

CITY OF LAKE JACKSON, TEXAS

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

**PREPARED BY THE
CITY OF LAKE JACKSON FINANCE DEPARTMENT**

PAM EAVES, FINANCE DIRECTOR

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CITY OF LAKE JACKSON

Lake Jackson, Texas

*Comprehensive Annual Financial Report
For the Year Ended September 30, 2007*

Table of Contents

	<u>Page</u>
INTRODUCTION SECTION	
Letter of Transmittal	vii-xiv
Functional Organization Chart	xv-xvi
Principal City Officials	xvii
Certificate of Achievement for Excellence in Financial Reporting	xviii
FINANCIAL SECTION	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-11
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16-17
Fund Financial Statements	
Balance Sheet - Governmental Funds	18
Reconciliation of the Governmental Funds Balance Sheet to the Governmental Activities Statement of Net Assets	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Governmental Activities Statement of Activities	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	22-23
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Economic Development Special Revenue Fund	24
Statement of Net Assets - Proprietary Funds	26-27
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	28
Statement of Cash Flows - Proprietary Funds	30-31
Notes to the Financial Statements	32-66
Combining and Individual Fund Statement and Schedules:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	70-73
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	74-77

CITY OF LAKE JACKSON

Lake Jackson, Texas

*Comprehensive Annual Financial Report
For the Year Ended September 30, 2007*

Table of Contents

	<u>Page</u>
Combining and Individual Fund Statement and Schedules: - Continued	
Budget to Actual:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Park Fund	80
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Motel Occupancy Tax Fund	81
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Memorial Garden Fund.....	82
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Economic Development Debt Service Fund	83
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Golf Course Debt Service Fund	84
Supplementary Individual Fund Financial Statement and Schedules - General Fund:	
Comparative Balance Sheet.....	87
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	88-89
Supplementary Individual Fund Financial Statement and Schedules - Economic Development Fund:	
Comparative Balance Sheet.....	92
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.....	93
Supplementary Individual Fund Financial Statement and Schedules - General Debt Service Fund:	
Comparative Balance Sheet.....	96
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.....	97
Supplementary Individual Fund Financial Statement and Schedules - Proprietary Fund:	
Comparative Statement of Net Assets - Enterprise Fund.....	100-101
Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets - Enterprise Fund	102
Comparative Statement of Cash Flows - Enterprise Fund	104-105
Schedule of Revenues, Expenses, and Changes in Net Assets - Actual Compared to Budgetary Basis - Enterprise Fund	106-107
Comparative Statement of Net Assets - Golf Course Operating Fund.....	108-109
Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets - Golf Course Operating Fund.....	110
Comparative Statement of Cash Flows - Golf Course Operating Fund.....	112-113
Schedule of Revenues, Expenses, and Changes in Net Assets - Actual Compared to Budgetary Basis - Golf Course Operating Fund	114-115
Capital Assets Used in the Operation of Governmental Funds:	
Comparative Schedule by Source.....	119
Schedule by Function and Activity	120-121
Schedule of Changes by Function and Activity.....	122

CITY OF LAKE JACKSON

Lake Jackson, Texas

*Comprehensive Annual Financial Report
For the Year Ended September 30, 2007*

Table of Contents

	<u>Page</u>
Other Schedules:	
General Fund - Sub-Funds:	
Consolidated Schedule of Assets, Liabilities, and Fund Equity	124-125
Consolidated Schedule of Revenues, Expenditures and Changes in Fund Equity	126-129
Enterprise Fund - Sub-Funds:	
Consolidated Schedule of Net Assets	130-133
Consolidated Schedule of Revenues, Expenditures and Changes in Net Assets	134-135
Consolidated Schedule of Cash Flows	136-137
Debt Service Schedule	
General Obligation Bonds	138-142
Waterworks and Sewer System Revenue Bonds	144-145
Insurance Coverage	146

STATISTICAL SECTION

Table 1	Net Assets by Component.....	148-149
Table 2	Changes in Net Assets.....	150-153
Table 3	Fund Balances, Governmental Funds.....	154-155
Table 4	Changes in Fund Balances, Governmental Funds	156-157
Table 5	Assessed Value and Estimated Actual Value of Taxable Property	158
Table 6	Direct and Overlapping Property Tax Rates	159
Table 7	Principal Property Tax Payers.....	160
Table 8	Property Tax Levies and Collections.....	161
Table 9	Sales Tax Analysis	162
Table 10	Ratio of Outstanding Debt by Type.....	163
Table 11	Ratio of Net General Bonded Debt Outstanding.....	164
Table 12	Direct and Overlapping Governmental Activities Debt.....	165
Table 13	Pledged Revenue Coverage	166
Table 14	Demographic and Economic Statistics.....	167
Table 15	Principal Employers	168
Table 16	Full-time Equivalent City Government Employees by Function/Program.....	169
Table 17	Operating Indicators by Function/Program	170
Table 18	Capital Asset Statistics by Function/Program	171

CITY OF LAKE JACKSON

Lake Jackson, Texas

*Comprehensive Annual Financial Report
For the Year Ended September 30, 2007*

Table of Contents

	<u>Page</u>
FEDERAL AWARDS SECTION	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	175-176
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	177-178
Schedule of Findings and Questioned Costs	179
Schedule of Status of Prior Findings	180
Corrective Action Plan.....	181
Schedule of Expenditures of Federal Awards	182
Notes on Accounting Policies for Federal Awards	183
CONTINUING FINANCIAL DISCLOSURES	
Table CD1 Bond Summary and Authorization	187
Table CD2 Financial Information.....	188
Table CD3 Estimated Direct & Overlapping Debt Statement	189
Table CD4 Outstanding Debt Service Requirements - General Obligation Debt.....	190
Table CD5 Water and Sewer System Revenue Bonds Debt Service Schedule.....	191
Table CD6 Tax Adequacy	192
Table CD7 Tax Rate and Tax Collection Information	193
Table CD8 Sales Tax Collection History	194
Table CD9 Economic Development Fund.....	195
Table CD10 Debt Service Fund Management Index.....	195
Table CD11 Utility Debt Service Fund Management Index	197
Table CD12 Changes in Fund Balances Governmental Funds (Modified Accrual Basis) ..	198
Table CD13 Proprietary Fund - Statement of Revenues and Expenses.....	199
Table CD14 Water and Sewer Information	200
Table CD15 Top Ten Utility Customers	201
Table CD16 Principal Taxpayers and Assessed Valuation	202
Table CD17 General Fund - Budget Summary.....	203
Table CD18 Utility Fund - Budget Summary	204

INTRODUCTORY SECTION

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CITY OF LAKE JACKSON

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March 17, 2008

To the Honorable Mayor, Members of City Council,
and Citizens of Lake Jackson, Texas:

We are pleased to submit the Comprehensive Annual Financial Report for the City of Lake Jackson, Texas for the fiscal year ended September 30, 2007. The City's Finance Department prepared this report in conjunction with our auditors, Kennemer, Masters and Lunsford, LLC. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

This Comprehensive Annual Financial Report incorporates Government Accounting Standards Board Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Statement No. 34 was developed to make annual financial reports of state and local governments easier to understand and more useful to those who make decisions using governmental financial information.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

To the best of our knowledge the enclosed data is accurate in all material respects, and is organized in a manner designed to fairly present the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

PROFILE OF THE CITY

The City provides a full range of municipal services. These services include police and fire protection, emergency ambulance service, the construction and maintenance of streets and drainage systems, building inspection, recreational facilities and activities, and park facilities and maintenance.

In addition, the City provides water, sewer and sanitation services, including curbside recycling for persons residing within its city limits. The City has an agreement with the Brazosport Water Authority (BWA) to obtain 2,000,000 gallons of surface water per day on a take or pay basis. The surface water is supplemented by the City's eleven water wells. The water wells have a peak production capacity of 7.6 million gallons per day.

Water storage capacity includes five elevated tanks (2.55 million gallons total capacity) and four ground storage tanks (2.0 million gallons total capacity). The City distributes an average of 3.5 million gallons per day.

Sewer treatment is provided to the City by one water reclamation facility. This facility has a permitted capacity of 5.89 million gallons per day. Wastewater generated throughout the city flows through a series of lift stations prior to reaching the treatment plant. There are currently three “master” lift stations that pump directly to the treatment plant, and 38 lift stations that serve various subdivisions and convey wastewater to a “master” lift station.

Each residence in the city receives regular garbage collection service two times per week; collection of large items and brush twice a month; and curbside recycling once a week. The recycling program includes the collection of co-mingled items. Each resident is asked to place plastic and aluminum in a blue bag. Residents may also recycle cardboard, newspaper and magazines in a separate bag.

HISTORY AND BACKGROUND

Lake Jackson is part of Texas history. The land that Lake Jackson is built on was part of Stephen F. Austin's original land grant from the Mexican government. The City of Lake Jackson derives its name from Major Abner Jackson, who, in the 1800's, built his home on an oxbow lake, which he called Lake Jackson. Development of the City began in December, 1941. The City incorporated in 1944. On January 30, 1954, the City adopted a Home Rule Charter and approved the Council/Manager form of government.

The City of Lake Jackson encompasses 18 square miles and has produced an orderly, well planned residential community. Lake Jackson is located 50 miles south of Houston, 45 miles southwest of Galveston and 8 miles north of the Gulf of Mexico. The City is readily accessible via State Highway 332, State Highway 288, FM 2004, and the Port of Freeport. The City has a population of approximately 28,000 people; and is part of a larger community of cities known as the Brazosport Area. This area represents a population of over 70,000 and includes: Lake Jackson, Clute, Freeport, Oyster Creek, Quintana, Angleton and Brazoria. Lake Jackson serves as the regional retail and medical center.

The City of Lake Jackson operates under the Council/Manager form of government with a Mayor and five City Council members, elected on an “at-large”, non-partisan basis for a term of two years. Operating under a Home Rule Charter and the Council/Manager plan, the City Council is the legislative body of the City. The City Manager, who is responsible for the general administration of the City, is appointed by the City Council.

AREA ECONOMY

The Dow Chemical Company, the world's leading producer of chemicals and plastics, continues to be the major contributor to the area economy. Dow employs 46,000 people globally. Texas Operations in Freeport is Dow's largest integrated site employing 4,500 people with an additional 2,000 contract employees. The products manufactured on site are transported by rail, truck, marine vessels and pipeline to customers around the

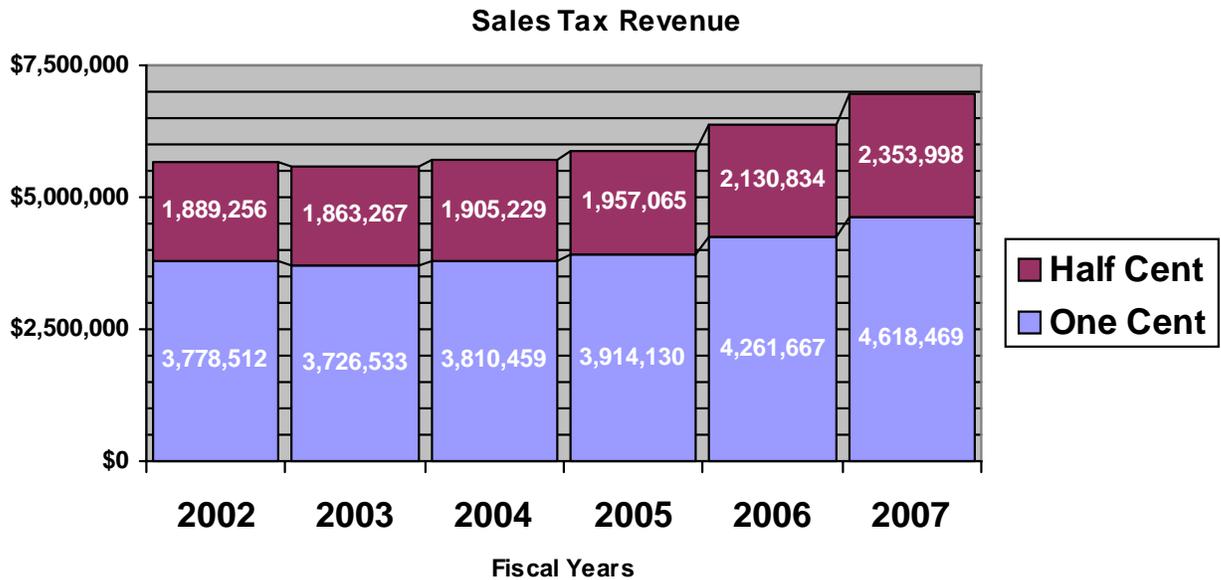
world. Texas Operations manufactures more than 44 percent of Dow's products sold in the United States and more than 21 percent of Dow's products sold globally. Dow is the world's largest producer of both chlorine and caustic soda (chlor-alkali). In 2008, Dow announced that it will break ground on a new state-of-the-art membrane chlor-alkali production facility in Freeport, Texas. The new facility is designed to provide a long-term reliable supply of chlorine to derivative products. More than 60 percent of the chlorine produced at the Freeport facility will be used to produce performance chemicals, with the balance going to basic chemical production. Construction should start later this year with the plant's planned start up scheduled for 2011. Along with Dow, other area petrochemical companies employ an additional 2,600 people. These companies include ConocoPhillips, BASF, Shintech and BP Amoco.

The Port of Freeport is currently the 12th largest port in United States in tonnage. The primary cargo shipped through the port includes rice, bananas, fruits, chemicals and aggregate. In the latest effort to increase commerce from the high seas, the Port of Freeport began construction of the Velasco Terminal -- which would bring in 890 new jobs to Brazoria County and \$54 million in income for those workers. The Velasco Terminal is the first major addition to Port Freeport in four decades. This terminal will add 1,200 feet of docking area to the port. It will take almost \$50 million and 2-3 years to construct. The new terminal also will have almost 100 acres to support the anticipated increase of 800,000 to 1 million containers the port would handle every year. The planning and design of the first phase of the project, dubbed "Berth 7" is complete with the site civil work underway and dock construction to start in 2008.

In response to the growing demand for natural gas in the U.S., Freeport LNG Development, L.P. commenced construction on its liquefied natural gas (LNG) receiving terminal. The initial start up of the facility is targeted for March, 2008. The terminal will transport up to 1.5 billion cubic feet of gas per day (Bcf/d), once completed. This capacity has already been sold to ConocoPhillips and Dow Chemical on a long term basis. Freeport LNG received approval from the Federal Energy Regulatory Commission (FERC) to expand the terminal capacity to 4 Bcf/d. The expansion of the facility will include an additional LNG vessel berth, LNG tank storage and vaporization capacity. Freeport LNG is also planning to construct a 7.5 Bcf underground storage at Stratton Ridge which will be integrated into the operations of the terminal.

CITY ECONOMY

The overall economy of the City continues to be strong. During the past ten years, sales tax revenue increased by 23%. During the same ten year period, the unemployment rate has declined from 4.6% (1997) to 3.8% (2007). A primary reason for the decline in unemployment can be attributed to an increase in new commercial businesses, which leads to employment opportunities. Even more, for fiscal 2007, the total assessed values for all residential and commercial property in the City of Lake Jackson exceeded \$ 1.6 billion – up 69.05% from 1997 (\$ 953,656,199).



MAJOR ISSUES AND INITIATIVES

Section 380 Agreement. The City signed a section 380 sales tax agreement with Kohl's. As part of this agreement the City will reimburse Kohl's one-half of the one-cent sales tax generated by the store for the next ten years up to a maximum of \$ 750,000. The City is participating in a similar agreement with Prime Retail -- owners of the Brazos Mall. As part of their agreement, Prime Retail added a theatre and food court complex to the mall as well as renovated the outside appearance. In addition, Prime Retail purchased and demolished the only other theatre complex in town; and built a center containing Best Buy, Pet Smart and Office Depot.

2007 Infrastructure Improvement Bond. In May 2005 voters approved an additional \$ 7.7 million in infrastructure and facility bonds. The original plan called for these bonds to be issued in three phases:

Phase I - \$ 2.8 million for the reconstruction of streets and drainage in the Brazos Oaks Subdivision

Phase II - \$ 2.5 million to provide renovations of the old Fire Station into an expanded Municipal Court Facility, Emergency Dispatch and Emergency Operations Center; and

Phase III - \$ 2.4 million for the reconstruction of streets and drainage on Jasmine, Oak Drive, and Winding Way Street.

The first phase was originally projected to be issued in 2006. However, due to the availability of the previously issued \$ 600,000 from the 2004 Infrastructure Improvement Bond, we were able to pay for engineering and design cost. As a result, phase I and phase II were issued together in 2007. Phase III is projected to be issued in the summer of 2008.

Industrial District Contract. The contract between the cities of Clute, Freeport, Lake Jackson and local industry signed in 2001, will expire in 2010. The parties agreed to set a valuation floor so that a minimum, guaranteed payment will be received each year. The minimum payment will increase annually reaching \$ 4,687,100 in 2010.

The contract provides a formula for determining industries' annual payment. The assessed values of industrial properties within the Industrial District are determined. A percentage of that value is subjected to a weighted tax rate, determined by each city's tax rate, and the value of industrial district properties within their individual extraterritorial jurisdictions. In fiscal 2006 and 2007, the City received \$ 2,881,045 and \$ 3,220,061 respectfully from the industrial district.

Looking ahead.

- Cresco companies (a development group) has purchased the 980 acres on the north side of town that was formerly owned by the state of Texas as part of its prison system. They are planning moderately priced housing for this area. Initial plans call for 1,200 to 1,500 new homes.
- A group of local investors is working on a project to purchase all of the homes in an area of town known as "the old government area". This area of town abuts downtown Lake Jackson. The downtown revitalization project will likely heighten interest in and speed the timing with which this renovation project occurs.
- The old Lakewood Manor project – some 77 structures – is being demolished and the owner is looking at various uses; including the possibility of putting in "starter" single family homes.

ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

The City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse, and to ensure adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that:

- (1.) The cost of a control should not exceed the benefits likely to be derived; and
- (2.) The valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls. The City maintains a system of budgetary controls. The objective of these budgetary controls is to ensure compliance with the annual budget appropriations ordinance approved by City Council. Activities of each of the City's funds are included in the appropriations ordinance. Annual budgets are adopted for all significant governmental fund types (general fund, special revenue funds, and debt service funds) and proprietary fund type (enterprise fund). The budgets for the capital projects funds are prepared on a project basis with costs being incurred over the project period. The City's Finance Office monitors expenditure activity on a monthly basis against budgeted amounts and reports significant variances to the city manager, who in turn reports to the City Council. A financial report is submitted to the City Council on a quarterly basis. The City continues to follow and improve upon its strong and fiscally conservative policies that lead to its sound financial condition.

DEBT ADMINISTRATION

It is the City's policy to structure each new series of General Obligation Bonds, Revenue Bonds and Certificates of Obligation with a repayment schedule featuring level principal payments as opposed to level debt payments. This results in a declining debt service schedule. The required debt service payment will only increase if new debt is issued. As part of the annual budget a debt capacity analysis is performed. The objective of this analysis is to minimize the impact future bond issues have on the tax or utility rates. Because of the declining debt schedule, new issues are generally planned for years in which the largest decreases in debt service will take place.

CASH MANAGEMENT

The City's investment policy adopted by City Council states that investments shall be made in a manner that will provide the maximum security of principal invested, employing limitations on maturities and diversification of the portfolio, while meeting the daily cash flow needs of the City. The receipt of a market rate of return will be secondary to safety and liquidity requirements. It is the intent of the City of Lake Jackson to pursue a passive investment strategy in which investments are held to maturity as opposed to an active strategy in which investments may be sold prior to maturity. At September 30, 2007 the City's investment portfolio consisted of the following:

Cash (Petty cash accounts)	\$ 6,900
Bank demand accounts	1,286,399
Money Market fund	2,649,992
Investment pools:	
Lone Star	2,713,923
Texpool	12,203,798
Texstar	8,254,285
Certificates of deposit	399,000
	<u>\$ 27,514,298</u>

RISK MANAGEMENT

The City contracts with the Texas Municipal League's Intergovernmental Risk Pool for property, liability and workers' compensation insurance. The Assistant City Manager administers insurance programs, and the Texas Municipal League manages workers' compensation claims. Property and liability insurance provide varying and appropriate coverage, with most claims subject to a \$ 5,000 deductible. The Assistant City Manager, with programming and guidance provided by a cross-departmental Safety Steering Committee, conducts monthly safety programs.

INDEPENDENT AUDIT

Pursuant to Article III, Section 3.14 of the City Charter, an audit of the accounts and financial statements has been completed by the City's independent Certified Public Accountants -- Kennemer, Masters and Lunsford, LLC. Their report is included in this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in financial Reporting to the City of Lake Jackson for its comprehensive annual financial report for the fiscal year ended September 30, 2006. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Lake Jackson has received a Certificate of Achievement the last twelve years. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

The preparation of this report could not have been accomplished without the efforts of the entire Finance Department staff. Additionally, we would like to thank our auditors, Kennemer, Masters and Lunsford, LLC; whose professional expertise and advice have resulted in continuing improvements in the quality of the City's financial reporting.

Respectfully submitted,



William P. Yenne
City Manager



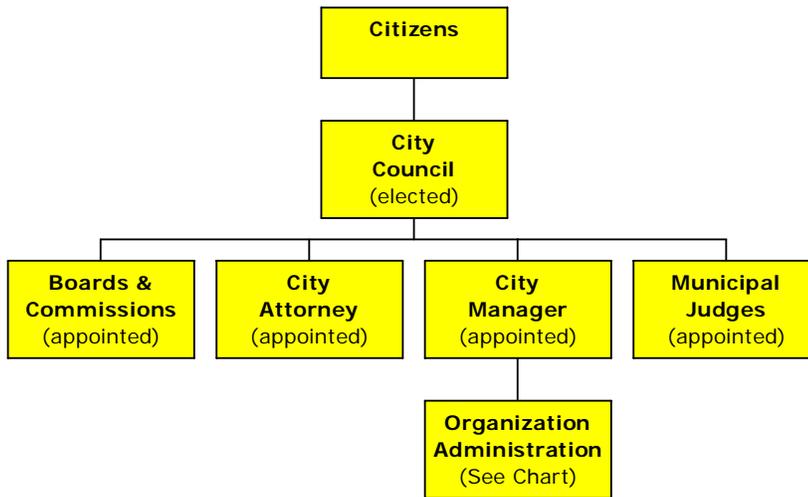
Pamela K. Eaves, CPA
Finance Director



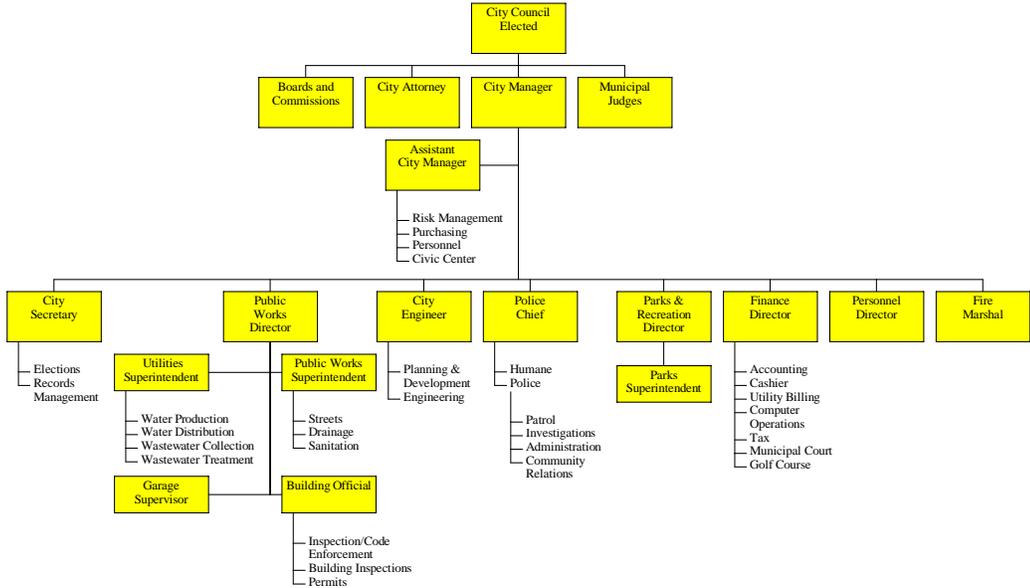
Junru Roland, CPA, CGFO
Assistant Finance Director

City of Lake Jackson

"Council-Manager Government"



Organization Chart



Elected Officials

Official	Title	Years of Service	Term Expires	Occupation
* Bob Sipple	Mayor	2	2008	VP of Sales
Joe Rinehart	Councilmember	5	2009	Teacher
Bob Geter	Councilmember	2	2008	Insurance Agent
Gerald Roznovsky	Councilmember	3	2009	Manager
Rob Dotson	Councilmember	4	2008	Engineer
Vinay Singhania	Councilmember	2	2009	Purchasing Manager

* Served 1 year as Councilmember prior to Mayor.

