total Operating Revenues	<u>1,036,850</u>	<u>1,036,850</u>	<u>1,018,459</u>	<u>(18,391)</u>
<u>Operating Expenses</u>				
Water purchases	400,000	420,000	424,326	(4,326)
Water system utilities	75,000	60,000	55,544	4,456
Water system supplies	64,000	63,000	33,946	29,054
Repairs and maintenance	50,200	30,200	14,767	15,433
Other water system expenses	9,000	9,500	3,216	6,284
Personnel and support	182,400	182,400	129,271	53,129
Professional fees	25,000	42,000	36,271	5,729
Administrative expenses	41,250	39,750	44,909	(5,159)
Garbage collection fees	-	-	69,099	(69,099)
Depreciation and amortization	120,000	120,000	92,311	27,689
Total Operating Expenses	<u>966,850</u>	<u>966,850</u>	<u>903,660</u>	<u>63,190</u>
Operating Income	70,000	70,000	114,799	44,799

See independent auditors' report.

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS – BUDGET AND ACTUAL
PROPRIETARY FUND – BUDGETARY BASIS (CONTINUED)
For the Nine Months Ended September 30, 2009

	2009			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
<u>Nonoperating Revenues (Expenses)</u>				
Interest income	\$ 8,000	\$ 8,000	\$ 559	\$ (7,441)
Interest expense	(25,000)	(25,000)	(28,043)	(3,043)
Donations Emergency Services income	-	-	3,656	3,656
Donations Emergency Services expense	-	-	(3,656)	(3,656)
Grant Revenue	-	-	1,600	1,600
Total Nonoperating Revenues (Expenses)	(17,000)	(17,000)	(25,884)	(8,884)
Change in Net Assets	53,000	53,000	88,915	35,915
Net Assets - beginning of year	1,314,231	1,314,231	1,314,231	-
Net Assets - end of year	<u>\$ 1,367,231</u>	<u>\$ 1,367,231</u>	<u>\$ 1,403,146</u>	<u>\$ 35,915</u>