City Officials

Name	Title	Length of Service
* <i>William P. Yenne</i>	<i>City Manager</i>	<i>28 years</i>
<i>Modesto Mundo</i>	<i>Asst. City Manager</i>	<i>13 years</i>
<i>Pam Eaves, CPA</i>	<i>Finance Director</i>	<i>18 years</i>
<i>Salvador Aguirre</i>	<i>City Engineer</i>	<i>29 years</i>
<i>Sherri Russell</i>	<i>City Attorney</i>	<i>1.5 years</i>
<i>First Southwest Company</i>	<i>Financial Advisors</i>	<i>3 years</i>

* *Served 11 years as Assistant City Manager. Has been City Manager since 1991.*

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lake Jackson
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Oliver S. Cox

President

Jeffrey R. Emmer

Executive Director

FINANCIAL SECTION

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KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditor's Report

December 18, 2007

To The Honorable Mayor and
Members of Council
City of Lake Jackson
Lake Jackson, 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 Lake Jackson (the "City") as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

www.kmkwllc.com – Email: kmkw@kmkwllc.com

Members: American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants,
Partnering for CPA Practice Success

To The Honorable Mayor and
Members of Council
City of Lake Jackson
December 18, 2007
Page 2

Required Supplementary Information

The Management's Discussion and Analysis on pages 3 through 11 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Combining and Individual Fund Statements and Schedules and Other Schedules

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information identified in the table of contents as combining and individual fund statements and schedules and other schedules are presented for purposes of additional analysis and is not a required part of the basic financial statements. Similarly, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Introductory, Statistical and Continuing Disclosure Sections

The information identified in the table of contents as Introductory, Statistical and Continuing Disclosure Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Kennebec, Masters & Hunford, LLC

CITY OF LAKE JACKSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2007

As management of the City of Lake Jackson, 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, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages vii - xiv of this report.

Financial Highlights

- The assets of the City of Lake Jackson exceeded its liabilities at the close of the most recent fiscal year by \$ 74,837,127 (net assets). Of this amount, \$ 15,570,275 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors within the City's fund designation.
- As of the close of the current fiscal year, the City of Lake Jackson's governmental funds reported combined ending fund balances of \$ 18,990,634. 63.12% of this total amount, \$ 11,986,005 (unreserved fund balance) is available for use within the City's fund designation. Of this amount, \$ 5,645,966 has been designated for specific uses.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 9,010,029 or 64.51% of the total general fund expenditures. Of this amount, \$ 6,340,039 has not been designated for specific uses.

Overview of the Financial Statements

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

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

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

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

CITY OF LAKE JACKSON, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2007*

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The *governmental activities* of the City include general government and administration, public safety, public works, and cultural and recreation. The *business-type activities* of the City include Water and Sewer, Sanitation, and Golf Course operations.

The government-wide financial statements can be found on pages 15-17 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 funds 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 fourteen (14) 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, Economic Development, General Debt Service, and Court/Emergency Operation Center/Brazos Oaks; all of which are considered to be major funds. Data from the other ten (10) funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds. The City maintains one category of *proprietary funds* - Enterprise Funds. Enterprise funds are used to report the same functions presented as business-type activities in government-wide financial statements. The City uses enterprise funds to account for its water and sewer, golf, and sanitation operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

CITY OF LAKE JACKSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2007

The basic proprietary fund financial statements can be found on pages 26-31 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 32-66 of this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining and individual statements and schedules can be found on pages 68-122 of this report.

Other schedules can be found on pages 124-146 of this report following the combining statements. The statistical section can be found on pages 148-171 of this report following the other schedules. The federal awards section can be found on pages 175-183 of this report following the statistical section. The continuing financial disclosures can be found on pages 187-204 of this report following the federal awards section.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Lake Jackson, assets exceeded liabilities by \$ 74,837,127 as of September 30, 2007.

The largest portion of the City's net assets (63.77%) reflects its investments in capital assets (e.g., land, buildings, improvements, equipment, machinery, construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses 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.

CITY OF LAKE JACKSON'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 20,824,716	\$ 14,961,583	\$ 9,708,975	\$ 9,518,276	\$ 30,533,691	\$ 24,479,859
Capital assets	<u>50,777,169</u>	<u>52,537,995</u>	<u>42,061,668</u>	<u>41,624,420</u>	<u>92,838,837</u>	<u>94,162,415</u>
Total assets	<u>71,601,885</u>	<u>67,499,578</u>	<u>51,770,643</u>	<u>51,142,696</u>	<u>123,372,528</u>	<u>118,642,274</u>
Long-term liabilities	30,528,267	27,557,059	14,522,590	13,491,570	45,050,857	41,048,629
Other liabilities	<u>1,433,916</u>	<u>1,546,564</u>	<u>2,050,628</u>	<u>2,136,377</u>	<u>3,484,544</u>	<u>3,682,941</u>
Total liabilities	<u>31,962,183</u>	<u>29,103,623</u>	<u>16,573,218</u>	<u>15,627,947</u>	<u>48,535,401</u>	<u>44,731,570</u>
Net Assets:						
Invest in capital assets, net of related debt	20,767,169	25,482,995	26,957,475	27,043,902	47,724,644	52,526,897
Restricted	7,165,037	2,501,788	4,377,171	2,588,178	11,542,208	5,089,966
Unrestricted	<u>11,707,496</u>	<u>10,411,172</u>	<u>3,862,779</u>	<u>5,882,669</u>	<u>15,570,275</u>	<u>16,293,841</u>
Total net assets	<u>\$ 39,639,702</u>	<u>\$ 38,395,955</u>	<u>\$ 35,197,425</u>	<u>\$ 35,514,749</u>	<u>\$ 74,837,127</u>	<u>\$ 73,910,704</u>

CITY OF LAKE JACKSON, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2007*

An additional portion of the City's net assets of \$ 11,542,208 (15.42%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$ 15,570,275 (20.81%) may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2007, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories-governmental and business-type activities. The same situation held true for the prior fiscal year.

There was an increase of \$ 6,478,142 in restricted net assets and a decrease of \$ 4,828,153 in invested in capital assets, net of related debt. The increase in restricted net assets; and the decrease in invested in capital assets, net of related debt resulted from the issuance of bonds and reduction of current year capital transactions.

Analysis of the City's Operations

Governmental Activities: Governmental activities increased the City of Lake Jackson's net assets by \$ 1,243,747. Part of the increase represents the degree to which increases in ongoing revenues have exceeded similar increases in ongoing expenses. The remainder of the increase in net assets reflects increases in investment earnings and grants.

Total revenues for governmental activities increased from the previous year by \$ 1,604,091 (8.42%).

Program revenues increased by \$ 399,419. Key elements of this increase are the increase in operating grants and capital grants which resulted from an aggressive grant application strategy by the City of Lake Jackson during the current fiscal year. The new grant awards furnished public safety and streets.

General revenues increased from last year by \$ 1,204,672. Key elements of this increase are as follows:

- Property taxes increased by \$ 169,302 (3.49%) from the prior year; primarily due to an increase in assessed value on property.
- Sales taxes increased by \$ 579,966 (9.07%)--a product of the growth of the economy.
- Industrial District revenues increased \$ 339,016 (11.77%)--a result of the contractual rate increase in the percentage of value taxed.
- Investment earnings increased \$ 132,052 (19.21%) due to an increase in interest rates.

Business-type Activities: Business activities decreased the City's net assets by \$ 317,324 (or 0.89%). Total revenues decreased and total expenses increased from the prior year by \$ 13,452 and \$ 492,052 respectively. Total revenues decreased due to a reduction in operating grants, and a decline in residential water consumption. Total expenses increased at a normal rate of about 4.7%. The major increases in 2007 expenses were maintenance and repairs, utilities, and depreciation.

CITY OF LAKE JACKSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2007

The following table provides a summary of the City's operations for the year ended September 30, 2007 with comparative tables for the year ended September 30, 2006.

CITY OF LAKE JACKSON'S CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program Revenues:						
Charges for services	\$ 1,661,251	\$ 1,397,728	\$ 10,076,334	\$ 10,091,039	\$ 11,737,585	\$ 11,488,767
Operating grants and contributions	25,000	97,341		62,298	25,000	159,639
Capital grants and contributions	856,100	647,863			856,100	647,863
General Revenues:						
Property taxes	5,020,245	4,850,943			5,020,245	4,850,943
Sales taxes	6,972,467	6,392,501			6,972,467	6,392,501
Franchise	1,596,697	1,683,612			1,596,697	1,683,612
Industrial district	3,220,061	2,881,045			3,220,061	2,881,045
Alcoholic beverages taxes	38,696	37,092			38,696	37,092
Criminal justice taxes	20,894	17,676			20,894	17,676
Occupancy taxes	272,624	239,924			272,624	239,924
Investment earnings	819,379	687,327	443,132	395,581	1,262,511	1,082,908
Miscellaneous	103,123	125,927			103,123	125,927
Gain on disposition of capital assets	<u>56,533</u>		<u>16,000</u>		<u>72,533</u>	<u>-0-</u>
Total revenues	<u>20,663,070</u>	<u>19,058,979</u>	<u>10,535,466</u>	<u>10,548,918</u>	<u>31,198,536</u>	<u>29,607,897</u>
Expenses:						
General government and administration	2,933,681	2,602,960			2,933,681	2,602,960
Public safety	5,238,784	5,130,799			5,238,784	5,130,799
Public works	5,346,890	5,632,640			5,346,890	5,632,640
Culture and recreation	4,621,273	4,632,306			4,621,273	4,632,306
Interest on long-term debt	1,225,583	1,250,474			1,225,583	1,250,474
Golf course			1,868,965	1,786,619	1,868,965	1,786,619
Water and sewer			6,407,376	6,191,778	6,407,376	6,191,778
Sanitation			<u>2,629,561</u>	<u>2,435,453</u>	<u>2,629,561</u>	<u>2,435,453</u>
Total expenses	<u>19,366,211</u>	<u>19,249,179</u>	<u>10,905,902</u>	<u>10,413,850</u>	<u>30,272,113</u>	<u>29,663,029</u>
Increase (decrease) in net assets before transfers	1,296,859	(190,200)	(370,436)	135,068	926,423	(55,132)
Transfers	<u>(53,112)</u>	<u>495,032</u>	<u>53,112</u>	<u>(495,032)</u>	<u>-0-</u>	<u>-0-</u>

(continued)

CITY OF LAKE JACKSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2007

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Increase (decrease) in net assets	\$ 1,243,747	\$ 304,832	\$(317,324)	\$(359,964)	\$ 926,423	\$(55,132)
Net assets, October 1	38,395,955	37,959,873	35,514,749	35,874,713	73,910,704	73,834,586
Prior period adjustment		131,250			-0-	131,250
Net assets, September 30	<u>\$ 39,639,702</u>	<u>\$ 38,395,955</u>	<u>\$ 35,197,425</u>	<u>\$ 35,514,749</u>	<u>\$ 74,837,127</u>	<u>\$ 73,910,704</u>

Financial Analysis of the City's Funds

As noted earlier, the City of Lake Jackson uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Lake Jackson'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 of Lake Jackson's governmental funds reported combined ending fund balances of \$ 18,990,634. 63.12% of this total amount (\$ 11,986,005) 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 1) for the expenditure of inventories (\$ 125,301), 2) to pay for debt service (\$ 534,831), and 3) for capital projects (\$ 6,344,497).

In the general fund, the City budgeted for a fund balance decrease in the current year of \$ 443,706. Due to actual revenues being more than budgeted and actual expenditures being less than budgeted, the actual on budgetary basis fund balance change was an increase of \$ 1,579,751. This better than budget performance is due to several factors including a strong economy, resulting in better than expected revenues from investment earnings, sales taxes, industrial district taxes, and revenue producing facilities (Recreation & Civic Center, and Jasmine Hall); and the City's continued emphasis on expenditure control. Another factor that has contributed to the increase in the General Fund fund balance is the change in the way the City records year-end budget saving transfers. It is the City's policy to transfer any budget savings in the operating funds to the Capital Project Fund. In the past we made the budget amendment and recorded the transfer in the fiscal year in which the savings occurred. To comply with recommendations from our auditors, in fiscal 2007, the City allowed the savings to close into the fiscal 2007 General Fund fund balance. The City will make the budget amendment, and record the 2007 budget saving transfers in fiscal 2008.

CITY OF LAKE JACKSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2007

The Economic Development fund is used to account for revenue from the half-cent sales tax. In 2007, the half-cent sales tax revenue and investment income in the Economic Development fund exceeded the budget. As a result, the Economic Development fund balance increased by \$ 276,952. The Debt Service fund balance decreased by \$ 15,832 due to a budgeted fund balance reduction. The Court/Emergency Operation Center/Brazos Oaks fund balance increased by \$ 5,261,366 due to bond proceeds from debt issuance partially offset by capital outlay expenditures.

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 at September 30, 2007 amounted to \$ 3,862,779. Total net assets decreased \$ 317,324. In 2007, the reduction in net assets for proprietary funds was \$ 178,719 in the Enterprise Fund and \$ 138,605 in the Golf Course Fund. Other factors concerning these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights. No budget amendments were made during the 2007 fiscal year.

Capital Assets

The City of Lake Jackson's investment in capital assets for its governmental and business-type activities as of September 30, 2007, amounts to \$ 92,838,837 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure and construction in progress. The total decrease in the City's investment in capital assets for the current fiscal year was \$ 1,323,578. (\$ 1,760,826 decrease for governmental activities and \$ 437,248 increase in business-type activities).

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

- The completion of the Hike/Bike Trail project.
- Approximately \$ 4,855,945 of street and drainage improvements were completed.

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

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$ 2,359,934	\$ 2,124,934	\$ 3,821,585	\$ 3,821,585	\$ 6,181,519	\$ 5,946,519
Buildings	18,332,771	18,876,735	3,028,465	3,222,657	21,361,236	22,099,392
Improvements other than buildings	5,166,114	5,548,654	15,657,026	14,767,940	20,823,140	20,316,594
Furniture, equipment and vehicles	3,242,696	3,320,799	2,915,263	2,129,161	6,157,959	5,449,960
Infrastructure	20,958,149	18,918,925	16,365,310	16,901,243	37,323,459	35,820,168
Construction in progress	<u>717,505</u>	<u>3,747,948</u>	<u>274,019</u>	<u>781,834</u>	<u>991,524</u>	<u>4,529,782</u>
Total	\$ <u>50,777,169</u>	\$ <u>52,537,995</u>	\$ <u>42,061,668</u>	\$ <u>41,624,420</u>	\$ <u>92,838,837</u>	\$ <u>94,162,415</u>

CITY OF LAKE JACKSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2007

Additional information on the City of Lake Jackson's capital assets can be found in note 5 on pages 49-52 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Lake Jackson had a total bonded debt and notes payable of \$ 44,540,000. Of this amount, \$ 30,010,000 compromises bonded debt backed by the full faith and credit of the City. These bonds will be retired with revenues from property and sales taxes. The remaining \$ 14,530,000 represents bonds secured by water and sewer revenues.

Outstanding Long-Term Debt at Year End

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 6,195,000	\$ 6,700,000	\$	\$	\$ 6,195,000	\$ 6,700,000
Certificates of obligations	6,235,000	7,160,000			6,235,000	7,160,000
Limited tax bonds	17,580,000	13,195,000			17,580,000	13,195,000
Revenue bonds			14,530,000	13,500,000	14,530,000	13,500,000
Capital leases			326,074	298,684	326,074	298,684
Components of Bonded Debt:						
Premium on bonds	15,995	18,111			15,995	18,111
Discounts on bonds	(8,589)	(9,163)			(8,589)	(9,163)
Accrued interest payable	53,565	48,970	283,926	259,048	337,491	308,018
Compensated absences	<u>457,296</u>	<u>444,141</u>	<u>112,349</u>	<u>97,053</u>	<u>569,645</u>	<u>541,194</u>
Total	<u>\$ 30,528,267</u>	<u>\$ 27,557,059</u>	<u>\$ 15,252,349</u>	<u>\$ 14,154,785</u>	<u>\$ 45,780,616</u>	<u>\$ 41,711,844</u>

During the fiscal year, the City's total bonded debt increased \$ 3,985,000 or 9.83% due to current year issuances totaling \$ 7,300,000 (\$ 5,300,000 in limited tax bonds and \$ 2,000,000 in revenue bonds). All of the outstanding Bonds of the City, payable from its limited taxes, are insured and are, therefore, rated "Aaa" by Moody's Investors Service Inc ("Moody's"), and "AAA" by Standard & Poor's ("S&P"). The underlying rating on all of such Bonds and other obligations payable from such source are "A1" by Moody's and "A+" by S&P.

Additional information on the City of Lake Jackson's long term debt can be found in note 7 on pages 53-58 of this report.

Economic Factors and Next Year's Budgets and Rates

In the 2007-08 Budget, General fund revenues and transfers-in are budgeted to increase by 7.18% from 2006-07 budget year with sales taxes making up about 31.4% of general fund budgeted revenues and transfers-in.

Certified assessed valuations increased approximately 3.33% over the preceding year.

The property tax rate increased from 37¢ to 38.5¢. The rate increase is necessary to fund the City's debt obligations. The maintenance and operation portion of the property tax rate declined from 23.9¢ to 23.3¢.

CITY OF LAKE JACKSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2007

A 2.5% consumer price index salary increase was given to all employees.

As of December, 2007 the unemployment rate for the City of Lake Jackson was 3.8%, as compared to the State of Texas, which was 4.3%.

The Utility Fund 2007-08 budget is 4.53% more than the proceeding year's budget. The base water rates for the 2007-08 budget year will increase from \$ 7.50/month to \$ 8.50/month; and 20¢ will be added to the water rates for usage above the 2,000 gallon base bill. The base sewer rates for the 2007-08 budget year will increase from \$ 8.50/month to \$ 9.50/month. In addition, 20¢ will be added to the sewer rates for usage above the 2,000 gallon base bill. Water purchased from Brazosport Water Authority will remain the same as the prior budget year.

Request for Information

This financial report is designed to provide a general overview of the City'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 Finance Director, 25 Oak Drive, Lake Jackson, Texas, 77566, or call (979) 415-2400.

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BASIC FINANCIAL STATEMENTS

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CITY OF LAKE JACKSON

Lake Jackson, Texas

STATEMENT OF NET ASSETS

September 30, 2007

	Governmental Activities	Business- Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 18,391,133	\$ 3,699,955	\$ 22,091,088
Taxes receivable (net)	776,111		776,111
Due from other governments	286,913		286,913
Accounts receivable (net)	284,398	485,050	769,448
Investments	399,000		399,000
Inventories	125,301	130,275	255,576
Internal balances	215,180	(215,180)	-0-
Deferred expenses		4,260	4,260
Bond issuance costs (net)	346,680	360,497	707,177
Restricted Assets:			
Temporarily Restricted:			
Cash and cash equivalents		5,244,118	5,244,118
Capital Assets (Net of Accumulated Depreciation):			
Land	2,359,934	3,821,585	6,181,519
Buildings	18,332,771	3,028,465	21,361,236
Improvements other than buildings	5,166,114	15,657,026	20,823,140
Furniture, equipment, and vehicles	3,242,696	2,915,263	6,157,959
Infrastructure	20,958,149	16,365,310	37,323,459
Construction in progress	<u>717,505</u>	<u>274,019</u>	<u>991,524</u>
Total assets	<u>71,601,885</u>	<u>51,770,643</u>	<u>123,372,528</u>
Liabilities:			
Accounts payable	792,583	644,792	1,437,375
Cash bonds and taxes	375,980		375,980
Accrued wages	190,589	70,800	261,389
Unearned revenue	74,764	107,592	182,356
Liabilities payable from restricted assets		1,227,444	1,227,444
Noncurrent liabilities:			
Due within one year	3,093,015	784,466	3,877,481
Due in more than one year	<u>27,435,252</u>	<u>13,738,124</u>	<u>41,173,376</u>
Total liabilities	<u>31,962,183</u>	<u>16,573,218</u>	<u>48,535,401</u>
Net Assets:			
Invested in capital assets, net of related debt	20,767,169	26,957,475	47,724,644
Restricted For:			
Debt service	820,540	1,494,985	2,315,525
Capital projects	6,344,497	2,849,086	9,193,583
Maintenance		33,100	33,100
Unrestricted	<u>11,707,496</u>	<u>3,862,779</u>	<u>15,570,275</u>
Total net assets	<u>\$ 39,639,702</u>	<u>\$ 35,197,425</u>	<u>\$ 74,837,127</u>

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

CITY OF LAKE JACKSON
Lake Jackson, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government and administration	\$ 2,933,681	\$ 442,892	\$	\$
Public safety	5,238,784		25,000	
Public works	5,346,890	244,049		621,100
Culture and recreation	4,621,273	974,310		235,000
Interest on long-term debt	<u>1,225,583</u>			
Total governmental activities	<u>19,366,211</u>	<u>1,661,251</u>	<u>25,000</u>	<u>856,100</u>
Business-type Activities:				
Water and sewer	6,407,376	5,614,724		
Sanitation	2,629,561	2,823,869		
Golf course	<u>1,868,965</u>	<u>1,637,741</u>		
Total business-type activities	<u>10,905,902</u>	<u>10,076,334</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$ 30,272,113</u>	<u>\$ 11,737,585</u>	<u>\$ 25,000</u>	<u>\$ 856,100</u>
General Revenue:				
Taxes:				
Property taxes				
Sales taxes				
Industrial district				
Franchise				
Occupancy				
Other				
Investment earnings				
Gain on the disposition of capital assets				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets – beginning				
Net assets – ending				

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

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business- Type Activities	Total
\$(2,490,789)	\$	\$(2,490,789)
(5,213,784)		(5,213,784)
(4,481,741)		(4,481,741)
(3,411,963)		(3,411,963)
<u>(1,225,583)</u>		<u>(1,225,583)</u>
<u>(16,823,860)</u>	<u>-0-</u>	<u>(16,823,860)</u>
	(792,652)	(792,652)
	194,308	194,308
	<u>(231,224)</u>	<u>(231,224)</u>
<u>-0-</u>	<u>(829,568)</u>	<u>(829,568)</u>
<u>(16,823,860)</u>	<u>(829,568)</u>	<u>(17,653,428)</u>
5,020,245		5,020,245
6,972,467		6,972,467
3,220,061		3,220,061
1,596,697		1,596,697
272,624		272,624
59,590		59,590
819,379	443,132	1,262,511
56,533	16,000	72,533
103,123		103,123
<u>(53,112)</u>	<u>53,112</u>	<u>-0-</u>
<u>18,067,607</u>	<u>512,244</u>	<u>18,579,851</u>
1,243,747	(317,324)	926,423
<u>38,395,955</u>	<u>35,514,749</u>	<u>73,910,704</u>
<u>\$ 39,639,702</u>	<u>\$ 35,197,425</u>	<u>\$ 74,837,127</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2007

	<u>General Fund</u>	<u>Economic Development</u>	<u>General Debt Service</u>	<u>Court/Emergency Operations Center Brazos Oaks Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Cash and temporary investments	\$ 8,775,665	\$ 1,291,592	\$ 534,776	\$ 5,261,752	\$ 2,527,347	\$ 18,391,132
Receivables (Net of Allowance for Uncollectibles):						
Taxes	574,066	183,122	18,924			776,112
Accounts	268,299				16,099	284,398
Grants	111,913				175,000	286,913
Due from other funds	215,180				12,380	227,560
Investments	399,000					399,000
Inventories	<u>125,301</u>					<u>125,301</u>
Total assets	<u>\$ 10,469,424</u>	<u>\$ 1,474,714</u>	<u>\$ 553,700</u>	<u>\$ 5,261,752</u>	<u>\$ 2,730,826</u>	<u>\$ 20,490,416</u>
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ 658,144			\$ 386	\$ 134,053	\$ 792,583
Cash bonds and taxes	375,980					375,980
Accrued wages	190,589					190,589
Deferred revenue	109,381		18,869			128,250
Due to other funds					<u>12,380</u>	<u>12,380</u>
Total liabilities	<u>1,334,094</u>	<u>-0-</u>	<u>18,869</u>	<u>386</u>	<u>146,433</u>	<u>1,499,782</u>
Fund Balance:						
Reserved For:						
Inventory	125,301					125,301
Debt service			534,831			534,831
Capital projects				5,261,366	1,083,131	6,344,497
Unreserved, Reported In:						
General fund	9,010,029					9,010,029
Special revenue funds		1,474,714			368,676	1,843,390
Capital projects					<u>1,132,586</u>	<u>1,132,586</u>
Total fund balances	<u>9,135,330</u>	<u>1,474,714</u>	<u>534,831</u>	<u>5,261,366</u>	<u>2,584,393</u>	<u>18,990,634</u>
Total liabilities and fund balances	<u>\$ 10,469,424</u>	<u>\$ 1,474,714</u>	<u>\$ 553,700</u>	<u>\$ 5,261,752</u>	<u>\$ 2,730,826</u>	<u>\$ 20,490,416</u>

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

CITY OF LAKE JACKSON

Lake Jackson, Texas

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS**

September 30, 2007

Total fund balances – governmental funds balance sheet	\$ 18,990,634
Amounts reported for <i>governmental activities</i> 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. Capital assets include \$ 119,764,513 in assets less \$ 68,987,344 in accumulated depreciation.	50,777,169
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 34,617 and \$ 18,869, respectively.	53,486
Debt issuance costs on the issuance of bonds is an expenditure in the governmental funds, but the costs increase long-term assets in the statement of net assets. This amount is amortized over the life of the bond. Net bond issuance costs were \$ 346,680 (issuance costs of \$ 456,970 less amortization of \$ 110,290).	346,680
Discount on the issuance of bonds uses current financial resources in the governmental funds but the proceeds decrease long-term assets in the statement of net assets. This amount is amortized over the life of the bonds. Net discount on the issuance of bonds were \$ 8,589 (discount on sale of bonds of \$ 11,477 less amortization of \$ 2,888).	8,589
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net assets. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were \$ 15,995 (premium on the sale of bonds of \$ 27,779 less amortization of \$ 11,784).	(15,995)
Payables for bond principal and other long-term debt are not reported in the funds.	(30,010,000)
Payables for bond interest are not reported in the funds.	(53,565)
Payables for long-term compensated absences.	<u>(457,296)</u>
Net assets of governmental activities – statement of net assets.	\$ <u>39,639,702</u>

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

CITY OF LAKE JACKSON

Lake Jackson, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2007

	<u>General</u>	<u>Economic Development</u>	<u>General Debt Service</u>	<u>Court/Emergency Operations Center Brazos Oaks Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Taxes:						
Property	\$ 3,236,792		\$ 1,771,911			\$ 5,008,703
Sales	4,618,469	2,353,998				6,972,467
Franchise	1,596,697					1,596,697
Occupancy					272,624	272,624
Other	59,590					59,590
Industrial district	3,220,061					3,220,061
Intergovernmental	132,663				513,437	646,100
Revenue producing facilities	974,310					974,310
Fines and fees	442,892					442,892
Licenses and permits	244,049					244,049
Special assessments					3,246	3,246
Investment income	444,172	66,809	50,115	103,680	154,603	819,379
Contributions					2,020	2,020
Miscellaneous	<u>85,668</u>				<u>12,189</u>	<u>97,857</u>
Total revenues	<u>15,055,363</u>	<u>2,420,807</u>	<u>1,822,026</u>	<u>103,680</u>	<u>958,119</u>	<u>20,359,995</u>
Expenditures:						
Current:						
General government and administration	2,737,126					2,737,126
Public safety	4,663,457					4,663,457
Public works	2,298,989					2,298,989
Culture and recreation	3,481,039				382,336	3,863,375
Capital outlay	785,863			74,806	1,708,031	2,568,700
Debt Service:						
Principal retirement			1,200,000		1,145,000	2,345,000
Interest and fiscal charges			<u>705,979</u>		<u>561,234</u>	<u>1,267,213</u>
Total expenditures	<u>13,966,474</u>	<u>-0-</u>	<u>1,905,979</u>	<u>74,806</u>	<u>3,796,601</u>	<u>19,743,860</u>
Excess of revenues over (under) expenditures	<u>1,088,889</u>	<u>2,420,807</u>	<u>(83,953)</u>	<u>28,874</u>	<u>(2,838,482)</u>	<u>616,135</u>
Other Financing Sources (Uses):						
Proceeds from bond principal			68,121	5,231,879		5,300,000
Proceeds from bond premium				613		613
Transfers in	1,401,018				1,706,234	3,107,252
Transfers out	(996,509)	(2,143,855)			(20,000)	(3,160,364)
Disposition of capital assets	<u>56,533</u>					<u>56,533</u>
Total other financing sources (uses)	<u>461,042</u>	<u>(2,143,855)</u>	<u>68,121</u>	<u>5,232,492</u>	<u>1,686,234</u>	<u>5,304,034</u>
Net change in fund balances	1,549,931	276,952	(15,832)	5,261,366	(1,152,248)	5,920,169
Fund balances – beginning	<u>7,585,399</u>	<u>1,197,762</u>	<u>550,663</u>		<u>3,736,641</u>	<u>13,070,465</u>
Fund balances – ending	<u>\$ 9,135,330</u>	<u>\$ 1,474,714</u>	<u>\$ 534,831</u>	<u>\$ 5,261,366</u>	<u>\$ 2,584,393</u>	<u>\$ 18,990,634</u>

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

CITY OF LAKE JACKSON
Lake Jackson, Texas

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2007

Net change in fund balances – total governmental funds \$ 5,920,169

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

Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation of \$ 4,564,526 exceeded capital outlay \$ 2,568,700 in the current period. (1,995,826)

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the governmental activities statement of net assets. Long-term bond proceeds in the governmental fund were \$ 5,300,000. (5,300,000)

Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund and the debt service fund increased by \$ 7,951 and \$ 3,591, respectively. 11,542

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets. These assets were for general obligation bonded debt \$ 2,345,000. 2,345,000

Debt issuance costs on the issuance of bonds is an expenditure in the governmental funds, but the costs increase long-term assets in the statement of net assets. This amount is amortized over the life of the bond. Increase in issuance costs of \$ 68,121 less current amortization of \$ 24,051. 44,070

Discount on the issuance of bonds uses current financial resources in the governmental funds but the proceeds decrease long-term assets in the statement of net assets. This amount is amortized over the life of the bonds. 2,729

Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net assets. This amount is amortized over the life of the bonds. Premium received of \$ 613 plus current amortizations of \$ 574. (1,187)

Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt. (4,595)

Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the change in compensated absences. (13,155)

Contributions of capital assets from the sources outside the governmental entity do not require the use of current financial resources and, therefore, are not reported as revenues in governmental funds. 235,000

Change in net assets of governmental activities \$ 1,243,747

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

CITY OF LAKE JACKSON
Lake Jackson, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended September 30, 2007

	Budgeted Amounts	
	Original	Final
Revenues:		
Taxes:		
Property	\$ 3,267,435	\$ 3,267,435
Sales	4,275,000	4,275,000
Franchise	1,525,000	1,525,000
Other	40,000	40,000
Industrial district	2,947,200	2,947,200
Intergovernmental	37,000	37,000
Revenue producing facilities	850,900	850,900
Fines and fees	300,909	300,909
Licenses and permits	177,150	177,150
Investment income	252,517	252,517
Miscellaneous	66,320	66,320
	<u>13,739,431</u>	<u>13,739,431</u>
Total revenues		
Expenditures:		
Current:		
General government and administration	2,677,085	2,677,085
Public safety	4,795,636	4,795,636
Public works	2,714,379	2,714,379
Culture and recreation	3,776,680	3,776,680
Capital outlay	1,620,375	1,620,375
	<u>15,584,155</u>	<u>15,584,155</u>
Total expenditures		
Excess of revenues over (under) expenditures	(1,844,724)	(1,844,724)
Other Financing Sources (Uses):		
Transfers in	1,401,018	1,401,018
Transfers out		
Disposition of capital assets		
	<u>1,401,018</u>	<u>1,401,018</u>
Total other financing sources (uses)		
Net change in fund balance	(443,706)	(443,706)
Fund balance - beginning	7,585,399	7,585,399
Fund balance - ending	<u>\$ 7,141,693</u>	<u>\$ 7,141,693</u>

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

Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Variance with Final Budget- Positive (Negative)
\$ 3,236,792	\$	\$ 3,236,792	\$ (30,643)
4,618,469		4,618,469	343,469
1,596,697		1,596,697	71,697
59,590		59,590	19,590
3,220,061		3,220,061	272,861
132,663		132,663	95,663
974,310		974,310	123,410
442,892		442,892	141,983
244,049		244,049	66,899
444,172		444,172	191,655
85,668		85,668	19,348
<u>15,055,363</u>	<u>-0-</u>	<u>15,055,363</u>	<u>1,315,932</u>
2,737,126	(3,835)	2,733,291	(56,206)
4,663,457	(29,137)	4,634,320	161,316
2,298,989	2,658	2,301,647	412,732
3,481,039	494	3,481,533	295,147
<u>785,863</u>		<u>785,863</u>	<u>834,512</u>
<u>13,966,474</u>	<u>(29,820)</u>	<u>13,936,654</u>	<u>1,647,501</u>
<u>1,088,889</u>	<u>29,820</u>	<u>1,118,709</u>	<u>2,963,433</u>
1,401,018		1,401,018	-0-
(996,509)		(996,509)	(996,509)
<u>56,533</u>		<u>56,533</u>	<u>56,533</u>
<u>461,042</u>	<u>-0-</u>	<u>461,042</u>	<u>(939,976)</u>
1,549,931	29,820	1,579,751	2,023,457
<u>7,585,399</u>		<u>7,585,399</u>	<u>-0-</u>
<u>\$ 9,135,330</u>	<u>\$ 29,820</u>	<u>\$ 9,165,150</u>	<u>\$ 2,023,457</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND**

For the Year Ended September 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 2,137,500	\$ 2,137,500	\$ 2,353,998	\$ 216,498
Investment income	<u>28,500</u>	<u>28,500</u>	<u>66,809</u>	<u>38,309</u>
Total revenues	2,166,000	2,166,000	2,420,807	254,807
Expenditures				<u>-0-</u>
Excess of revenues over (under) expenditures	<u>2,166,000</u>	<u>2,166,000</u>	<u>2,420,807</u>	<u>254,807</u>
Other Financing Sources (Uses):				
Transfers out	(2,145,274)	(2,145,274)	(2,143,855)	<u>1,419</u>
Total other financing sources (uses)	(2,145,274)	(2,145,274)	(2,143,855)	<u>1,419</u>
Net change in fund balance	20,726	20,726	276,952	256,226
Fund balance - beginning	<u>1,197,762</u>	<u>1,197,762</u>	<u>1,197,762</u>	<u>-0-</u>
Fund balance - ending	\$ <u>1,218,488</u>	\$ <u>1,218,488</u>	\$ <u>1,474,714</u>	\$ <u>256,226</u>

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

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CITY OF LAKE JACKSON

Lake Jackson, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

September 30, 2007

	Business-Type Activities		
	Enterprise	Golf Course Operating	Total
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	\$ 3,509,501	\$ 190,454	\$ 3,699,955
Receivables (Net of Allowance for Uncollectibles):			
Accounts	448,562	36,488	485,050
Inventory		130,275	130,275
Prepaid expenses		4,260	4,260
	<u>3,958,063</u>	<u>361,477</u>	<u>4,319,540</u>
Current Restricted Assets:			
Restricted Assets:			
Cash and cash equivalents	<u>3,715,663</u>	<u>33,100</u>	<u>3,748,763</u>
Total current restricted assets	<u>3,715,663</u>	<u>33,100</u>	<u>3,748,763</u>
Total current assets	<u>7,673,726</u>	<u>394,577</u>	<u>8,068,303</u>
Noncurrent Assets:			
Restricted Cash and Cash Equivalents:			
Revenue bond covenant accounts	<u>1,495,355</u>		<u>1,495,355</u>
Total noncurrent restricted assets	<u>1,495,355</u>	<u>-0-</u>	<u>1,495,355</u>
Deferred charges	<u>360,497</u>		<u>360,497</u>
Capital Assets:			
Property, plant and equipment	55,239,397	8,742,652	63,982,049
Construction in progress	274,019		274,019
Less accumulated depreciation	<u>(21,363,593)</u>	<u>(830,807)</u>	<u>(22,194,400)</u>
Total capital assets (net of accumulated depreciation)	<u>34,149,823</u>	<u>7,911,845</u>	<u>42,061,668</u>
Total noncurrent assets	<u>36,005,675</u>	<u>7,911,845</u>	<u>43,917,520</u>
Total assets	<u>43,679,401</u>	<u>8,306,422</u>	<u>51,985,823</u>

(Continued)

CITY OF LAKE JACKSON

Lake Jackson, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - Continued

September 30, 2007

	Business-Type Activities		
	Enterprise	Golf Course Operating	Total
<u>Liabilities and Net Assets</u>			
Current Liabilities:			
Accounts payable	\$ 582,441	\$ 62,351	\$ 644,792
Accrued wages	40,139	30,661	70,800
Accrued compensated absences	112,349		112,349
Deferred revenue		107,592	107,592
Revenue bonds payable	624,167		624,167
Capital leases payable – current		47,950	47,950
Due to other funds		215,180	215,180
	<u>1,359,096</u>	<u>463,734</u>	<u>1,822,830</u>
Current Liabilities Payable from Restricted Assets:			
Accounts payable	22,057		22,057
Accrued interest	283,926		283,926
Customer deposits	475,628		475,628
Revenue bonds payable	445,833		445,833
Total current liabilities payable from restricted assets	<u>1,227,444</u>	<u>-0-</u>	<u>1,227,444</u>
Total current liabilities	<u>2,586,540</u>	<u>463,734</u>	<u>3,050,274</u>
Noncurrent Liabilities:			
Revenue bonds payable (net of unamortized discounts)	13,460,000		13,460,000
Capital leases payable		278,124	278,124
Total noncurrent liabilities	<u>13,460,000</u>	<u>278,124</u>	<u>13,738,124</u>
Total liabilities	<u>16,046,540</u>	<u>741,858</u>	<u>16,788,398</u>
Net Assets:			
Invested in capital assets, net of related debt	19,371,704	7,585,771	26,957,475
Restricted For:			
Revenue bond retirement	1,494,985		1,494,985
Construction	2,849,086		2,849,086
Maintenance		33,100	33,100
Unrestricted	<u>3,917,086</u>	<u>(54,307)</u>	<u>3,862,779</u>
Total net assets	<u>\$ 27,632,861</u>	<u>\$ 7,564,564</u>	<u>\$ 35,197,425</u>

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

CITY OF LAKE JACKSON

Lake Jackson, Texas

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS**

For the Year Ended September 30, 2007

	Business-Type Activities		
	Enterprise	Golf Course Operating	Total
Operating Revenues:			
Water service	\$ 2,550,999	\$	\$ 2,550,999
Sewer service	2,777,004		2,777,004
Garbage fees	2,823,869		2,823,869
Tapping and connection fees	232,050		232,050
Golf course fees and charges		1,637,735	1,637,735
Other	<u>54,671</u>	<u>6</u>	<u>54,677</u>
Total operating revenues	<u>8,438,593</u>	<u>1,637,741</u>	<u>10,076,334</u>
Operating Expenses:			
Utility administration	326,437		326,437
Water production and treatment	1,689,556		1,689,556
Water distribution	454,079		454,079
Sewer collection	782,973		782,973
Sewer treatment	1,172,500		1,172,500
Sanitation	2,157,050		2,157,050
Golf course		1,568,306	1,568,306
Depreciation	<u>1,838,931</u>	<u>291,242</u>	<u>2,130,173</u>
Total operating expenses	<u>8,421,526</u>	<u>1,859,548</u>	<u>10,281,074</u>
Operating income (loss)	<u>17,067</u>	<u>(221,807)</u>	<u>(204,740)</u>
Non-Operating Revenues (Expenses):			
Interest revenue	438,134	4,998	443,132
Gain (loss) on disposition of capital assets	16,000		16,000
Interest expense and fiscal charges	<u>(615,411)</u>	<u>(9,417)</u>	<u>(624,828)</u>
Total non-operating revenues (expenses)	<u>(161,277)</u>	<u>(4,419)</u>	<u>(165,696)</u>
Income (loss) before contributions and operating transfers	<u>(144,210)</u>	<u>(226,226)</u>	<u>(370,436)</u>
Transfers in	996,509	100,001	1,096,510
Transfers out	<u>(1,031,018)</u>	<u>(12,380)</u>	<u>(1,043,398)</u>
Change in net assets	<u>(178,719)</u>	<u>(138,605)</u>	<u>(317,324)</u>
Net assets at beginning of year	<u>27,811,580</u>	<u>7,703,169</u>	<u>35,514,749</u>
Net assets at end of year	<u>\$ 27,632,861</u>	<u>\$ 7,564,564</u>	<u>\$ 35,197,425</u>

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

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CITY OF LAKE JACKSON
Lake Jackson, Texas

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS**

For the Year Ended September 30, 2007

	Business-Type Activities		
	Enterprise	Golf Course Operating	Total
Cash Flows from Operating Activities:			
Receipts from customers and users	\$ 8,520,146	\$ 1,679,361	\$ 10,199,507
Payments from other funds		604	604
Payments to suppliers	(4,280,421)	(708,824)	(4,989,245)
Payments to employees	(2,534,418)	(822,290)	(3,356,708)
Net cash provided by operating activities	<u>1,705,307</u>	<u>148,851</u>	<u>1,854,158</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers in	996,509	100,001	1,096,510
Transfers out	(1,031,018)	(12,380)	(1,043,398)
Net cash provided (used) by non-capital financing activities	<u>(34,509)</u>	<u>87,621</u>	<u>53,112</u>
Cash Flows from Capital and Related Financing Activities:			
Purchases of capital assets	(2,408,843)	(158,578)	(2,567,421)
Proceeds from sale of capital assets	16,000		16,000
Proceeds from issuance of revenue bonds	2,000,000		2,000,000
Proceeds from issuance of capital leases		319,569	319,569
Principal paid on capital debt	(970,000)	(292,179)	(1,262,179)
Interest and fiscal charges paid on capital debt	(615,272)	(9,417)	(624,689)
Net cash (used) by capital and related financing activities	<u>(1,978,115)</u>	<u>(140,605)</u>	<u>(2,118,720)</u>
Cash Flows from Investing Activities:			
Interest received	<u>438,134</u>	<u>4,998</u>	<u>443,132</u>
Net cash provided by investing activities	<u>438,134</u>	<u>4,998</u>	<u>443,132</u>
Net increase (decrease) in cash and cash equivalents	130,807	100,865	231,682
Cash and cash equivalents at the beginning of year	<u>8,589,702</u>	<u>122,689</u>	<u>8,712,391</u>
Cash and cash equivalents at the end of year	<u>\$ 8,720,519</u>	<u>\$ 223,554</u>	<u>\$ 8,944,073</u>

(Continued)

CITY OF LAKE JACKSON

Lake Jackson, Texas

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS - Continued**

For the Year Ended September 30, 2007

	Business-Type Activities		
	Enterprise	Golf Course Operating	Total
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 17,067	\$(221,807)	\$(204,740)
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	1,838,931	291,242	2,130,173
(Increase) decrease in accounts receivable	49,113	(7,149)	41,964
(Increase) decrease in inventory		21,232	21,232
(Increase) decrease in prepaid expenses		1,924	1,924
Increase (decrease) in accounts payable	(245,957)	5,395	(240,562)
Increase (decrease) in accrued wages payable	(1,583)	8,641	7,058
Increase (decrease) in accrued compensated absences	15,296		15,296
Increase (decrease) in deferred revenue		48,769	48,769
Increase (decrease) in customer deposits	32,440		32,440
Increase (decrease) in due to other funds		604	604
Total adjustments	<u>1,688,240</u>	<u>370,658</u>	<u>2,058,898</u>
Net cash provided by operating activities	<u>\$ 1,705,307</u>	<u>\$ 148,851</u>	<u>\$ 1,854,158</u>
Non-cash Investing, Capital, and Financing Activities:			
Net effect of non-cash transactions	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

INDEX

Note	Page
1. Summary of Significant Accounting Policies.....	33
2. Deposits, Investments and Derivatives.....	43
3. Deferred Revenue	47
4. Interfund Receivables, Payables and Transfers	48
5. Capital Assets.....	49
6. Allowance for Uncollectible Accounts	52
7. Long-Term Debt	53
8. Pension Plan	59
9. Texas Statewide Emergency Services Personnel Retirement Fund.....	60
10. Deferred Compensation Plan.....	63
11. Contingent Liabilities	64
12. Risk-Pool Participation	64
13. Industrial District Contract	64
14. Grants, Loans, Entitlements and Shared Revenues	65
15. Interlocal Agreement	66
16. Excess of Expenditures Over Appropriations	66
17. Prior Period Adjustment	66

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Lake Jackson (City) operates under a Home Rule Charter adopted in a special election on April 1, 1958. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public services, streets and drainage, sanitation, health and building inspections, culture-recreation, public improvements, planning and zoning, and general administrative services.

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

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations and its component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*.

Based upon the application of these criteria, the following entity is considered a blended component unit. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Financial statements for this component unit can be obtained from the office of the City of Lake Jackson.

Blended component unit – The Lake Jackson Development Corporation, Inc.

On June 5, 1995, the City Council authorized the creation and approved the Articles of Incorporation and the Bylaws of the Lake Jackson Development Corporation, Inc. (the Corporation). The Articles of Incorporation were filed with the Office of the Secretary Of State of Texas on June 23, 1995. The Corporation, a nonprofit corporation, organized under Section 4b of the Development Corporation Act of 1979 was created to act on behalf of the City in the financing of projects.

The Corporation is governed by a seven-member board of directors appointed by the City Council, which includes three members of the City Council. All projects must have prior approval of the City Council. On May 6, 1995, the voters of Lake Jackson approved the levy and collection of a one-half cent sales tax, effective October 1, 1995, to fund the cost of land, buildings, equipment, facilities, and

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Reporting Entity - Continued

improvements for public park purposes, recreational facilities, and for infrastructure improvements for development of new or expanded business enterprises. The corporation provides funding for the City's debt service payments of these approved projects. When the Corporation directly finances construction, the completed facilities are donated to the City upon completion. As the Corporation provides financing services entirely to the City, the Corporation is considered a blended component unit for financial reporting purposes and is reported as if it were part of the City's operations.

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 financial information on all of the nonfiduciary activities of the primary government and its component unit. Except for balances between governmental activities and business-type activities, the effect of 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 program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting operational or capital requirements of a particular program. 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 proprietary funds are reported as separate columns in the fund financial statements. The City has two proprietary funds.

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.

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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - Continued

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City has presented the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The Economic Development Special Revenue Fund accounts for the one-half cent Economic Development Sales tax and approved expenditures for providing parks and recreation facilities and infrastructure projects.

The General Debt Service Fund accounts for the accumulation of resources for the annual payment of general long-term debt principal and interest of governmental funds and to provide a reserve for such payment.

The Court/Emergency Operations Center/Brazos Oaks Construction Fund accounts for the proceeds of the \$ 5.3 million bond issue for providing renovations of the old fire station into an expanded municipal court facility, emergency dispatch and operation center, and to account for the reconstruction of streets and drainage in the Brazos Oaks subdivision.

The City reports the following major proprietary funds:

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

The Golf Course Operating Fund is used to account for the operations of the City's Wilderness Golf Course. Activities of the fund include administration, operations and maintenance of the Wilderness Golf Course. All costs are financed through charges for customer's use of the golf course and government capital contributions and transfers.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) 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 City's Enterprise Fund and Golf Course Operating Fund are charges to customers for sales and services. The City also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system.

Operating expenses for the Enterprise Fund and the Golf Course Operating Fund includes 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 City's policy to use restricted resources first, and then unrestricted resources as they are needed.

New Pronouncements

In April of 2004, the GASB issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)". This Statement provides uniform financial reporting for OPEB plans and supersedes the interim guidance included in Statement No. 26. As the City does not have any postemployment benefit plans, the adoption of this statement will not have an impact, upon its financial position, results of operations or its cash flows.

In May of 2004, the GASB issued Statement No. 44, "Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1. This statement improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. The City adopted this statement during the year ended September 30, 2005.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

GASB No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," was issued June 2004. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is effective for periods beginning after December 15, 2008. As the City does not have any postemployment benefit plans, the adoption of this statement will not have an impact, upon its financial position, results of operations or its cash flows.

GASB No. 46, "Net Assets Restricted by Enabling Legislation: an amendment of GASB Statement No. 34", was issued December 2004. This statement clarifies the meaning of legally enforceable as applied to restrictions on net asset use imposed by enabling legislation. This statement is effective for periods beginning after June 15, 2006. The statement was implemented and did not have a material impact on the City's financial statements.

GASB No. 47, "Accounting for Termination Benefits", was issued April 2005. This statement provides guidance for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, both voluntary and involuntary. The statement was implemented and did not have a material impact on the City's financial statements.

GASB No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues", was issued September 2006. This statement provides guidance for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. This statement is effective for periods beginning after December 15, 2006. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", was issued November 2006. This statement provides guidance for pollution remediation obligations. This statement is effective for periods beginning after December 15, 2007. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City.

GASB No. 50, "Pension Disclosures", was issued May 2007. This statement provides guidance for financial reporting by pension plans and by employers that provide defined benefit and contribution plans. This statement is effective for periods beginning after June 15, 2007. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City.

GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", was issued June 2007. This statement provides guidance for financial reporting of intangible assets for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgetary Data

All departments of the City submit requests for appropriation to the City Manager so that a budget may be prepared. The budget is prepared by fund and includes requested appropriations for the next year. The proposed budget is presented to members of the City Council for review. The City Council holds budget workshops and may add to, subtract from, or change appropriations. A public hearing is held prior to adoption.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level without approval of a majority of the Council. Line item and department budgets may exceed appropriated amounts at the discretion of management as long as total expenditures for the fund do not exceed appropriated amounts. Revisions to the budget were made during the year. Appropriations not exercised in the current year lapse at the end of the year.

The City adopts annual budgets for all significant governmental fund types (general fund, special revenue funds, and debt service funds) and proprietary fund types (Enterprise Fund and Golf Course Operating Fund). The budgets for the capital projects funds are prepared on a project basis with costs being incurred over the project period.

The City prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General, Economic Development Special Revenue, Enterprise Fund and Golf Course Operating Fund to provide a meaningful comparison of actual results with the budget.

Governmental Fund Types:

1. Encumbrances which do not lapse at year-end are treated as budgeted expenditures in the year the commitment to purchase is made.
2. Budgetary amounts do not include provisions for current adjustments in accrued wages.

Proprietary Fund Type:

1. Encumbrances which do not lapse at year-end are treated as budgeted expenditures in the year the commitment to purchase is made.
2. Budgetary amounts do not include provisions for current adjustments in the following:
 - 1). Accrued compensated absences or accrued wages.
 - 2). Depreciation.
 - 3). Accrued interest on long-term debt.

The following reconciles the differences between the legally enacted budget basis and the GAAP basis of accounting for the year ended September 30, 2007:

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgetary Data - Continued

Governmental Fund Types:

	<u>General Fund</u>
Excess of revenues over (under) expenditures - GAAP basis	\$ 1,549,931
Adjustments of accrued wages	<u>29,820</u>
Excess of revenues over (under) expenditures - on budget basis	<u>\$ 1,579,751</u>

Proprietary Fund Types:

	<u>Enterprise Fund</u>
Change in net assets - GAAP basis	\$(178,719)
Provisions for Current Adjustments To:	
Accrued absences and accrued wages	13,713
Depreciation	1,838,644
Amortization of bond issuance costs	<u>26,618</u>
Change in net assets - budgetary basis	<u>\$ 1,700,543</u>
	<u>Golf Course Operating Fund</u>
Change in net assets - GAAP basis	\$(138,605)
Provisions for Current Adjustments To:	
Accrued wages	8,641
Depreciation	<u>291,242</u>
Change in net assets - budgetary basis	<u>\$ 161,278</u>

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized. Encumbrances outstanding at year end are reported as a reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. There were no outstanding encumbrances at September 30, 2007.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and short-term investments with an original maturity date of three months or less. Temporary investments are stated at cost. State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents - Continued

The City maintains a cash and investment pool that is available for use by all funds. Substantially all cash and/or investment transactions of the various funds are conducted through the general fund. During the year, these transactions are recorded in the participating funds due to/from accounts. At year-end, the cash and temporary investments, and investments are prorated to participating funds, thus eliminating related due to/from balances. Negative cash and temporary investments, and investment balances remain in that fund's due to/from accounts.

The City elected to implement GASB Statement No. 31 (GASB 31), *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"* as of September 30, 1996. As a governmental entity other than an external investment pool in accordance with GASB 31, the City's investments are stated at fair value, except for interest-earning investment contracts and external investment pools (See Note 2).

In applying GASB 31, the City utilizes the following methods and assumptions as of September 30.

1. Fair value is based on quoted market prices as of the valuation date.
2. The portfolio did not hold investments in any of the following:
 - a. Items required to be reported at amortized cost,
 - b. Items in external pools that are not SEC-registered,
 - c. Items subject to involuntary participation in an external pool,
 - d. Items associated with a fund other than the fund to which the income is assigned;
3. Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss resulting from the valuation will be recognized within the General Fund to the extent its cash and investments' balance exceeds the cumulative value of those investments subject to GASB 31;
4. The gain/loss resulting from valuation is reported within the revenue account "investment income" on the Statement of Revenues, Expenditures and Changes in Fund Balances.

The City's policy is to hold investments until maturity, or until fair values equal or exceed cost.

Interfund Receivables, Payables and Transfers

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 outstanding balances between funds are reported as "due to/from other funds". The City had no advances between funds. All activity between funds was for short-term cash flow requirements. See Note 4 for additional discussion of interfund receivables, payables and transfers.

Capital Assets

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

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets - 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. The amount of interest cost to be capitalized on assets with tax-exempt borrowing is equal to the cost of the borrowing less interest earned on the related tax-exempt borrowing. No interest was capitalized during the year ended September 30, 2007.

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

Buildings	20-50 Years
Infrastructure	20-40 Years
Furniture, equipment and vehicles	5-10 Years
Improvements other than buildings	10-25 Years

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the City is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years. Under certain circumstances taxpayers and taxing units, including the City, may challenge orders of the BCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on August 1, 2006, upon which the levy for the 2006-07 fiscal year was based, was \$ 1,257,270,190. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to penalty and interest charges plus 20% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended September 30, 2007, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.2390 and \$ 0.1310 per \$ 100 valuation, respectively, for a total of \$ 0.3700 per \$ 100 valuation.

Current tax collections for the year ended September 30, 2007 were 99.01% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of September 30, 2007, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 34,563 and \$ 18,924 for the general and debt service funds, respectively.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences

The City's vacation policy provides that employees are credited with vacation at rates of from 12 to 20 days each calendar year, depending on their length of employment by the City. Employees may accumulate and carry over up to 10 days of vacation to the next calendar year and may sell back accumulated vacation days after having used 6 days during the calendar year. Upon termination, employees are paid for all days of unused accumulated vacation.

The City's sick leave policy provides that employees are credited with sick leave at the rate of 12 days each calendar year. Employees may accumulate up to 90 sick days, however, upon termination, employees are not eligible for payment of accumulated sick days.

The estimated liabilities include required salary related payments. Compensated absences are reported as accrued in the government-wide and proprietary fund financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in wages and benefits payable. As of September 30, 2007, there is no maturing compensated absences payable in the General Fund. Accrued compensated absences reported in the Enterprise Fund at September 30, 2007 totaled \$ 112,349.

Pension Plans

It is the policy of the City to fund pension costs annually. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service costs. In the fiscal year ended September 30, 1999, the City implemented GASB Statement 27, Accounting for Pensions by State and Local Governmental Employers, which standardizes financial reporting for pensions by state and local governmental employers for the Emergency Services Personnel Retirement Fund (the Fund) upon the Fund's adoption of GASB 25. For fiscal year ended September 30, 1998, the City implemented GASB Statement 27 for the Texas Municipal Retirement System (TMRS). At the date of transition and implementation of GASB Statement 27, there was no pension liability or pension asset (see Note 8).

Inventories

The City employs the consumption method of accounting for inventory. Inventories are valued at cost using the first-in first-out method. Purchases are recorded at cost as inventory when purchased, and then charged out as expenditures when used. The reserve for inventory has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures. Inventory at September 30, 2007 consisted of the following:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Supplies	\$ 59,041	\$
Supplies held for resale	<u>66,260</u>	<u>130,275</u>
	<u>\$ 125,301</u>	<u>\$ 130,275</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 straight line 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 the debt is reported as other financing resources. 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.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are unavailable 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.

Net Assets

Net assets represents the differences between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciations, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Restricted net assets, as presented in the government-wide Statement of Net Assets, are reported when constraints placed on the use of net assets are either 1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments), or 2) imposed by law through constitutional provisions or enabling legislation.

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES

The City classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose, a temporary investment is one that when purchased it has maturity of three months or less. Cash and temporary investments, and investments, as reported on the government-wide Statement of Net Assets at September 30, 2007, are as follows:

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Cash Equivalents:			
Cash (petty cash accounts)	\$ 9,700	\$	\$ 9,700
Financial Institution Deposits:			
Demand deposits	3,363,710	789,789	4,153,499
Local Government Investment Pools:			
Texpool	9,857,875	2,345,923	12,203,798
Lone Star Investment Pool	6,667,573	1,586,712	8,254,285
TexSTAR	<u>2,192,229</u>	<u>521,694</u>	<u>2,713,923</u>
	<u>\$ 22,091,087</u>	<u>\$ 5,244,118</u>	<u>\$ 27,335,205</u>
Investments:			
Financial Institution Deposits:			
Certificates of deposit	\$ <u>399,000</u>	\$ _____	\$ <u>399,000</u>
	<u>\$ 399,000</u>	<u>\$ -0-</u>	<u>\$ 399,000</u>

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to them. The City requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the depository must have a bond or in lieu thereof, deposited or pledged securities (or other security) with the City or an independent third party agent, an amount equal to the highest daily balance of all deposits the City may have during the term of the depository contract, less any applicable FDIC insurance.

At September 30, 2007, in addition to petty cash of \$ 9,700, the carrying amount of the City's cash, savings, and time deposits was \$ 4,153,499. The financial institutions balances were \$ 4,788,953 at September 30, 2007. Bank balances of \$ 529,202 were covered by federal depository insurance, \$ 500,000 was covered by SIPC coverage, \$ 1,609,759 was covered by collateral pledged in the City's name, and \$ 2,149,992 was covered by commercial insurance. The pledged collateral was held in safekeeping departments of unrelated banks, which act as the pledging bank's agent.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the Council. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes and "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

The City's Investment Officer submits an investment report each quarter to the Council. The report details the investment positions of the City and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of the United States, or its agencies and instrumentalities, and government sponsored enterprises; and have a maximum stated maturity of five (5) years or less;
2. Certificates of deposit of state and national banks domiciled in Texas, guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or secured by obligations that are described in Section 2256.009 (a) of the Government Code;
3. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities. These shall be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas. A masters repurchase agreement must be signed by the bank/dealer prior to investment in a repurchase agreement;
4. No load money market mutual funds that are registered and regulated by the Securities and Exchange Commission, with a dollar weighted average stated maturity of 90 days or fewer and includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share. Money market mutual funds must provide the City with a prospectus and other information required by the Securities and Exchange Act of 1934 (Section 2256.014 (a) Government Code);
5. Local government investment pools that have been authorized by the governing body by rule, ordinance or resolution. The investment pool must maintain a rating no lower than AAA, AAA-m or an equivalent rating by at least one nationally recognized rating agency; and
6. Interest bearing checking accounts at the City's banking services provider.

The City participates in three Local Government Investment Pools (LGIP): TexPool, Lone Star Investment Pool, and TexSTAR. The State Comptroller oversees TexPool, with Lehman Brothers and Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over Lone Star investment Pool and TexSTAR, advisory boards consisting of participants or their designees, maintains oversight responsibility for Lone Star and TexSTAR.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

The City invests in TexPool, Lone Star Investment Pool, and TexSTAR to provide its liquidity needs. TexPool, Lone Star Investment Pool, and TexSTAR are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool, Lone Star Investment Pool, and TexSTAR are 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. TexPool, Lone Star Investment Pool, and TexSTAR are rated AAAM and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At September 30, 2007 TexPool, Lone Star investment Pool, and TexSTAR, had a weighted average maturity of 35 days, 32 days, and 16 days, respectively. Although TexPool, Lone Star Investment Pool, and TexSTAR portfolios had a weighted average maturity of 35 days, 32 days, and 16 days, respectively, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City is invested in certificates of deposit at four different local financial institutions to provide its liquidity needs. All of the City's investments are insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all investment types of the City at September 30, 2007.

	<u>Maturity Date</u>	<u>Rate %</u>	<u>Weighted Average Maturity (Days)</u>	<u>Fair Value</u>
Investments:				
Local Government Investment Pools:				
Texpool	N/A	Varies daily	1.00	\$ 12,203,798
Lone Star Investment Pool	N/A	Varies daily	1.00	8,254,285
TexSTAR	N/A	Varies daily	<u>1.00</u>	<u>2,713,923</u>
Total local government investment pools			<u>0.98</u>	<u>23,172,006</u>
Certificate of deposit	06-21-08	5.00%	265.00	100,000
Certificate of deposit	08-04-08	3.25%	308.00	100,000
Certificate of deposit	08-29-08	4.80%	333.00	100,000
Certificate of deposit	05-07-08	5.15%	<u>220.00</u>	<u>99,000</u>
Total certificates of deposit			<u>281.65</u>	<u>399,000</u>
Total investments			<u>5.75</u>	<u>\$ 23,571,006</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

Credit Risk - As of September 30, 2007, the LGIP's (which represent approximately 98.31% of the portfolio are rated AAAM by Standard and Poor's, while the certificates of deposits (1.69% of the portfolio) are fully insured.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the City's cash flow requirements.

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The City made no direct investments in derivatives during the year ended September 30, 2007, and holds no direct investments in derivatives at September 30, 2007.

NOTE 3 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of September 30, 2007, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 34,617	\$
Delinquent property taxes receivable (debt service fund)	18,869	
Recreation memberships and deposits	<u> </u>	<u>74,764</u>
Total deferred/unearned revenue from governmental funds	\$ <u>53,486</u>	\$ <u>74,764</u>

As of September 30, 2007, the components of unearned revenue reported in the proprietary funds were as follows:

	<u>Unearned</u>
Service deposits	\$ <u>107,592</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Receivables and Payables

Interfund balances at September 30, 2007 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Golf Course Debt Service Fund	\$ 12,380	\$
Golf Course Operating Fund	<u>202,800</u>	<u> </u>
Total General Fund	<u>215,180</u>	<u>-0-</u>
Golf Course Debt Service Fund:		
Golf Course Operating Fund	12,380	
General Fund		<u>12,380</u>
Total Golf Course Debt Service Fund	<u>12,380</u>	<u>12,380</u>
Golf Course Operating Fund:		
General Fund		202,800
Golf Course Debt Service		<u>12,380</u>
Total Golf Course Operating Fund	<u>-0-</u>	<u>215,180</u>
Total	<u>\$ 227,500</u>	<u>\$ 227,500</u>

Interfund receivables and payables represent short-term borrowings primarily for cash flow purposes. These include short-term borrowings for reimbursement grants and some revenue or expenditures/expense adjustments between funds at or near year-end.

Interfund Transfers

Interfund transfers for the year ended September 30, 2007 consisted of the following individual fund transfers in and transfers out:

<u>Transfers Out</u>	<u>Transfers In</u>				
	<u>Governmental Funds</u>		<u>Proprietary Funds</u>		
	<u>General Fund</u>	<u>Non-Major Governmental</u>	<u>Enterprise</u>	<u>Golf Course</u>	<u>Total</u>
Governmental Funds:					
General Fund	\$	\$	\$ 996,509	\$	\$ 996,509
Economic Development	350,000	1,693,854		100,001	2,143,855
Non-Major Governmental	20,000				20,000
Proprietary Funds:					
Enterprise	1,031,018				1,031,018
Golf Course Operating		<u>12,380</u>			<u>12,380</u>
	<u>\$ 1,401,018</u>	<u>\$ 1,706,234</u>	<u>\$ 996,509</u>	<u>\$ 100,001</u>	<u>\$ 4,203,762</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Interfund Transfers - Continued

These transfers were approved by the City Council as transfers of operational funds to cover planned expenditures/expenses.

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance</u> <u>10/01/06</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/07</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,124,934	\$ 235,000	\$	\$ 2,359,934
Construction in progress	<u>3,747,948</u>	<u>1,885,657</u>	<u>4,916,100</u>	<u>717,505</u>
Total capital assets, not being depreciated	<u>5,872,882</u>	<u>2,120,657</u>	<u>4,916,100</u>	<u>3,077,439</u>
Capital Assets, Being Depreciated:				
Buildings	26,202,247			26,202,247
Improvements	10,572,313	66,172		10,638,485
Equipment	8,744,284	623,159	259,194	9,108,249
Infrastructure	<u>65,828,281</u>	<u>4,909,812</u>		<u>70,738,093</u>
Total capital assets, being depreciated	<u>111,347,125</u>	<u>5,599,143</u>	<u>259,194</u>	<u>116,687,074</u>
Less Accumulated Depreciation For:				
Buildings	7,325,512	543,964		7,869,476
Improvements	5,023,659	448,712		5,472,371
Equipment	5,423,485	701,262	259,194	5,865,553
Infrastructure	<u>46,909,356</u>	<u>2,870,588</u>		<u>49,779,944</u>
Total accumulated depreciation	<u>64,682,012</u>	<u>4,564,526</u>	<u>259,194</u>	<u>68,987,344</u>
Total capital assets, being depreciated, net	<u>46,665,113</u>	<u>1,034,617</u>	<u>-0-</u>	<u>47,699,730</u>
Governmental activities capital assets, net	<u>\$ 52,537,995</u>	<u>\$ 3,155,274</u>	<u>\$ 4,916,100</u>	<u>\$ 50,777,169</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 5 - CAPITAL ASSETS - Continued

	<u>Balance</u> <u>10/01/06</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/07</u>
Business-type Activities (Utility Fund):				
Capital Assets, Not Being Depreciated:				
Construction in progress	\$ <u>781,834</u>	\$ <u>1,241,015</u>	\$ <u>1,748,830</u>	\$ <u>274,019</u>
Total capital assets, not being depreciated	<u>781,834</u>	<u>1,241,015</u>	<u>1,748,830</u>	<u>274,019</u>
Capital Assets, Being Depreciated:				
Buildings	5,399,947			5,399,947
Improvements other than buildings	24,413,315	1,679,580		26,092,895
Equipment	4,569,726	1,189,803	713,787	5,045,742
Infrastructure	<u>18,653,538</u>	<u>47,275</u>		<u>18,700,813</u>
Total capital assets, being depreciated	<u>53,036,526</u>	<u>2,916,658</u>	<u>713,787</u>	<u>55,239,397</u>
Less Accumulated Depreciation:				
Buildings	3,245,688	132,533		3,378,221
Improvements other than buildings	12,265,616	640,774		12,906,390
Equipment	2,985,567	471,699	713,787	2,743,479
Infrastructure	<u>1,741,578</u>	<u>593,925</u>		<u>2,335,503</u>
Total accumulated depreciation	<u>20,238,449</u>	<u>1,838,931</u>	<u>713,787</u>	<u>21,363,593</u>
Total capital assets, being depreciated, net	<u>32,798,077</u>	<u>1,077,727</u>	<u>-0-</u>	<u>33,875,804</u>
Business-type activities capital assets, net	\$ <u>33,579,911</u>	\$ <u>2,318,742</u>	\$ <u>1,748,830</u>	\$ <u>34,149,823</u>
	<u>Balance</u> <u>10/01/06</u>	<u>Adjustments/</u> <u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/07</u>
Business-type Activities (Golf Course Fund):				
Capital Assets, Not Being Depreciated:				
Land	\$ <u>3,821,585</u>	\$ _____	\$ _____	\$ <u>3,821,585</u>
Total capital assets, not being depreciated	<u>3,821,585</u>	<u>-0-</u>	<u>-0-</u>	<u>3,821,585</u>
Capital Assets, Being Depreciated:				
Buildings	1,222,546			1,222,546
Improvements other than buildings	2,993,723			2,993,723
Equipment	<u>734,498</u>	<u>593,716</u>	<u>623,416</u>	<u>704,798</u>
Total capital assets, being depreciated	<u>4,950,767</u>	<u>593,716</u>	<u>623,416</u>	<u>4,921,067</u>

(continued)

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 5 - CAPITAL ASSETS - Continued

	<u>Balance</u> <u>10/01/06</u>	<u>Adjustments/</u> <u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/07</u>
Less Accumulated Depreciation:				
Buildings	\$ 154,148	\$ 61,659	\$	\$ 215,807
Improvements other than buildings	373,482	149,720		523,202
Equipment	<u>200,213</u>	<u>79,863</u>	<u>188,278</u>	<u>91,798</u>
Total accumulated depreciation	<u>727,843</u>	<u>291,242</u>	<u>188,278</u>	<u>830,807</u>
Total capital assets, being depreciated, net	<u>4,222,924</u>	<u>302,474</u>	<u>435,138</u>	<u>4,090,260</u>
Business-type activities capital assets, net	\$ <u>8,044,509</u>	\$ <u>302,474</u>	\$ <u>435,138</u>	\$ <u>7,911,845</u>
	<u>Balance</u> <u>10/01/06</u>	<u>Adjustments/</u> <u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/07</u>
Business-type Activities (Combined):				
Capital Assets, Not Being Depreciated:				
Land	\$ 3,821,585	\$	\$	\$ 3,821,585
Construction in progress	<u>781,834</u>	<u>1,241,015</u>	<u>1,748,830</u>	<u>274,019</u>
Total capital assets, not being depreciated	<u>4,603,419</u>	<u>1,241,015</u>	<u>1,748,830</u>	<u>4,095,604</u>
Capital Assets, Being Depreciated:				
Buildings	6,622,493			6,622,493
Improvements other than buildings	27,407,038	1,679,580		29,086,618
Equipment	5,304,224	1,783,519	1,337,203	5,750,540
Infrastructure	<u>18,653,538</u>	<u>47,275</u>		<u>18,700,813</u>
Total capital assets, being depreciated	<u>57,987,293</u>	<u>3,510,374</u>	<u>1,337,203</u>	<u>60,160,464</u>
Less Accumulated Depreciation:				
Buildings	3,399,836	194,192		3,594,028
Improvements other than buildings	12,639,098	790,494		13,429,592
Equipment	3,185,780	551,562	902,065	2,835,277
Infrastructure	<u>1,741,578</u>	<u>593,925</u>		<u>2,335,503</u>
Total accumulated depreciation	<u>20,966,292</u>	<u>2,130,173</u>	<u>902,065</u>	<u>22,194,400</u>
Total capital assets, being depreciated, net	<u>37,021,001</u>	<u>1,380,201</u>	<u>435,138</u>	<u>37,966,064</u>
Business-type activities capital assets, net	\$ <u>41,624,420</u>	\$ <u>2,621,216</u>	\$ <u>2,183,968</u>	\$ <u>42,061,668</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 5 - CAPITAL ASSETS - Continued

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

Governmental Activities:

General government	\$ 191,451
Public safety	568,417
Public works, including depreciation of infrastructure	3,055,433
Culture and recreation	<u>749,225</u>

Total depreciation expense-governmental activities \$ 4,564,526

Business-type Activities:

Water and sewer	\$ 1,468,349
Sanitation	370,583
Golf course	<u>291,242</u>

Total depreciation expense-business-type activities \$ 2,130,174

Governmental Fund Construction Commitments

The City has entered into contracts for construction as of September 30, 2007, as follows:

	Project Authorization	Expended to Date	Commitment
Utility line relocation	\$ 12,500	\$ 7,500	\$ 5,000
Court renovation - architecture	<u>281,250</u>	<u>16,875</u>	<u>264,375</u>
Total	\$ <u>293,750</u>	\$ <u>24,375</u>	\$ <u>269,375</u>

Proprietary Fund Construction Commitments

None

NOTE 6 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Taxes

Ad valorem taxes receivable are reserved based on historical experience and evaluation of collectivity as the lesser of a percentage of the original levy and the current receivable for each levy year. The following is a summary of the allowance for uncollectible taxes by fund:

General Fund	\$ 24,439
Debt Service Fund	<u>14,450</u>
Total	\$ <u>38,889</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 6 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS - Continued

Customer Receivables

The allowance for uncollectible receivables related to City services is determined based on historical experience and evaluation of collectibility in relation to the aging of customer accounts. The allowance for uncollectible receivables for the year ended September 30, 2007 was \$ 49,172.

Special Assessments

The special assessments against property owners for capital improvements were financed with currently available resources of the capital projects funds. As only special assessments received are considered both measurable and available, the balance of the special assessment is recorded as deferred revenue. The allowance for uncollectible special assessment receivables related to special assessments against property owners for capital improvements in prior years is determined based on historical experience and evaluation of collectibility in relation to aging of the special assessments. The City has recorded an allowance of \$ 99,446 for the year ended September 30, 2007.

NOTE 7 - LONG-TERM DEBT

General Obligation Bonds\Certificates of Obligation

In July 1996, the City issued City of Lake Jackson, Texas, Combination Tax and Revenue Certificates of Obligation Bonds, Series 1996, in the amount of \$ 7,300,000 for constructing or reconstructing and improving street, drainage, sidewalk, and water and sewer improvements.

In November 1997, the City issued City of Lake Jackson, Texas, General Obligation Bonds, Series 1997, in the amount of \$ 2,100,000 for constructing or reconstructing and improving street, drainage, sidewalk, and water and sewer improvements. Further, in November 1997, the City issued City of Lake Jackson, Texas General Obligation Bonds, Series 1997, in the amount of \$ 5,950,000 for construction and equipment of a community/civic center and plaza, and a youth sports complex.

In March 1999, the City issued City of Lake Jackson, Texas, General Obligation Bonds, Series 1999, in the amount of \$ 4,250,000 for constructing and improving street, drainage, sidewalk, and water and sewer improvements.

On January 20, 2001 the voters authorized the issuance of \$ 10,800,000 in general obligation bonds. In April 2001, the City issued \$ 3,600,000 of these City of Lake Jackson, Texas, General Obligation Bonds, Series 2001 for constructing and improving street, drainage, sidewalk, and water and sewer improvements. In December 2002, the City issued another \$ 3,600,000 of these bonds, the City of Lake Jackson, Texas, Limited Tax Bonds, Series 2002A for the construction of Fire and EMS facilities. During the year ended September 30, 2004, the City sold the remaining \$ 3,600,000 of these bonds, the City of Lake Jackson, Texas, Limited Tax Bonds, Series 2004 for constructing or reconstructing and improving streets, drainage, sidewalks, water and sewer improvements, and other infrastructure projects.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 7 - LONG-TERM DEBT - Continued

General Obligation Bonds\Certificates of Obligation - Continued

In May 2002, the City issued City of Lake Jackson, Texas, Limited Tax Bonds, Series 2002, in the amount of \$ 6,000,000 for financing the construction of a golf course facility. The Bonds were authorized at an election held on January 18, 1997.

In May 2003, the City issued \$ 1,200,000 of City of Lake Jackson, Texas Certificates of Obligation, Series 2003, for additional golf course construction costs.

In May 2003, the City advance refunded the remaining City of Lake Jackson, Texas, General Obligation Bonds, Series 1989 and Series 1993, for \$ 1,750,000 and \$ 770,000 respectfully. The City issued \$ 2,615,000 of limited tax refunding bonds to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's accounts. This advance refunding was undertaken to reduce total debt service payments over the next ten years by \$ 239,054 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$ 205,745. These defeased bonds were called prior to September 30, 2003; therefore, there are no outstanding bonds that are considered to be defeased.

On May 16, 2007, the City issued City of Lake Jackson, Texas, Limited Tax Bonds, Series 2007, in the amount of \$ 5,300,000 for financing the construction of the municipal court, emergency operation and dispatch center, and street and drainage improvements in the Brazos Oaks subdivision. The Bonds were authorized at an election held May 7, 2005.

General obligation bonds and certificates of obligation payable for governmental activities at September 30, 2007, are summarized as follows:

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/07
		Issued	Maturity	Callable	
Certificates of Obligation Series 1996	5.00 - 7.00	1996	2013	2007	\$ 3,650,000
Certificates of Obligation Series 1997	4.00 - 6.00	1997	2013	2008	1,625,000
General Obligation Bond - Series 1997	4.50 - 6.50	1997	2019	2008	1,200,000
General Obligation Bond - Series 1999	4.00 - 6.00	1999	2019	2009	2,475,000
General Obligation Bond - Series 2001	4.10 - 6.00	2001	2021	2011	2,520,000
Limited Tax Bond - Series 2002	4.00 - 5.00	2002	2023	2013	5,175,000

(continued)

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 7 - LONG-TERM DEBT - Continued

General Obligation Bonds\Certificates of Obligation - Continued

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/07
		Issued	Maturity	Callable	
Limited Tax	2.75 -				
Bond - Series 2002A	4.50	2002	2022	2013	\$ 2,700,000
Limited Tax Refunding	2.50 -				
Bond - Series 2003	3.50	2003	2013	N/A	1,345,000
Certificates of Obligation	2.50 -				
Series 2003	4.55	2003	2023	2012	960,000
Limited Tax Bond	3.30 -				
Series 2004	4.20	2004	2024	2013	3,060,000
Limited Tax Bond	3.875 -				
Series 2007	4.00	2007	2027	2017	<u>5,300,000</u>
Total					<u>\$ 30,010,000</u>

General obligation bond transactions for the year ended September 30, 2007 were as follows:

Bonds outstanding, October 1	\$ 27,055,000
Issues	5,300,000
Maturities	<u>(2,345,000)</u>
Bonds outstanding, September 30	<u>\$ 30,010,000</u>

The bond ordinances require that a tax be levied sufficient to pay current interest and create a sinking fund of not less than two percent of the principal of the then outstanding bonds or the amount to pay current principal, whichever is greater. For the year ended September 30, 2007, the amount of ad valorem taxes collected for interest and sinking was \$ 1,771,911. The debt service requirements for principal and interest was \$ 3,612,213. In addition, \$ 1,706,234 was transferred to the debt service funds. The bond resolutions provide no express remedies in the event of default and make no provision for acceleration of maturity of the bonds.

The following is a summary of general obligation bond requirements for governmental activities by year as of September 30, 2007:

Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2008	\$ 2,580,000	\$ 1,231,992	\$ 3,811,992
2009	2,260,000	1,133,407	3,393,407
2010	2,355,000	1,037,848	3,392,848
2011	2,205,000	941,212	3,146,212
2012	2,210,000	847,605	3,057,605
2013-2017	9,685,000	2,944,363	12,629,363
2018-2022	7,475,000	1,228,490	8,703,490
2023-2027	<u>1,240,000</u>	<u>88,580</u>	<u>1,328,580</u>
Total	<u>\$ 30,010,000</u>	<u>\$ 9,453,497</u>	<u>\$ 39,463,497</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 7 - LONG-TERM DEBT - Continued

Revenue Bonds Payable

On May 1, 2007, the City issued City of Lake Jackson, Texas, Waterworks and Sewer System Revenue bonds, Series 2007, in the amount of \$ 2,000,000 for financing repairs on lift stations and sewer lines. The bonds were authorized at an election held on May 7, 2005.

Revenue bonds payable for business-type activities at September 30, 2007, are summarized as follows:

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/07
		Issued	Maturity	Callable	
Revenue Bonds	2.50 -				
Series 1993A	5.40	1993	2013	2003	\$ 430,000
Revenue Bonds -	5.00 -				
Series 1996	7.00	1996	2016	2007	900,000
Revenue Bonds -	5.00 -				
Series 2000	7.00	2000	2021	2011	11,200,000
Revenue Bonds -	4.00 -				
Series 2007	5.00	2007	2027	2017	<u>2,000,000</u>
 Total					 <u>\$ 14,530,000</u>

Revenue bond transactions for the year ended September 30, 2006 were as follows:

Bonds outstanding, October 1	\$ 13,500,000
Issues	2,000,000
Maturities	<u>(970,000)</u>
 Bonds outstanding, September 30	 <u>\$ 14,530,000</u>

The bond ordinances require that amounts sufficient to pay the next scheduled principal and interest payment be paid into a sinking account in equal monthly installments. At September 30, 2007, the required balance in the sinking fund was \$ 700,356. Additionally, bond ordinances require a Reserve Fund in an amount equal to the succeeding fiscal year's interest and principal payment be accumulated and maintained. This fund is to be accumulated within sixty-one months from the date additional bonds are issued. At September 30, 2007, the required balance in the reserve fund was \$ 1,495,355. At September 30, 2007, the balance in the City's reserve/sinking accounts designated for interest and sinking totaled \$ 722,197; and the designated amount for the reserve totaled \$ 1,495,355. The total account balance of \$ 2,217,552 is sufficient to cover the combined reserve and sinking requirement of \$ 2,195,711.

The bond ordinances require that before new revenue bonds can be issued, the net earnings of the system for the last fiscal year, or for any twelve consecutive calendar month period ending not more than ninety days prior to the adoption of the ordinance authorizing the issuance of such additional bonds, were at least 1.25 times the average annual principal and interest requirements for all then outstanding parity bonds and for the series of additional bonds then proposed to be issued.

The following is a summary of revenue bond requirements for business-type activities by year as of September 30, 2007:

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 7 - LONG-TERM DEBT - Continued

Revenue Bonds Payable - Continued

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2008	\$ 1,070,000	\$ 608,355	\$ 1,678,355
2009	1,070,000	564,680	1,634,680
2010	1,070,000	520,720	1,590,720
2011	1,070,000	476,610	1,546,610
2012	1,070,000	432,065	1,502,065
2013-2017	4,980,000	1,501,370	6,481,370
2018-2022	3,700,000	499,200	4,199,200
2023-2027	<u>500,000</u>	<u>50,000</u>	<u>550,000</u>
Total	<u>\$ 14,530,000</u>	<u>\$ 4,653,000</u>	<u>\$ 19,183,000</u>

Capital Leases

During the fiscal year ending September 30, 2005, the City purchased golf course machinery and equipment under capital lease, with effective interest rate of 4.86%. During the year ended September 30, 2007, the City purchased golf course machinery and equipment under capital leases, with effective interest rates of 5.35% to 7.21%. Current requirements for principal and interest expenditures accounted for in the Golf Course Operating Fund were \$ 144,831 and \$ 9,417, respectively.

The leased assets and related obligations are accounted for in the business-type activities column of the government-wide financial statements as capital assets and noncurrent liabilities. Current year depreciation on leased assets totaled \$ 62,578 and has been included in depreciation expense.

The assets acquired through capital leases are as follows:

Asset:

Machinery and equipment	\$ 646,373
Less accumulated depreciation	<u>37,437</u>
Total	<u>\$ 608,936</u>

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments, as of September 30, 2007:

<u>Year Ended September 30,</u>	<u>Amount</u>
2008	\$ 63,546
2009	62,309
2010	58,596
2011	56,443
2012	<u>139,047</u>
	379,941
Less amount representing interest	<u>53,867</u>
Net present value of minimum lease payments	<u>\$ 326,074</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 7 - LONG-TERM DEBT - Continued

Operating Leases

The City is involved in various operating leases as lessor. These leases are for exercise equipment utilized at the Recreation Center. These leases are for periods through 2009.

Minimum future rentals to be received on noncancelable leases, as of September 30, 2007, for each of the next five years and in the aggregate are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2008	\$ 18,579
2009	<u>5,555</u>
	<u>\$ 24,134</u>

Changes in Outstanding Debt

Transactions for the year ended September 30, 2007 are summarized as follows:

	<u>Balance</u> <u>10-01-06</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>09-30-07</u>	<u>Due Within</u> <u>One Year</u>
Governmental Type Activities:					
General obligation bonds	\$ 6,700,000	\$	\$ 505,000	\$ 6,195,000	\$ 505,000
Certificates of obligation bonds	7,160,000		925,000	6,235,000	925,000
Limited tax bonds	13,195,000	5,300,000	915,000	17,580,000	1,150,000
Components of Bonded Debt:					
Premiums on bonds	18,111	613	2,729	15,995	2,728
Discounts on bonds	(9,163)	574		(8,589)	(574)
Accrued interest payable	48,970	53,565	48,970	53,565	53,565
Compensated absences	<u>444,141</u>	<u>385,884</u>	<u>372,729</u>	<u>457,296</u>	<u>457,296</u>
Total governmental activities	<u>27,557,059</u>	<u>5,740,636</u>	<u>2,769,428</u>	<u>30,528,267</u>	<u>3,093,015</u>
Business-Type Activities:					
Revenue bonds	13,500,000	2,000,000	970,000	14,530,000	1,070,000
Capital leases	298,684	172,221	144,831	326,074	47,950
Components of Bonded Debt:					
Accrued interest payable	259,048	283,926	259,048	283,926	283,926
Compensated absences	<u>97,053</u>	<u>90,428</u>	<u>75,132</u>	<u>112,349</u>	<u>112,349</u>
Total business-type activities	14,154,785	2,546,575	1,449,011	15,252,349	1,514,225
Less Portion Payable from Restricted Assets:					
Revenue bonds payable	404,167	41,666		445,833	445,833
Accrued interest payable	<u>259,048</u>	<u>283,926</u>	<u>259,048</u>	<u>283,926</u>	<u>283,926</u>
Net business-type activities	<u>13,491,570</u>	<u>2,220,983</u>	<u>1,189,963</u>	<u>14,522,590</u>	<u>784,466</u>
Total government (net)	<u>\$ 41,048,629</u>	<u>\$ 7,961,619</u>	<u>\$ 3,959,391</u>	<u>\$ 45,050,857</u>	<u>\$ 3,877,481</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 8 - PENSION PLAN

Plan Description

The City provides pension benefits for all of its full-time employees except volunteer firefighters, through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employees 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.

Members can retire at ages 60 and above with 5 or more years of service or with 20 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. The contribution rate for the employees is 5% (increased to 6% in January 2007), and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City.

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service 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 which is open. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2006 valuation is effective for rates beginning January 2008).

The last actuarial valuation was conducted on December 31, 2006. Significant actuarial assumptions used include (a) a unit credit actuarial cost method, (b) a 25 years-open period remaining amortization period, (c) a level percent of payroll amortization method, (d) no projected salary increases, (e) no inflation adjustment, (f) no cost of living adjustment, (g) an amortized cost asset valuation method, and (h) a rate of return on the investments of 7.00 percent per year and an inflation rate of 3.5 percent per year.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 8 - PENSION PLAN - Continued

Contributions - Continued

Financial reports that include financial statements and supplementary information are publicly available by writing or calling the following:

Texas Municipal Retirement System
 PO Box 149153
 Austin, TX 78714-9153
 (877) 634-8595

The following is a summary of funding progress for the last three years.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets**</u> (a)	<u>Actuarial Accrued Liability* (AAL)-</u> (b)	<u>Unfunded AAL (UAAL)</u> (b-a)	<u>Percentage Funded</u> (a/b)	<u>Annual Covered Payroll</u> (c)	<u>UAAL as a Percentage of Covered Payroll</u> (b-a)/(c)
2004	\$ 19,725,878	\$ 21,707,154	\$ 1,981,276	90.90%	\$ 7,956,711	24.90%
2005	20,498,844	22,693,304	2,194,460	90.30%	7,858,991	27.90%
2006	21,427,796	24,948,118	3,520,322	85.89%	8,041,269	43.78%

* As of December 31 of the preceding year, the date of the actuarial valuation.

** Assets are stated cost as of December 31 of the preceding year.

Schedule of Employer Contributions

<u>Fiscal Year Ended September 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contribution</u>
2005	\$ 722,700	100.00%
2006	742,690	100.00%
2007	721,744	100.00%

The pension liability at transition was determined in accordance with the provisions of GASB Statement No. 27 and was zero. Amounts provided prior to adoption of GASB Statement No. 27 are amounts provided under GASB Statement No. 5.

NOTE 9 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND

Plan Description

The Fire Fighters' Pension Commissioner is the administrator of the Texas Statewide Emergency Services Personnel Retirement Fund (TESRS), 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. TESRS 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. At August 31, 2006, there were 181 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 9 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND - Continued

Plan Description - Continued

The table below summarizes the TESRS membership as of August 31, 2006:

Retirees and beneficiaries currently receiving benefits	1,766
Terminated participants entitled to benefits but not yet receiving them	1,815
Current active participants (vested and nonvested)	4,480

The above membership count does not include retirees and beneficiaries that have been in the H.B. 258 Texas Local Fire Fighters Retirement Act (TLFFRA) fund before merging into S.B.411. Of the 4,610 current members, 3 were covered by Lake Jackson Emergency Services Department (ESD) and 36 were covered by the Lake Jackson Voluntary Fire Department (VFD).

Senate Bill 411, 65th Legislature, Regular Session (1977) created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Member are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

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 6.2% 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

Funding Policy

Contribution provisions were established by S.B. 411, 65th Legislative, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up to a limited amount to make TESRS actuarially sound.

Annual Required Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2006 total contributions (dues and prior service) of \$ 2,077,728 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. In addition, the state appropriated \$ 675,307 for the fiscal year ending August 31, 2006. Total contributions made were equal to the contributions required by the state statute and were equal to the contributions required based on the revised August 31, 2004 actuarial valuation.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 9 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND -
Continued

Annual Required Contributions - Continued

The purpose of the biennial actuarial valuation is to test the adequacy of the financing arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2006 revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2007 (\$ 709,613 as the maximum state contribution according to state law plus approximately \$ 400,000 to help pay for the System's administrative expenses) and with the assumed continuation of legislative appropriations of (1) the maximum state contributions amount in future years for up to 30 years as is necessary for the System to have a 30-year amortization period, and (2) approximately \$ 400,000 each year to help pay for the System's administrative expenses. Expected contributions for the fiscal year ending August 31, 2007 are equal to the contributions required. Since the amount of contributions from the state for the City's participants is not sum certain and is both unavailable and immaterial, no income or expenditures have been recorded for on-behalf payments of fringe benefits.

Required Supplementary Information - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) ¹ - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
8/31/02	\$ 32,797,262	\$ 45,976,387	\$ 13,179,125	71.3%	7,669	1,718
8/31/04	38,140,501	51,567,426	13,426,925	74.0%	7,994	1,680
8/31/06	42,268,305	58,082,828	15,814,523	72.8%	8,061	1,962

Notes:

¹ The actuarial accrued liability is based upon the entry age actuarial cost method.

² Changes in actuarial assumptions and methods as well as benefit and contribution provisions were first reflected in this valuation.

Fiscal Year Ending	Three-Year Trend Information	
	Annual Required Contributions (ARC)	Percentage of ARC Contributed
August 31, 2004	\$ 2,896,557 ¹	65%
August 31, 2005	3,206,300 ²	50%
August 31, 2006	2,753,035 ³	100%

¹ Based on the August 31, 2002 actuarial valuation.

² Based on the original August 31, 2004 actuarial valuation.

³ Based on the revised August 31, 2004 actuarial valuation.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 9 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND - Continued

Required Supplementary Information - Schedule of Funding Progress - Continued

The actuarial assumptions and methods for the two most recent biennial valuations are shown below.

Valuation date	August 31, 2004	August 31, 2006
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period	Infinity	30 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 90%/110% corridor on market value	Market value smoothed by a 5-year deferred recognition method with a 90%/110% corridor on market value
Actuarial assumptions:		
Investment rate of return*	8.00% per year, net of investment expenses	8.00% per year, net of investment expenses
Projected salary increases	N/A	N/A
* Included inflation at	3.75%	3.75%
Cost-of-living adjustments	None	None

A report may be obtained by contacting the Texas Comptroller, Post Office Box 13528, Capitol Station, Austin, Texas 78711-3528.

NOTE 10 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by the ICMA Retirement Corporation (ICMA). On January 1, 1997, ICMA transferred all Plan assets and income, as described in IRC Section 457, subsection (b)(6), into a trust for the exclusive benefit of the participants and their beneficiaries. At that time, the City adopted GASB Statement No. 32. As the City does not hold the Plan assets in a trustee capacity, the Plan is not considered a Trust and Agency Fund and is not included in the City's financial statements.

The plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the participants and their beneficiaries.

The City has no liability for losses under the plan but does have the duty of care that would be required of an ordinary prudent investor.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 11 - CONTINGENT LIABILITIES

In accordance with Financial Accounting Standards Board Statement No. 5, the City has recorded an arbitrage liability for fiscal year ended September 30, 2006 totaling \$ 10,155 on the City's Certificates of Obligation, Series 1997. The City has recorded the arbitrage rebate as a reduction of interest income on the invested debt proceeds with a related liability in the appropriate Capital Projects Fund. During the year ended September 30, 2007, the City's arbitrage liability was paid.

The City is contingently liable in respect to lawsuits and other claims in the ordinary course of its operations. The potential settlement (if any) of such contingencies under the budgetary process would require appropriation of revenues yet to be realized and would not materially affect the financial position of the City at September 30, 2007.

NOTE 12 - RISK POOL PARTICIPATION

The City is a participant in the Texas Municipal League Intergovernmental Risk Pool for coverage of liability, property, worker's compensation and medical insurance claims. The City pays annual premiums to the pool for the coverages stated. The agreement with the Texas Municipal League Intergovernmental Risk Pool requires the pool to be self-sustaining. Property and liability insurance provide varying and appropriate coverage, with most claims subject to a \$ 5,000 deductible. Workers compensation claims are managed by the Texas Municipal League. For medical insurance claims, the City pays insurance premiums for full coverage and has no liability for claims filed by employees or their covered dependents.

NOTE 13 - INDUSTRIAL DISTRICT CONTRACT

The City of Lake Jackson in conjunction with the Cities of Clute and Freeport has entered into a contract with the Dow Chemical Company, BASF Corporation, and the Brock interests. The Cities gave consideration in the two following forms:

1. The Cities have agreed to refrain from initiating proceedings for the annexation of all or part of land described and outlined in the contract as Industrial Districts.
2. Respective codes, ordinances and laws of the Cities pertaining to building or construction, zoning, electrical, plumbing, health and safety regulations, air and water quality regulations and supervision; will not be applicable to the Districts.

The two corporations have in turn given consideration to the Cities in the following two forms:

1. Each City is to receive a sum of money to be calculated on an annual basis over the terms of the contract.
2. The Cities will not be expected to provide within the Districts the ordinary municipal services such as water, sewage disposal, drainage, police and fire protection except in the event of an emergency.

During the fiscal year 2001, a new industrial district contract was negotiated. The term of this contract is for ten (10) years from April 1, 2001 through March 31, 2011. Contract payments are payable in semi-annual installments each June 30 and December 31. The amount of the payments are to be calculated each year based upon the industrial district's taxable value times contracted rate (ranging from 0.325 in 2001 to 0.500 in 2010) times the value weighted tax rate. Total industrial district revenues received during the year ended September 30, 2007 amounted to \$ 3,220,061.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 14 - GRANTS, LOANS, ENTITLEMENTS AND SHARED REVENUES

During the year ended September 30, 2007, the City applied for and received federal grants related to various activities. The operations of these grants are reported in the General Fund and Capital Projects Funds. These grants are reimbursement type grants; therefore, revenues equal expenditures. Grant revenues are classified as intergovernmental revenues.

<u>Transfers Out:</u>	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
Federal Grants:			
U.S. Department of Housing and Urban Development:			
Community Development Block Grant	\$	\$ 12,652	\$ 12,652
U.S. Department of Transportation:			
Congestion Mitigation/Air Quality Improvement Funds - Clean Vehicle (Hike and Bike Trail)		325,785	325,785
Congestion Mitigation/Air Quality Improvement Funds - Clean Vehicle (CNG Garbage Trucks)	107,663		107,663
U.S. Department of Energy:			
CNG Station Expansion		150,000	150,000
U.S. Department of Justice:			
COPS Universal Hiring Award	<u>25,000</u>		<u>25,000</u>
 Total	 <u>\$ 132,663</u>	 <u>\$ 488,437</u>	 <u>\$ 621,100</u>
			<u>General Fund</u>
State Grant:			
Houston/Galveston Area Council:			
Oak Drive Lighting program			<u>\$ 25,000</u>

As of September 30, 2007, all cash and in-kind matching requirements had been met for those grants requiring local matching.

During the year ending September 30, 2000, the City received a \$ 16,000,000 loan from the Texas Water Development Board, which represents pass-through Federal assistance from the Environmental Protection Agency. This loan is accounted for in the Enterprise Fund with the liability included in revenue bonds payable (See Note 7). Requirements of the Single Audit Act and OMB Circular A-133 do not apply.

CITY OF LAKE JACKSON

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

NOTE 15 - INTERLOCAL AGREEMENT

During the year ended September 30, 2003, the City entered into an Interlocal Agreement with the City of Freeport, City of Clute, and the Society for the Prevention of Cruelty of Animals of Brazoria County (the SPCA), and the Southern Brazoria County Animal Shelter (the Shelter) to provide an animal shelter and related programs facility. This agreement is for twenty (20) years, being effective as of March 1, 2003 and ending on February 28, 2023. The Cities of Clute and Freeport each contributed \$ 150,000, with the SPCA contributing \$ 250,000 to the City of Lake Jackson as a cash grant to pay for the design and construction of the facility. The City of Lake Jackson agreed as its capital contribution to enter into a twenty (20) year lease subject to renewal on the same terms, as the agreement is renewed, for 5 acres of land and a \$ 1.1 million dollar facility that the City of Lake Jackson will own. The City of Lake Jackson's capital contribution has an agreed cash value of \$ 565,000.

The Shelter hired the SPCA to provide all administrative services necessary to administer the programs on behalf of the Cities and the SPCA. Each of the three Cities and the SPCA agreed to appropriate to the Shelter for the first year of the term of the agreement, in addition to their capital contribution, a stated amount for use in carrying out the programs developed by the Shelter and for its administrative operating services. For the year ending September 30, 2007, the City paid the Shelter \$ 101,747 under this agreement.

NOTE 16 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended September 30, 2007, expenditures exceeded appropriations in the funds as follows:

Special Revenue Funds:		
Park	\$	10,079
Motel Occupancy Tax		50,374
Memorial Garden		4,235
Debt Service Funds:		
General Debt Service		1,827

The budget was not amended; however, the City Council approved these expenditures as required by City budget procedures.

NOTE 17 - PRIOR PERIOD ADJUSTMENT

During the year ended September 30, 2005, the City made an expenditure, in the amount of \$ 131,250, related to a grant (U.S. Department of Transportation - Congestion Mitigation/Air Quality Improvement Funds (Clean Vehicle Program)) administered through the Houston Galveston Area Council. This expenditure was not identified as a grant expenditure and the related grant revenue, received during the year ended September 30, 2006, was not accrued. Consequently, grant income and fund balance within the General Fund was understated at and for the year ended September 30, 2005 by \$ 131,250.

***COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES***

COMBINING FINANCIAL STATEMENTS

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Park Fund – This fund is used to account for resources and expenditures dedicated to small park improvements. Projects primarily include ball fields and general park enhancements, as well as some small park facility and equipment acquisitions. This fund was primarily supported by developer cash donations in lieu of park land, but more recently has been funded by general fund transfers.

Motel Occupancy Tax Fund – This fund is used to account for resources generated from the local hotel/motel occupancy tax. Revenue from this fund has been distributed to the Fine Arts Council, the Museum of Natural Science, Brazosport Area Chamber of Commerce and other pursuits as determined by the City Council pursuant to State law.

Memorial Garden – This fund is used to account for donations received from individuals and/or organizations for planting on City access.

Debt Service Funds

Economic Development Debt Service Fund – This fund is used to account for the accumulation of resources for the annual payment of economic development principal and interest and to provide a reserve for such payment.

Golf Course Debt Service Fund – This fund is used to account for the accumulation of resources for the annual payment of the golf course principal and interest and to provide a reserve for such payment.

Capital Projects Funds

General Construction Fund – This fund is used to account for resources and expenditures dedicated to small general capital improvements. Projects primarily include street rehabilitation and drainage projects, as well as some public facility enhancements. Projects supported by this fund are typically small and do not warrant a bond issue. In general, funding is provided by general fund transfers.

1992 Bond Construction Fund – This fund is used to account for capital projects supported by the August 1992 bond election.

Youth Sportsplex Fund – This fund is used to account for the proceeds of a \$ 2,700,000 bond issue for the construction of the Youth Sports Complex.

COMBINING FINANCIAL STATEMENTS

NON-MAJOR GOVERNMENTAL FUNDS

Capital Projects Funds - Continued

2004 Infrastructure Fund – This fund is used to account for the proceeds of various bond issues for constructing or reconstructing and improving street, drainage, sidewalks, water and sewer improvements, and other infrastructure projects.

The Fire/EMS Capital Projects Fund – This fund accounts for the resources accumulated for Council authorized acquisition, construction, as well as furnishing and equipping of the Fire/EMS facility. The major revenue sources includes investment earnings and other resources from the sale of general obligation bonded debt.

CITY OF LAKE JACKSON

Lake Jackson, Texas

COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS

September 30, 2007

	<u>Special Revenue Funds</u>		
	<u>Park</u>	<u>Motel Occupancy Tax</u>	<u>Memorial Garden</u>
Assets:			
Cash and temporary investments	\$ 237,597	\$ 152,475	\$ 3,039
Receivables (Net of Allowance for Uncollectibles):			
Accounts			
Grants			
Due from other funds			
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 237,597</u>	<u>\$ 152,475</u>	<u>\$ 3,039</u>
Liabilities:			
Accounts payable	\$ 24,435	\$	\$
Due to other funds			
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>24,435</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances:			
Reserved:			
Capital projects			
Unreserved, undesignated	<u>213,162</u>	<u>152,475</u>	<u>3,039</u>
	<u>213,162</u>	<u>152,475</u>	<u>3,039</u>
Total fund balances	<u>213,162</u>	<u>152,475</u>	<u>3,039</u>
	<u>\$ 237,597</u>	<u>\$ 152,475</u>	<u>\$ 3,039</u>
Total liabilities and fund balances	<u>\$ 237,597</u>	<u>\$ 152,475</u>	<u>\$ 3,039</u>

Debt Service Funds

<u>Economic Development</u>	<u>Golf Course</u>
\$	\$
<u> </u>	<u> 12,380</u>
<u>\$ -0-</u>	<u>\$ 12,380</u>
\$	\$
<u> </u>	<u> 12,380</u>
<u> -0-</u>	<u> 12,380</u>
<u> </u>	<u> </u>
<u> -0-</u>	<u> -0-</u>
<u>\$ -0-</u>	<u>\$ 12,380</u>

(continued)

CITY OF LAKE JACKSON

Lake Jackson, Texas

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS - Continued

September 30, 2007

	Capital Projects		
	General Construction	1992 Bond Construction	Youth Sportsplex
Assets:			
Cash and temporary investments	\$ 1,076,105	\$ 1,132	\$ 1,988
Receivables (Net of Allowance for Uncollectibles):			
Accounts	16,099		
Grants	150,000		
Due from other funds	_____	_____	_____
 Total assets	<u>\$ 1,242,204</u>	<u>\$ 1,132</u>	<u>\$ 1,988</u>
 Liabilities:			
Accounts payable	\$ 109,618	\$	\$
Due to other funds	_____	_____	_____
 Total liabilities	<u>109,618</u>	<u>-0-</u>	<u>-0-</u>
 Fund Balances:			
Reserved:			
Capital projects		1,132	1,988
Unreserved, undesignated	1,132,586	_____	_____
 Total fund balances	<u>1,132,586</u>	<u>1,132</u>	<u>1,988</u>
 Total liabilities and fund balances	<u>\$ 1,242,204</u>	<u>\$ 1,132</u>	<u>\$ 1,988</u>

<u>Funds</u>		Total Nonmajor Governmental Funds
2004 Infrastructure	Fire/EMS	
\$ 1,052,029	\$ 2,982	\$ 2,527,317
		16,099
25,000		175,000
<u> </u>	<u> </u>	<u>12,380</u>
<u>\$ 1,077,029</u>	<u>\$ 2,982</u>	<u>\$ 2,730,826</u>
\$	\$	\$ 134,053
<u> </u>	<u> </u>	<u>12,380</u>
<u> -0-</u>	<u> -0-</u>	<u>146,433</u>
1,077,029	2,982	1,083,131
<u> </u>	<u> </u>	<u>1,501,262</u>
<u>1,077,029</u>	<u>2,982</u>	<u>2,584,393</u>
<u>\$ 1,077,029</u>	<u>\$ 2,982</u>	<u>\$ 2,730,826</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

COMBINING STATEMENT OF REVENUES, EXPENDITURE AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2007

	Special Revenue Funds		
	Park	Motel Occupancy Tax	Memorial Garden
Revenues:			
Motel occupancy tax	\$	\$ 272,624	\$
Special assessments			
Intergovernmental			
Interest	12,577	6,862	231
Contributions			2,020
Other			
Total revenues	12,577	279,486	2,251
Expenditures:			
Current:			
Cultural and Recreation:			
Contribution to Fine Arts Council		38,563	
Contribution to Museum of Natural Science		57,841	
Contribution to Chamber of Commerce		80,000	
Contribution to Historical Museum		57,841	
Other	57,079	6,129	4,235
Capital outlay			
Debt Service:			
Principal			
Interest and fiscal charges			
Total expenditures	57,079	240,374	4,235
Excess (deficiency) of revenues over (under) expenditures	(44,502)	39,112	(1,984)
Other Financing Sources (Uses):			
Transfers in			
Transfers out		(20,000)	
Total other financing sources (uses)	-0-	(20,000)	-0-
Net changes in fund balances	(44,502)	19,112	(1,984)
Fund balance – beginning	257,664	133,363	5,023
Fund balance – ending	\$ 213,162	\$ 152,475	\$ 3,039

Debt Service Funds

<u>Economic Development</u>	<u>Golf Course</u>
\$	\$
_____	_____
<u>-0-</u>	<u>-0-</u>

865,000	280,000
<u>279,629</u>	<u>281,605</u>
<u>1,144,629</u>	<u>561,605</u>
(<u>1,144,629</u>)	(<u>561,605</u>)
1,144,629	561,605
_____	_____
<u>1,144,629</u>	<u>561,605</u>
-0-	-0-
_____	_____
<u>\$ -0-</u>	<u>\$ -0-</u>

(continued)

CITY OF LAKE JACKSON

Lake Jackson, Texas

**COMBINING STATEMENT OF REVENUES, EXPENDITURE AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS - Continued**

For the Year Ended September 30, 2007

	Capital Projects		
	General Construction	1992 Bond Construction	Youth Sportsplex
Revenues:			
Motel occupancy tax	\$	\$	\$
Special assessments	3,246		
Intergovernmental	475,785		
Interest	64,001		
Contributions			
Other	<u>12,189</u>		
Total revenues	<u>555,221</u>	<u>-0-</u>	<u>-0-</u>
Expenditures:			
Current:			
Cultural and Recreation:			
Contribution to Fine Arts Council			
Contribution to Museum of Natural Science			
Contribution to Chamber of Commerce			
Contribution to Historical Museum			
Other	50,944		1,039
Capital outlay	1,005,849		
Debt Service:			
Principal			
Interest and fiscal charges			
Total expenditures	<u>1,056,793</u>	<u>-0-</u>	<u>1,039</u>
Excess of revenues over (under) expenditures	<u>(501,572)</u>	<u>-0-</u>	<u>(1,039)</u>
Other Financing Sources (Uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net change in fund balances	(501,572)	-0-	(1,039)
Fund balance – beginning	<u>1,634,158</u>	<u>1,132</u>	<u>3,027</u>
Fund balance – ending	<u>\$ 1,132,586</u>	<u>\$ 1,132</u>	<u>\$ 1,988</u>

<u>Funds</u>		Total
2004		Nonmajor
<u>Infrastructure</u>	<u>Fire/EMS</u>	<u>Governmental</u>
		<u>Funds</u>
\$	\$	\$ 272,624
		3,246
37,652		513,437
70,223	709	154,603
		2,020
		<u>12,189</u>
<u>107,875</u>	<u>709</u>	<u>958,119</u>

		38,563
		57,841
		80,000
		57,841
23,675	4,990	148,091
702,182		1,708,031
		1,145,000
		<u>561,234</u>
<u>725,857</u>	<u>4,990</u>	<u>3,796,601</u>
<u>(617,982)</u>	<u>(4,281)</u>	<u>(2,838,482)</u>
		1,706,234
		<u>(20,000)</u>
<u>-0-</u>	<u>-0-</u>	<u>1,686,234</u>
<u>(617,982)</u>	<u>(4,281)</u>	<u>(1,152,248)</u>
<u>1,695,011</u>	<u>7,263</u>	<u>3,736,641</u>
<u>\$ 1,077,029</u>	<u>\$ 2,982</u>	<u>\$ 2,584,393</u>

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**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**

Special Revenue and Debt Service Funds

CITY OF LAKE JACKSON

Lake Jackson, Texas

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

Park Fund

For the Year Ended September 30, 2007
With Comparative Actual Total for 2006

	2007			Variance with Final Budget- Positive (Negative)	2006
	Budgeted Amounts		Actual		Actual GAAP Basis
	Original	Final			
Revenues:					
Investment income	\$ 1,000	\$ 1,000	\$ 12,577	\$ 11,577	\$ 9,094
Contribution				-0-	
Total revenues	<u>1,000</u>	<u>1,000</u>	<u>12,577</u>	<u>11,577</u>	<u>9,094</u>
Expenditures:					
Current:					
Other	47,000	47,000	57,079	(10,079)	59,125
Capital outlay				-0-	19,872
Total expenditures	<u>47,000</u>	<u>47,000</u>	<u>57,079</u>	<u>(10,079)</u>	<u>78,997</u>
Excess of revenues over (under) expenditures	<u>(46,000)</u>	<u>(46,000)</u>	<u>(44,502)</u>	<u>1,498</u>	<u>(69,903)</u>
Other Financing Sources (Uses):					
Transfers in				-0-	100,000
Total other financing sources (uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>100,000</u>
Net changes in fund balance	<u>(46,000)</u>	<u>(46,000)</u>	<u>(44,502)</u>	<u>1,498</u>	<u>30,097</u>
Fund balance – beginning	<u>257,664</u>	<u>257,664</u>	<u>257,664</u>	<u>-0-</u>	<u>227,567</u>
Fund balance – ending	<u>\$ 211,664</u>	<u>\$ 211,664</u>	<u>\$ 213,162</u>	<u>\$ 1,498</u>	<u>\$ 257,664</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Motel Occupancy Tax Fund**

For the Year Ended September 30, 2007
With Comparative Actual Totals for 2006

	2007			Variance with Final Budget- Positive (Negative)	2006
	Budgeted Amounts		Actual		Actual GAAP Basis
	Original	Final			
Revenues:					
Occupancy tax	\$ 175,000	\$ 175,000	\$ 272,624	\$ 97,624	\$ 239,924
Investment income	<u>4,000</u>	<u>4,000</u>	<u>6,862</u>	<u>2,862</u>	<u>5,210</u>
Total revenues	<u>179,000</u>	<u>179,000</u>	<u>279,486</u>	<u>100,486</u>	<u>245,134</u>
Expenditures:					
Current:					
Culture and recreation	<u>190,000</u>	<u>190,000</u>	<u>240,374</u>	<u>(50,374)</u>	<u>207,424</u>
Total expenditures	<u>190,000</u>	<u>190,000</u>	<u>240,374</u>	<u>(50,374)</u>	<u>207,424</u>
Excess of revenues over (under) expenditures	<u>(11,000)</u>	<u>(11,000)</u>	<u>39,112</u>	<u>50,112</u>	<u>37,710</u>
Other Financing Sources (Uses):					
Transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-0-</u>	<u>(21,400)</u>
Total other financing sources (uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-0-</u>	<u>(21,400)</u>
Net changes in fund balance	<u>(31,000)</u>	<u>(31,000)</u>	<u>19,112</u>	<u>50,112</u>	<u>16,310</u>
Fund balance – beginning	<u>133,363</u>	<u>133,363</u>	<u>133,363</u>	<u>-0-</u>	<u>117,053</u>
Fund balance – ending	<u>\$ 102,363</u>	<u>\$ 102,363</u>	<u>\$ 152,475</u>	<u>\$ 50,112</u>	<u>\$ 133,363</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Memorial Garden Fund**

For the Year Ended September 30, 2007
With Comparative Actual Totals for 2006

	2007			Variance with Final Budget- Positive (Negative)	2006
	Budgeted Amounts		Actual		Actual GAAP Basis
	Original	Final			
Revenues:					
Investment income	\$	\$	\$ 231	\$ 231	\$ 193
Contributions			2,020	2,020	1,025
Total revenues	-0-	-0-	2,251	2,251	1,218
Expenditures:					
Current:					
Culture and recreation			4,235	(4,235)	-0-
Total expenditures			4,235	(4,235)	-0-
Excess of revenues over (under) expenditures	-0-	-0-	(1,984)	(1,984)	1,218
Other financing sources (uses)				-0-	
Net changes in fund balance	-0-	-0-	(1,984)	(1,984)	1,218
Fund balance – beginning	5,023	5,023	5,023	-0-	3,805
Fund balance – ending	\$ 5,023	\$ 5,023	\$ 3,039	\$(1,984)	\$ 5,023

CITY OF LAKE JACKSON

Lake Jackson, Texas

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

Economic Development Debt Service Fund

For the Year Ended September 30, 2007

With Comparative Actual Total for 2006

	2007			Variance with Final Budget- Positive (Negative)	2006
	Budgeted Amounts		Actual		Actual GAAP Basis
	Original	Final			
Revenues	\$ _____	\$ _____	\$ _____	\$ -0-	\$ _____
Expenditures:					
Debt Service:					
Principal	865,000	865,000	865,000	-0-	865,000
Interest and fiscal charges	<u>280,274</u>	<u>280,274</u>	<u>279,629</u>	<u>645</u>	<u>323,694</u>
Total expenditures	<u>1,145,274</u>	<u>1,145,274</u>	<u>1,144,629</u>	<u>645</u>	<u>1,188,694</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,145,274)</u>	<u>(1,145,274)</u>	<u>(1,144,629)</u>	<u>645</u>	<u>(1,188,694)</u>
Other Financing Sources (Uses):					
Transfers in	<u>1,145,274</u>	<u>1,145,274</u>	<u>1,144,629</u>	<u>(645)</u>	<u>1,188,694</u>
Total other financing sources (uses)	<u>1,145,274</u>	<u>1,145,274</u>	<u>1,144,629</u>	<u>(645)</u>	<u>1,188,694</u>
Net changes in fund balance	-0-	-0-	-0-	-0-	-0-
Fund balance – beginning	_____	_____	_____	-0-	_____
Fund balance – ending	<u>\$ _____-0-</u>	<u>\$ _____-0-</u>	<u>\$ _____-0-</u>	<u>\$ _____-0-</u>	<u>\$ _____-0-</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

Golf Course Debt Service Fund

For the Year Ended September 30, 2007

With Comparative Actual Totals for 2006

	2007			Variance with Final Budget- Positive (Negative)	2006
	Budgeted Amounts		Actual		Actual GAAP Basis
	Original	Final			
Revenues	\$ _____	\$ _____	\$ _____	\$ -0-	\$ _____
Expenditures:					
Debt Service:					
Principal	280,000	280,000	280,000	-0-	270,000
Interest and fiscal charges	<u>282,380</u>	<u>282,380</u>	<u>281,605</u>	<u>775</u>	<u>291,780</u>
Total expenditures	<u>562,380</u>	<u>562,380</u>	<u>561,605</u>	<u>775</u>	<u>561,780</u>
Excess of revenues over (under) expenditures	(<u>562,380</u>)	(<u>562,380</u>)	(<u>561,605</u>)	<u>775</u>	(<u>561,780</u>)
Other Financing Sources (Uses):					
Transfers in	<u>562,380</u>	<u>562,380</u>	<u>561,605</u>	(<u>775</u>)	<u>561,780</u>
Total other financing sources (uses)	<u>562,380</u>	<u>562,380</u>	<u>561,605</u>	(<u>775</u>)	<u>561,780</u>
Net changes in fund balance	-0-	-0-	-0-	-0-	-0-
Fund balance – beginning	_____	_____	_____	-0-	_____
Fund balance – ending	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

***SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENT AND SCHEDULES***

General Fund

These supplementary statements and schedules are included to provide management additional information for financial analysis.

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CITY OF LAKE JACKSON

Lake Jackson, Texas

COMPARATIVE BALANCE SHEET - General Fund

September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 8,775,665	\$ 7,070,820
Receivable (Net of Allowance for Uncollectibles):		
Taxes	574,066	556,839
Accounts	268,299	299,307
Grants	111,913	8,750
Due from other funds	215,180	214,576
Investments	399,000	399,000
Inventories	<u>125,301</u>	<u>80,428</u>
 Total assets	 <u>\$ 10,469,424</u>	 <u>\$ 8,629,720</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 658,144	\$ 453,816
Cash bonds and taxes	375,980	330,658
Accrued wages	190,589	160,769
Deferred revenue	<u>109,381</u>	<u>99,078</u>
 Total liabilities	 <u>1,334,094</u>	 <u>1,044,321</u>
Fund Balance:		
Reserved For:		
Inventory	125,301	80,428
Unreserved:		
Undesignated	<u>9,010,029</u>	<u>7,504,971</u>
 Total fund balance	 <u>9,135,330</u>	 <u>7,585,399</u>
 Total liabilities and fund balance	 <u>\$ 10,469,424</u>	 <u>\$ 8,629,720</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

General Fund

For the Year Ended September 30, 2007
With Comparative Actual Totals for 2006

	Budgeted Amounts	
	Original	Final
Revenues:		
Taxes:		
Property	\$ 3,267,435	\$ 3,267,435
Sales	4,275,000	4,275,000
Franchise	1,525,000	1,525,000
Other	40,000	40,000
Industrial district	2,947,200	2,947,200
Intergovernmental	37,000	37,000
Revenue producing facilities	850,900	850,900
Fines and fees	300,909	300,909
Licenses and permits	177,150	177,150
Investment income	252,517	252,517
Miscellaneous	66,320	66,320
Total revenues	13,739,431	13,739,431
Expenditures:		
Current:		
General government and administration	2,677,085	2,677,085
Public safety	4,795,636	4,795,636
Public works	2,714,379	2,714,379
Culture and recreation	3,776,680	3,776,680
Capital outlay	1,620,375	1,620,375
Total expenditures	15,584,155	15,584,155
Excess of revenues over (under) expenditures	(1,844,724)	(1,844,724)
Other Financing Sources (Uses):		
Transfers in	1,401,018	1,401,018
Transfers out		
Proceeds from disposition of capital assets		
Total other financing sources (uses)	1,401,018	1,401,018
Net change in fund balance	(443,706)	(443,706)
Fund balance - beginning	7,585,399	7,585,399
Prior period adjustment		
Fund balance - ending	\$ 7,141,693	\$ 7,141,693

2007			2006	
Actual GAAP Basis	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Variance with Final Budget- Positive (Negative)	Actual GAAP Basis
\$ 3,236,792	\$	\$ 3,236,792	\$(30,643)	\$ 3,181,611
4,618,469		4,618,469	373,469	4,261,667
1,596,697		1,596,697	71,697	1,683,612
59,590		59,590	19,590	54,768
3,220,061		3,220,061	272,861	2,881,045
132,663		132,663	95,663	162,341
974,310		974,310	123,410	877,552
442,892		442,892	141,983	306,426
244,049		244,049	66,899	213,750
444,172		444,172	191,655	351,811
85,668		85,668	19,348	114,824
<u>15,055,363</u>	<u>-0-</u>	<u>15,055,363</u>	<u>1,315,932</u>	<u>14,089,407</u>
2,737,126	(3,835)	2,733,291	(56,206)	2,404,638
4,663,457	(29,137)	4,634,320	161,316	4,585,013
2,298,989	2,658	2,301,647	412,732	2,640,909
3,481,039	494	3,481,533	295,147	3,563,540
785,863		785,863	834,512	1,462,201
<u>13,966,474</u>	<u>(29,820)</u>	<u>13,936,654</u>	<u>1,647,501</u>	<u>14,656,301</u>
<u>1,088,889</u>	<u>29,820</u>	<u>1,118,709</u>	<u>2,963,433</u>	<u>(566,894)</u>
1,401,018		1,401,018	-0-	1,304,686
(996,509)		(996,509)	(996,509)	(1,074,320)
56,533		56,533	56,533	9,250
<u>461,042</u>	<u>-0-</u>	<u>461,042</u>	<u>(939,976)</u>	<u>239,616</u>
1,549,931	29,820	1,579,751	2,023,457	(327,278)
7,585,399	-0-	7,585,399	-0-	7,781,427
		-0-	-0-	131,250
<u>\$ 9,135,330</u>	<u>\$ 29,820</u>	<u>\$ 9,164,150</u>	<u>\$ 2,023,457</u>	<u>\$ 7,585,399</u>

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**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENT AND SCHEDULES**

Economic Development Fund

These supplementary statements and schedules are included to provide management additional information for financial analysis.

CITY OF LAKE JACKSON

Lake Jackson, Texas

**COMPARATIVE BALANCE SHEET-
Economic Development Fund**

September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Cash and temporary investments	\$ 1,291,592	\$ 1,023,261
Receivable (Net of Allowance for Uncollectibles):		
Taxes	<u>183,122</u>	<u>174,501</u>
Total assets	<u>\$ 1,474,714</u>	<u>\$ 1,197,762</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Liabilities	\$ <u>-0-</u>	\$ <u>-0-</u>
Fund Balance:		
Unreserved:		
Undesignated	<u>1,474,714</u>	<u>1,197,762</u>
Total fund balance	<u>1,474,714</u>	<u>1,197,762</u>
Total liabilities and fund balance	<u>\$ 1,474,714</u>	<u>\$ 1,197,762</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
Economic Development Fund**

For the Year Ended September 30, 2007
With Comparative Actual Totals for 2006

	2007			Variance with Final Budget- Positive (Negative)	2006
	Budgeted Amounts		Actual GAAP Basis		Actual GAAP Basis
	Original	Final			
Revenues:					
Sales taxes	\$ 2,137,500	\$ 2,137,500	\$ 2,353,998	\$ 216,498	\$ 2,130,834
Investment income	<u>28,500</u>	<u>28,500</u>	<u>66,809</u>	<u>38,309</u>	<u>52,218</u>
Total revenues	<u>2,166,000</u>	<u>2,166,000</u>	<u>2,420,807</u>	<u>254,807</u>	<u>2,183,052</u>
Expenditures:					
Capital outlay				-0-	
Total expenditures	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Excess of revenues over (under) expenditures	<u>2,166,000</u>	<u>2,166,000</u>	<u>2,420,807</u>	<u>254,807</u>	<u>2,183,052</u>
Other Financing Sources (Uses):					
Transfers out	<u>(2,145,274)</u>	<u>(2,145,274)</u>	<u>(2,143,855)</u>	<u>1,419</u>	<u>(2,188,094)</u>
Total other financing sources (uses)	<u>(2,145,274)</u>	<u>(2,145,274)</u>	<u>(2,143,855)</u>	<u>1,419</u>	<u>(2,188,094)</u>
Net changes in fund balance	20,726	20,726	276,952	256,226	(5,042)
Fund balance – beginning	<u>1,197,762</u>	<u>1,197,762</u>	<u>1,197,762</u>	<u>-0-</u>	<u>1,202,804</u>
Fund balance – ending	<u>\$ 1,218,488</u>	<u>\$ 1,218,488</u>	<u>\$ 1,474,714</u>	<u>\$ 256,226</u>	<u>\$ 1,197,762</u>

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***SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENT AND SCHEDULES***

General Debt Service Fund

These supplementary statements and schedules are included to provide management additional information for financial analysis.

CITY OF LAKE JACKSON

Lake Jackson, Texas

**COMPARATIVE BALANCE SHEET-
General Debt Service Fund**

September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 534,776	\$ 550,608
Receivable (Net of Allowance for Uncollectibles):		
Taxes	<u>18,924</u>	<u>15,332</u>
Total assets	<u>\$ 553,700</u>	<u>\$ 565,940</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Deferred revenue	\$ <u>18,869</u>	\$ <u>15,277</u>
Total liabilities	<u>18,869</u>	<u>15,277</u>
Fund Balance:		
Reserved For:		
Debt service	<u>534,831</u>	<u>550,663</u>
Total fund balance	<u>534,831</u>	<u>550,663</u>
Total liabilities and fund balance	<u>\$ 553,700</u>	<u>\$ 565,940</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL**

General Debt Service Fund

For the Year Ended September 30, 2007
(With Comparative Actual Totals for 2006)

	2007			Variance with Final Budget- Positive (Negative)	2006
	Budgeted Amounts		Actual GAAP Basis		Actual GAAP Basis
	Original	Final			
Revenues:					
Taxes	\$ 1,792,456	\$ 1,792,456	\$ 1,771,911	\$(20,545)	\$ 1,668,722
Investment income	<u>15,850</u>	<u>15,850</u>	<u>50,115</u>	<u>34,265</u>	<u>45,321</u>
Total revenues	<u>1,808,306</u>	<u>1,808,306</u>	<u>1,822,026</u>	<u>13,720</u>	<u>1,714,043</u>
Expenditures:					
Debt Service:					
Principal	1,200,000	1,200,000	1,200,000	-0-	1,150,000
Interest and fiscal charges	<u>704,152</u>	<u>704,152</u>	<u>705,979</u>	<u>(1,827)</u>	<u>617,425</u>
Total expenditures	<u>1,904,152</u>	<u>1,904,152</u>	<u>1,905,979</u>	<u>(1,827)</u>	<u>1,767,425</u>
Excess of revenues over (under) expenditures	<u>(95,846)</u>	<u>(95,846)</u>	<u>(83,953)</u>	<u>11,893</u>	<u>(53,382)</u>
Other Financing Sources (Uses):					
Proceeds from bond sales			<u>68,121</u>	<u>68,121</u>	<u>-0-</u>
Total other financing sources (uses)	<u>-0-</u>	<u>-0-</u>	<u>68,121</u>	<u>68,121</u>	<u>-0-</u>
Net changes in fund balance	<u>(95,846)</u>	<u>(95,846)</u>	<u>(15,832)</u>	<u>80,014</u>	<u>(53,382)</u>
Fund balance – beginning	<u>550,663</u>	<u>550,663</u>	<u>550,663</u>	<u>-0-</u>	<u>604,045</u>
Fund balance – ending	<u>\$ 454,817</u>	<u>\$ 454,817</u>	<u>\$ 534,831</u>	<u>\$ 80,014</u>	<u>\$ 550,663</u>

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**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

Proprietary Funds

These supplementary statements and schedules are included to provide management additional information for financial analysis.

CITY OF LAKE JACKSON

Lake Jackson, Texas

COMPARATIVE STATEMENT OF NET ASSETS
Enterprise Fund

September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current Assets:		
Cash and temporary investments	\$ 3,509,501	\$ 4,998,427
Receivables (Net of Allowance for Uncollectibles):		
Accounts	<u>448,562</u>	<u>497,675</u>
	<u>3,958,063</u>	<u>5,496,102</u>
Restricted Assets:		
Cash and temporary investments	<u>3,715,663</u>	<u>1,984,959</u>
Total restricted assets	<u>3,715,663</u>	<u>1,984,959</u>
Total current assets	<u>7,673,726</u>	<u>7,481,061</u>
Noncurrent Assets:		
Restricted Cash and Temporary Investments:		
Revenue bond covenant accounts	<u>1,495,355</u>	<u>1,606,316</u>
Total noncurrent restricted assets	<u>1,495,355</u>	<u>1,606,316</u>
Deferred charges	<u>360,497</u>	<u>335,756</u>
Capital Assets:		
Property, plant and equipment	55,239,397	53,036,526
Construction in process	274,019	781,834
Less accumulated depreciation	<u>(21,363,593)</u>	<u>(20,238,449)</u>
Total capital assets (net of accumulated depreciation)	<u>34,149,823</u>	<u>33,579,911</u>
Total noncurrent assets	<u>36,005,675</u>	<u>35,521,983</u>
Total assets	<u>43,679,401</u>	<u>43,003,044</u>

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CITY OF LAKE JACKSON

Lake Jackson, Texas

COMPARATIVE STATEMENTS OF NET ASSETS
Enterprise Fund - Continued

September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities:		
Accounts payable	\$ 582,441	\$ 569,519
Accrued wages	40,139	41,722
Accrued compensated absences	112,349	97,053
Revenue bonds payable	<u>624,167</u>	<u>565,833</u>
	<u>1,359,096</u>	<u>1,274,127</u>
Current Liabilities Payable from Restricted Assets:		
Accounts payable	22,057	280,936
Accrued interest	283,926	259,046
Customer deposits	475,628	443,188
Revenue bonds payable	<u>445,833</u>	<u>404,167</u>
Total current liabilities payable from restricted assets	<u>1,227,444</u>	<u>1,387,337</u>
Total current liabilities	2,586,540	2,661,464
Noncurrent Liabilities:		
Revenue bonds payable (net of unamortized discounts)	<u>13,460,000</u>	<u>12,530,000</u>
Total liabilities	<u>16,046,540</u>	<u>15,191,464</u>
Net Assets:		
Invested in capital assets, net of related debt	19,371,704	19,298,077
Restricted For:		
Revenue bond retirement	1,494,985	1,614,778
Construction	2,849,086	950,200
Unrestricted	<u>3,917,086</u>	<u>5,948,525</u>
Total net assets	<u>\$ 27,632,861</u>	<u>\$ 27,811,580</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS**

Enterprise Fund

For the Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Water service	\$ 2,550,999	\$ 2,756,232
Sewer service	2,777,004	2,805,732
Garbage fees	2,823,869	2,668,684
Tapping and connection fees	232,050	252,556
Operating grant revenue		62,298
Other	<u>54,671</u>	<u>37,556</u>
Total operating revenues	<u>8,438,593</u>	<u>8,583,058</u>
Operating Expenses:		
Utility administration	326,437	338,121
Water production and treatment	1,689,556	1,718,309
Water distribution	454,079	466,595
Sewer collection	782,973	649,271
Sewer treatment	1,172,500	977,887
Sanitation	2,157,050	2,125,857
Depreciation	<u>1,838,931</u>	<u>1,735,997</u>
Total operating expenses	<u>8,421,526</u>	<u>8,012,037</u>
Operating income	<u>17,067</u>	<u>571,021</u>
Non-Operating Revenues (Expenses):		
Interest revenue	438,134	390,433
Gain on sale of capital assets	16,000	
Interest expense and fiscal charges	<u>(615,411)</u>	<u>(615,194)</u>
Total non-operating revenues (expenses)	<u>(161,277)</u>	<u>(224,761)</u>
Income (loss) before contributions and operating transfers	<u>(144,210)</u>	346,260
Transfers in	996,509	314,320
Transfers out	<u>(1,031,018)</u>	<u>(933,286)</u>
Change in net assets	<u>(178,719)</u>	<u>(272,706)</u>
Net assets at beginning of year	<u>27,811,580</u>	<u>28,084,286</u>
Net assets at end of year	<u>\$ 27,632,861</u>	<u>\$ 27,811,580</u>

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CITY OF LAKE JACKSON

Lake Jackson, Texas

**COMPARATIVE STATEMENT OF CASH FLOWS -
Enterprise Fund**

For the Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities:		
Receipts from customers and users	\$ 8,520,146	\$ 8,698,317
Payments to suppliers	(4,280,421)	(3,961,324)
Payments to employees	(2,534,418)	(2,435,461)
Net cash provided by operating activities	<u>1,705,307</u>	<u>2,301,532</u>
Cash Flows from Non-Capital Financing Activities:		
Transfers in	996,509	314,320
Transfers out	(1,031,018)	(933,286)
Net cash provided (used) by non-capital financing activities	<u>(34,509)</u>	<u>(618,966)</u>
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	(2,408,843)	(1,002,613)
Proceeds from the sale of capital assets	16,000	
Proceeds from the issuance of revenue bonds	2,000,000	
Principal paid on capital debt	(970,000)	(970,000)
Interest and fiscal charges paid on capital debt	(615,272)	(607,600)
Net cash (used) by capital and related financing activities	<u>(1,978,115)</u>	<u>(2,580,213)</u>
Cash Flows from Investing Activities:		
Interest received	<u>438,134</u>	<u>390,433</u>
Net cash provided by investing activities	<u>438,134</u>	<u>380,433</u>
Net (decrease) in cash and cash equivalents	130,817	507,214
Cash and cash equivalents at the beginning of year	<u>8,589,702</u>	<u>9,096,916</u>
Cash and cash equivalents at the end of year	<u>\$ 8,720,519</u>	<u>\$ 8,589,702</u>

(Continued)

CITY OF LAKE JACKSON

Lake Jackson, Texas

**COMPARATIVE STATEMENT OF CASH FLOWS -
Enterprise Fund - Continued**

For the Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating income	\$ <u>17,067</u>	\$ <u>571,021</u>
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	1,838,931	1,735,998
(Increase) decrease in accounts receivable	49,113	70,176
Increase (decrease) in accounts payable	(245,957)	(104,639)
Increase (decrease) in accrued wages payable	(1,583)	(3,960)
Increase (decrease) in accrued compensated absences	15,296	(12,147)
Increase (decrease) in customer deposits	<u>32,440</u>	<u>45,083</u>
Total adjustments	<u>1,688,240</u>	<u>1,730,511</u>
Net cash provided by operating activities	\$ <u><u>1,705,307</u></u>	\$ <u><u>2,301,532</u></u>
Non-cash Investing, Capital, and Financing Activities:		
Net effect of non-cash transactions	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - ACTUAL COMPARED TO BUDGETARY BASIS

Enterprise Fund

For the Year Ended September 30, 2007
With Comparative Actual Totals for 2006

	Budgeted Amounts	
	Original	Final
Operating Revenues:		
Water service	\$ 3,035,568	\$ 3,035,568
Sewer service	3,042,724	3,042,724
Garbage fees	2,808,945	2,808,945
Tapping and connection fees	222,500	222,500
Operating grant revenue		
Other	55,100	55,100
Total revenues	9,164,837	9,164,837
Operating Expenses:		
Utility administration	410,730	410,730
Water production and treatment	2,165,414	2,165,414
Water distribution	541,640	541,640
Sewer connection	795,300	795,300
Sewer treatment	1,181,250	1,181,250
Sanitation	2,337,600	2,337,600
Depreciation		
Total operating expenses	7,431,934	7,431,934
Operating income	1,732,903	1,732,903
Non-operating Revenues (Expenses):		
Interest revenue	173,726	173,726
Gain (loss) on disposition of capital assets		
Interest expense and fiscal charge	(569,195)	(569,195)
Total non-operating revenues (expenses)	(395,469)	(395,469)
Income before contributions and transfers	1,337,434	1,337,434
Transfers in		
Transfers out	(490,629)	(490,629)
Change in net assets	846,805	846,805
Net assets at beginning of year	27,811,580	27,811,580
Net assets at end of year	\$ 28,658,385	\$ 28,658,385

2007			2006	
Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Variance with Final Budget-Positive (Negative)	Actual GAAP Basis
\$ 2,550,999	\$	\$ 2,550,999	\$(484,569)	\$ 2,756,232
2,777,004		2,777,004	(265,720)	2,805,732
2,823,869		2,823,869	14,924	2,668,684
232,050		232,050	9,550	252,556
54,671		54,671	-0-	62,298
			(429)	37,556
8,438,593	-0-	8,438,593	(726,244)	8,583,058
326,437	2,755	329,192	81,538	338,120
1,689,556	(1,448)	1,688,108	477,306	1,718,309
454,079	1,012	455,091	86,549	466,595
782,973	(9,763)	773,210	22,090	649,271
1,172,500	1,694	1,174,194	7,056	977,887
2,157,050	(7,963)	2,149,087	188,513	2,125,857
1,838,931	(1,838,931)	-0-	-0-	1,735,998
8,421,526	(1,852,644)	6,568,882	863,052	8,012,037
17,067	1,852,644	1,869,711	136,808	571,021
438,134		438,134	264,408	390,433
16,000		16,000	16,000	
(615,411)	26,618	(588,793)	(19,598)	(615,194)
(161,277)	26,618	(134,659)	260,810	(224,761)
(144,210)	1,879,262	1,735,052	397,618	346,260
996,509		996,509	996,509	314,320
(1,031,018)		(1,031,018)	(540,389)	(933,286)
(178,719)	1,879,262	1,700,543	853,738	(272,706)
27,811,580		27,811,580	-0-	28,084,286
\$ 27,632,861	\$ 1,879,262	\$ 29,512,123	\$ 853,738	\$ 27,811,580

CITY OF LAKE JACKSON

Lake Jackson, Texas

COMPARATIVE STATEMENT OF NET ASSETS
Golf Course Operating Fund

September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current Assets:		
Cash and temporary investments	\$ 190,454	\$ 99,489
Receivables (Net of Allowance for Uncollectibles):		
Accounts	36,488	29,339
Inventory	130,275	151,507
Prepays	<u>4,260</u>	<u>6,184</u>
	<u>361,477</u>	<u>286,519</u>
Restricted Assets:		
Cash and temporary investments	<u>33,100</u>	<u>23,200</u>
Total restricted assets	<u>33,100</u>	<u>23,200</u>
Total current assets	<u>394,577</u>	<u>309,719</u>
Capital Assets:		
Property, plant and equipment	8,742,652	8,772,352
Less accumulated depreciation	<u>(830,807)</u>	<u>(727,843)</u>
Total capital assets (net of accumulated depreciation)	<u>7,911,845</u>	<u>8,044,509</u>
Total assets	<u>8,306,422</u>	<u>8,354,228</u>

(Continued)

CITY OF LAKE JACKSON

Lake Jackson, Texas

COMPARATIVE STATEMENTS OF NET ASSETS

Golf Course Operating Fund - Continued

September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities:		
Accounts payable	\$ 62,351	\$ 56,956
Accrued wages	30,661	22,020
Deferred revenues	107,592	58,823
Capital leases payable - current	47,950	138,354
Due to other funds	<u>215,180</u>	<u>214,576</u>
Total current liabilities	463,734	490,729
Noncurrent Liabilities:		
Capital leases payable - net of current	<u>278,124</u>	<u>160,330</u>
Total liabilities	<u>741,858</u>	<u>651,059</u>
Net Assets:		
Invested in capital assets, net of related debt	7,585,771	7,745,825
Restricted For:		
Maintenance	33,100	23,200
Unrestricted	<u>(54,307)</u>	<u>(65,856)</u>
Total net assets	<u>\$ 7,564,564</u>	<u>\$ 7,703,169</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
Golf Course Operating Fund**

For the Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Course and ground	\$ 825,323	\$ 699,186
Cart	271,909	305,491
Pro shop	248,467	259,274
Range	65,616	67,507
Food and beverage	226,420	221,756
Other	<u>6</u>	<u>17,065</u>
Total operating revenues	<u>1,637,741</u>	<u>1,570,279</u>
Operating Expenses:		
Cost of Sales:		
Pro shop	168,897	165,826
Food and beverage	84,860	67,852
Payroll and related benefits	737,375	695,989
Other expenses	493,174	467,836
Management fee	84,000	84,000
Depreciation	<u>291,242</u>	<u>285,522</u>
Total operating expenses	<u>1,859,548</u>	<u>1,767,025</u>
Operating income (loss)	<u>(221,807)</u>	<u>(196,746)</u>
Non-Operating Revenues (Expenses):		
Interest revenue	4,998	5,148
Gain on sale/retirement of capital assets		(4,074)
Interest expense and fiscal charges	<u>(9,417)</u>	<u>(15,520)</u>
Total non-operating revenues (expenses)	<u>(4,419)</u>	<u>(14,446)</u>
Income (loss) before contributions and operating transfers	<u>(226,226)</u>	<u>(211,192)</u>
Transfers in	100,001	136,314
Transfers out	<u>(12,380)</u>	<u>(12,380)</u>
Change in net assets	<u>(138,605)</u>	<u>(87,258)</u>
Net assets at beginning of year	<u>7,703,169</u>	<u>7,790,427</u>
Net assets at end of year	<u>\$ 7,564,564</u>	<u>\$ 7,703,169</u>

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CITY OF LAKE JACKSON

Lake Jackson, Texas

**COMPARATIVE STATEMENT OF CASH FLOWS -
Golf Course Operating Fund**

For the Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities:		
Receipts from customers and users	\$ 1,679,361	\$ 1,581,584
Payments from (to) other funds	604	(604)
Payments to suppliers	(708,824)	(809,824)
Payments to employees	(822,290)	(695,940)
Net cash provided (used) by operating activities	<u>148,851</u>	<u>75,216</u>
Cash Flows from Non-Capital Financing Activities:		
Transfers in	100,001	136,314
Transfers out	(12,380)	(12,380)
Net cash (used) by non-capital financing activities	<u>87,621</u>	<u>123,934</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	(158,578)	
Proceeds from sale of equipment		4,500
Proceeds from capital leases	319,569	
Principal paid on capital debt	(292,179)	(139,280)
Interest and fiscal charges paid on capital debt	(9,417)	(15,520)
Net cash (used) by capital and related financing activities	<u>(140,605)</u>	<u>(150,300)</u>
Cash Flows from Investing Activities:		
Interest received	<u>4,998</u>	<u>5,148</u>
Net cash provided by investing activities	<u>4,998</u>	<u>5,148</u>
Net increase (decrease) in cash and cash equivalents	100,865	53,998
Cash and cash equivalents at the beginning of year	<u>122,689</u>	<u>68,691</u>
Cash and cash equivalents at the end of year	<u>\$ 223,554</u>	<u>\$ 122,689</u>

(Continued)

CITY OF LAKE JACKSON

Lake Jackson, Texas

**COMPARATIVE STATEMENT OF CASH FLOWS -
Golf Course Operating Fund - Continued**

For the Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating income (loss)	\$(<u>221,807</u>)	\$(<u>196,746</u>)
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	291,242	285,522
(Increase) decrease in accounts receivable	(7,149)	(9,898)
(Increase) decrease in inventory	21,232	(54,131)
(Increase) decrease in prepaids	1,924	(6,184)
Increase (decrease) in accounts payable	5,395	36,005
Increase (decrease) in accrued wages	8,641	49
Increase (decrease) in deferred revenues	48,769	21,203
Increase (decrease) in due to other funds	<u>604</u>	<u>(604)</u>
Total adjustments	<u>370,658</u>	<u>271,962</u>
Net cash provided by operating activities	<u>\$ 148,851</u>	<u>\$ 75,216</u>
Noncash Investing, Capital, and Financing Activities:		
Contributions of capital assets from government	\$ _____	\$ _____
Net effect of noncash transactions	<u>\$ -0-</u>	<u>\$ -0-</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - ACTUAL COMPARED TO BUDGETARY BASIS Golf Course Operating Fund

For the Year Ended September 30, 2007
With Comparative Actual Totals for 2006

	Budgeted Amounts	
	Original	Final
Operating Revenues:		
Course and ground	\$ 819,389	\$ 819,389
Cart	326,551	326,551
Pro shop	265,965	265,965
Range	151,161	151,161
Food and beverage	146,116	146,116
Other	<u>22,443</u>	<u>22,443</u>
Total operating revenues	<u>1,731,625</u>	<u>1,731,625</u>
Operating Expenses:		
Cost of Sales:		
Pro shop	172,877	172,877
Food and beverage	80,870	80,870
Payroll and related benefits	748,064	748,064
Other expenses	626,125	626,125
Management fee	84,000	84,000
Depreciation		
Total operating expenses	<u>1,711,936</u>	<u>1,711,936</u>
Operating income (loss)	<u>19,689</u>	<u>19,689</u>
Non-operating Revenues (Expenses):		
Interest revenue		
Gain (loss) on sale or retirement of capital assets		
Interest expense and fiscal charge		
Total non-operating revenues (expenses)	<u>-0-</u>	<u>-0-</u>
Income (loss) before contributions and transfers	19,689	19,689
Transfers in		
Transfers out	<u>(12,380)</u>	<u>(12,380)</u>
Change in net assets	7,309	7,309
Net assets at beginning of year	<u>7,703,169</u>	<u>7,703,169</u>
Net assets at end of year	<u>\$ 7,710,478</u>	<u>\$ 7,710,478</u>

2007			2006	
Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Variance with Final Budget-Positive (Negative)	Actual GAAP Basis
\$ 825,323	\$	\$ 825,323	\$ 5,934	\$ 699,186
271,909		271,909	(54,642)	305,491
248,467		248,467	(17,498)	259,274
65,616		65,616	(85,545)	67,507
226,420		226,420	80,304	221,756
<u>6</u>		<u>6</u>	<u>(22,437)</u>	<u>17,065</u>
<u>1,637,741</u>	<u>-0-</u>	<u>1,637,741</u>	<u>(93,884)</u>	<u>1,570,279</u>
168,897		168,897	3,980	165,826
84,860		84,860	(3,990)	67,852
737,375	(8,641)	728,734	19,330	695,989
493,174		493,174	132,951	467,836
84,000		84,000	-0-	84,000
<u>291,242</u>	<u>(291,242)</u>	<u>-0-</u>	<u>-0-</u>	<u>285,522</u>
<u>1,859,548</u>	<u>(299,883)</u>	<u>1,559,665</u>	<u>152,271</u>	<u>1,767,025</u>
<u>(221,807)</u>	<u>299,883</u>	<u>78,076</u>	<u>58,387</u>	<u>(196,746)</u>
4,998		4,998	4,998	5,148
<u>(9,417)</u>		<u>(9,417)</u>	<u>(9,417)</u>	<u>(4,074)</u>
<u>(4,419)</u>	<u>-0-</u>	<u>(4,419)</u>	<u>(4,419)</u>	<u>(15,520)</u>
<u>(226,226)</u>	<u>299,883</u>	<u>73,657</u>	<u>53,968</u>	<u>(14,446)</u>
100,001		100,001	53,968	(211,192)
<u>(12,380)</u>		<u>(12,380)</u>	<u>100,001</u>	<u>136,314</u>
<u>(138,605)</u>	<u>299,883</u>	<u>161,278</u>	<u>153,969</u>	<u>(12,380)</u>
<u>7,703,169</u>		<u>7,703,169</u>	<u>-0-</u>	<u>7,790,427</u>
<u>\$ 7,564,564</u>	<u>\$ 299,883</u>	<u>\$ 7,864,447</u>	<u>\$ 153,969</u>	<u>\$ 7,703,169</u>

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CAPITAL ASSET SCHEDULES

These schedules present the capital asset balances related to governmental funds. A capital asset is presented in this schedule when it has been purchased using general governmental resources and is used for general governmental purposes. Assets are recorded at historical cost if purchased, or if historical cost is not available, estimated historical cost, or fair market value on the date donated, if donated.

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CITY OF LAKE JACKSON

Lake Jackson, Texas

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS COMPARATIVE SCHEDULE BY SOURCE

September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Governmental Funds Capital Assets:		
Land	\$ 2,359,934	\$ 2,124,934
Buildings	26,202,247	26,202,247
Improvements other than buildings	10,638,485	10,572,313
Machinery and equipment	9,108,249	8,744,284
Infrastructure	70,840,912	65,828,281
Construction in progress	<u>785,626</u>	<u>3,747,948</u>
Total governmental funds capital assets	<u>\$ 119,935,453</u>	<u>\$ 117,220,007</u>
Investments in Governmental Funds Capital Assets by Source:		
General fund	\$ 8,908,881	\$ 8,382,212
Special revenue fund	2,620,357	2,620,358
Capital projects fund	85,222,876	84,165,529
Contributed	<u>23,183,339</u>	<u>22,051,908</u>
Total governmental funds capital assets	<u>\$ 119,935,453</u>	<u>\$ 117,220,007</u>

This schedule presents only the capital asset balances related to governmental funds.

CITY OF LAKE JACKSON

Lake Jackson, Texas

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION**

September 30, 2007

<u>Function</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements Other Than Buildings</u>
General government	\$ 1,057,663	\$ 2,071,442	\$ 1,055,727
Public safety		7,316,573	464,849
Public works		1,877,845	111,610
Culture and recreation	<u>1,302,271</u>	<u>14,936,387</u>	<u>9,006,299</u>
Total governmental funds capital assets	<u>\$ 2,359,934</u>	<u>\$ 26,202,247</u>	<u>\$ 10,638,485</u>

This schedule presents only the capital asset balances related to governmental funds.

<u>Machinery and Equipment</u>	<u>Infrastructure</u>	<u>Construction in Progress</u>	<u>Total</u>
\$ 1,103,662	\$	\$ 211,765	\$ 5,500,259
4,468,889			12,250,311
2,019,690	70,840,912		74,850,057
<u>1,516,008</u>	<u></u>	<u>573,861</u>	<u>27,334,826</u>
<u>\$ 9,108,249</u>	<u>\$ 70,840,912</u>	<u>\$ 785,626</u>	<u>\$ 119,935,453</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**SCHEDULE OF CHANGE IN CAPITAL ASSETS USED
IN THE OPERATIONS OF GOVERNMENTAL FUNDS BY FUNCTION**

For the Year Ended September 30, 2007

<u>Function</u>	<u>Governmental Funds Capital Assets 10/01/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Governmental Funds Capital Assets 09/30/06</u>
General government	\$ 5,255,665	\$ 258,692	\$ 14,098	\$ 5,500,259
Public safety	12,001,028	385,062	135,779	12,250,311
Public works	72,737,062	2,204,688	91,693	74,850,057
Culture and recreation	<u>27,226,252</u>	<u>126,198</u>	<u>17,624</u>	<u>27,334,826</u>
Total governmental funds capital assets	<u>\$ 117,220,007</u>	<u>\$ 2,974,640</u>	<u>\$ 259,194</u>	<u>\$ 119,935,453</u>

This schedule presents only the capital asset balances related to governmental funds.

OTHER SCHEDULES

CITY OF LAKE JACKSON

Lake Jackson, Texas

**CONSOLIDATED SCHEDULE OF ASSETS, LIABILITIES AND
FUND EQUITY - GENERAL FUND - SUB-FUNDS**

September 30, 2007

	<u>General</u>	<u>Clearing</u>	<u>Payroll</u>	<u>General Contingencies</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 6,900	\$ 8,768,765	\$	\$
Receivables (Net of Allowance for Uncollectibles):				
Taxes	34,563			
Customer accounts	268,299			
Sales tax	366,244			
Franchise tax	173,259			
Grants	4,250			
Due from clearing fund	6,580,028		95,287	744,973
Due from other funds		215,180		
Investments		399,000		
Inventories:				
Resale items	59,041			
Supplies	<u>66,260</u>			
 Total assets	 <u>\$ 7,558,844</u>	 <u>\$ 9,382,945</u>	 <u>\$ 95,287</u>	 <u>\$ 744,973</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities:</u>				
Accounts payable	\$ 422,554	\$	\$ 90,287	\$
Cash bonds and taxes	375,980			
Accrued wages	190,589			
Deferred revenue	109,381			
Due to other funds		<u>9,382,945</u>		
 Total liabilities	 <u>1,098,504</u>	 <u>9,382,945</u>	 <u>90,287</u>	 <u>-0-</u>
 <u>Fund Balances:</u>				
Reserved:				
Inventory	125,301			
Unreserved:				
Designated:				
Unemployment insurance				
Noncurrent liabilities				744,973
Equipment replacement				
Special events				
Undesignated	<u>6,335,039</u>		<u>5,000</u>	
 Total fund balances	 <u>6,460,340</u>	 <u>-0-</u>	 <u>5,000</u>	 <u>744,973</u>
 Total liabilities and fund balances	 <u>\$ 7,558,844</u>	 <u>\$ 9,382,945</u>	 <u>\$ 95,287</u>	 <u>\$ 744,973</u>

<u>Equipment Replacement</u>	<u>Unemployment Insurance</u>	<u>Special Events</u>	<u>Consolidation</u>	<u>Total</u>
\$	\$	\$	\$	\$ 8,775,665
				34,563
				268,299
				366,244
				173,259
107,663				111,913
1,737,202	222,119	3,336	(9,382,945)	-0-
				215,180
				399,000
				59,041
				<u>66,260</u>
<u>\$ 1,844,865</u>	<u>\$ 222,119</u>	<u>\$ 3,336</u>	<u>\$(9,382,945)</u>	<u>\$ 10,469,424</u>
\$ 145,215	\$	\$ 88	\$	\$ 658,144
				375,980
				190,589
				109,381
			(9,382,945)	-0-
<u>145,215</u>	<u>-0-</u>	<u>88</u>	<u>(9,382,945)</u>	<u>1,334,094</u>
				125,301
	222,119			222,119
				744,973
1,699,650				1,699,650
		3,248		3,248
				<u>6,340,039</u>
<u>1,699,650</u>	<u>222,119</u>	<u>3,248</u>	<u>-0-</u>	<u>9,135,330</u>
<u>\$ 1,844,865</u>	<u>\$ 222,119</u>	<u>\$ 3,336</u>	<u>\$(9,382,945)</u>	<u>\$ 10,469,424</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

CONSOLIDATED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY - GENERAL FUND - SUB-FUNDS

For the Year Ended September 30, 2007

	General	Clearing	Payroll	General Contingencies
Revenues:				
Taxes:				
Property	\$ 3,236,792	\$	\$	\$
Sales	4,618,469			
Franchise	1,596,697			
Other	59,590			
Industrial district	3,220,061			
Recreation	974,310			
Fines and fees	442,892			
Licenses and permits	244,049			
Interest	282,830			41,496
Miscellaneous	62,712			
Intergovernmental	25,000			
Total revenues	14,763,402	-0-	-0-	41,496
Expenditures:				
General Government and Administration:				
General administration	1,015,920			
Finance	672,554			
Elections	3,887			
Legal	112,452			
Municipal court	262,550			
Engineering	343,219			
Public Safety:				
Police	3,823,368			
Fire	371,003			
EMS department	222,012			
Humane	237,255			
Public works:				
Garage	532,511			
Street	633,219			
Drainage	610,833			
Building inspection	486,058			
Sanitation				
Culture and recreation:				
Parks	928,386			
Recreation	1,690,223			
Civic Center & Jasmine Hall	468,938			
Commissions and Boards	277,110			
Special Events	52,625			
Capital outlay	184,693			
Total expenditures	12,928,816	-0-	-0-	-0-

(Continued)

<u>Equipment Replacement</u>	<u>Unemployment Insurance</u>	<u>Special Events</u>	<u>Consolidation</u>	<u>Total</u>
\$	\$	\$	\$	\$
				3,236,792
				4,618,469
				1,596,697
				59,590
				3,220,061
				974,310
				442,892
				244,049
108,401	11,445			444,172
4,000		18,956		85,668
<u>107,663</u>				<u>132,663</u>
<u>220,064</u>	<u>11,445</u>	<u>18,956</u>	<u>-0-</u>	<u>15,055,363</u>
304,728	21,255			1,341,903
436				672,990
				3,887
				112,452
				262,550
125				343,344
9,819				3,833,187
				371,003
				222,012
				237,255
				532,511
500				633,719
				610,833
1,717				487,775
34,151				34,151
				928,386
896				1,691,119
120				469,058
				277,110
		62,741		115,366
<u>601,170</u>				<u>785,863</u>
<u>953,662</u>	<u>21,255</u>	<u>62,741</u>	<u>-0-</u>	<u>13,966,474</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**CONSOLIDATED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND EQUITY - GENERAL FUND - SUB-FUNDS - Continued**

For the Year Ended September 30, 2007

	<u>General</u>	<u>Clearing</u>	<u>Payroll</u>	<u>General Contingencies</u>
Excess of revenues over (under) expenditures	\$ <u>1,834,586</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>41,496</u>
Other Financing Sources (Uses):				
Transfers in	1,030,389			
Transfers out	(734,840)			(140,000)
Proceeds from sale of capital assets	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total other financing sources (uses)	<u>295,549</u>	<u>-0-</u>	<u>-0-</u>	<u>(140,000)</u>
Net change in fund balances	2,130,135	-0-	-0-	(98,504)
Fund balances, October 1	<u>4,330,205</u>	<u> </u>	<u>5,000</u>	<u>843,477</u>
Fund balances, September 30	<u>\$ 6,460,340</u>	<u>\$ -0-</u>	<u>\$ 5,000</u>	<u>\$ 744,973</u>

<u>Equipment Replacement</u>	<u>Unemployment Insurance</u>	<u>Special Events</u>	<u>Consolidation</u>	<u>Total</u>
\$ <u>(733,598)</u>	\$ <u>(9,810)</u>	\$ <u>(43,785)</u>	\$ <u>-0-</u>	\$ <u> 1,088,889</u>
1,205,469		40,000	(874,840)	1,401,018
(996,509)			874,840	(996,509)
<u>56,533</u>				<u>56,533</u>
<u>265,493</u>	<u>-0-</u>	<u>40,000</u>	<u>-0-</u>	<u>461,042</u>
(468,105)	(9,810)	(3,785)	-0-	1,549,931
<u>2,167,755</u>	<u>231,929</u>	<u>7,033</u>	<u>-0-</u>	<u>7,585,399</u>
\$ <u><u>1,699,650</u></u>	\$ <u><u>222,119</u></u>	\$ <u><u>3,248</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>9,135,330</u></u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**CONSOLIDATED SCHEDULE OF NET ASSETS
ENTERPRISE FUND - SUB-FUNDS**

September 30, 2007

	<u>Utility</u>	<u>Utility Contingency</u>	<u>Utility Revenue Bond Interest and Sinking</u>
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	\$ 2,177,457	\$ 325,546	\$
Receivables (Net of Allowance for Uncollectibles):			
Accounts	<u>448,562</u>	<u> </u>	<u> </u>
	<u>2,626,019</u>	<u>325,546</u>	<u>-0-</u>
Current Restricted Assets:			
Cash and temporary investments	<u>475,628</u>	<u> </u>	<u>722,197</u>
Total restricted current assets	<u>475,328</u>	<u>-0-</u>	<u>722,197</u>
Total current assets	<u>3,101,647</u>	<u>325,546</u>	<u>722,197</u>
Noncurrent Assets:			
Restricted Cash and Cash Equivalents:			
Revenue bond covenant accounts	<u> </u>	<u> </u>	<u>238,555</u>
Total noncurrent restricted assets	<u>-0-</u>	<u>-0-</u>	<u>238,555</u>
Deferred charges	<u> </u>	<u> </u>	<u>7,192</u>
Capital Assets:			
Property, plant and equipment	55,239,397		
Construction in progress			
Less accumulated depreciation	<u>(21,363,593)</u>	<u> </u>	<u> </u>
Total capital assets (net of accumulated depreciation)	<u>33,875,804</u>	<u>-0-</u>	<u>-0-</u>
Total noncurrent assets	<u>33,875,804</u>	<u>-0-</u>	<u>245,747</u>
Total assets	<u>36,977,451</u>	<u>325,546</u>	<u>967,944</u>

(Continued)

<u>Utility Construction</u>	<u>1996 Utility Bond</u>	<u>Wastewater Treatment Bond</u>	<u>Wastewater Treatment Bond Reserve</u>	<u>2007 Utility Bond</u>	<u>Total</u>
\$ 1,006,498	\$	\$	\$	\$	\$ 3,509,501
					448,562
<u>1,006,498</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>3,958,063</u>
	523,884	100,365		1,893,589	3,715,663
<u>-0-</u>	<u>523,884</u>	<u>100,365</u>	<u>-0-</u>	<u>1,893,589</u>	<u>3,715,663</u>
<u>1,006,498</u>	<u>523,884</u>	<u>100,365</u>	<u>-0-</u>	<u>1,893,589</u>	<u>7,673,726</u>
			1,256,800		1,495,355
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,256,800</u>	<u>-0-</u>	<u>1,495,355</u>
	16,989	285,919		50,397	360,497
248,119	25,900				55,239,397
					274,019
					(21,363,593)
<u>248,119</u>	<u>25,900</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>34,149,823</u>
<u>248,119</u>	<u>42,889</u>	<u>285,919</u>	<u>1,256,800</u>	<u>50,397</u>	<u>36,005,675</u>
<u>1,254,617</u>	<u>566,773</u>	<u>386,284</u>	<u>1,256,800</u>	<u>1,943,986</u>	<u>43,679,401</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**CONSOLIDATED SCHEDULE OF NET ASSETS
ENTERPRISE FUND - SUB-FUNDS - Continued**

September 30, 2007

	<u>Utility</u>	<u>Utility Contingency</u>	<u>Utility Revenue Bond Interest and Sinking</u>
<u>Liabilities and Net Assets</u>			
Current Liabilities:			
Accounts payable	\$ 384,951	\$	\$
Accrued wages	40,139		
Accrued compensated absences	112,349		
Revenue bonds payable	<u>624,167</u>		
	<u>1,161,606</u>	<u>-0-</u>	<u>-0-</u>
Current Liabilities Payable from Restricted Assets:			
Accounts payable			
Accrued interest			283,926
Customer deposits	475,628		
Revenue bonds payable			<u>445,833</u>
Total current liabilities payable from restricted assets	<u>475,628</u>	<u>-0-</u>	<u>729,759</u>
Total current liabilities	1,637,234	-0-	729,759
Noncurrent Liabilities:			
Revenue bonds payable (net of unamortized discounts)	<u>13,460,000</u>		
Total liabilities	<u>15,097,234</u>	<u>-0-</u>	<u>729,759</u>
Net Assets:			
Invested in capital assets, net of related debt	19,345,804		
Restricted For:			
Revenue bond retirement			238,185
Construction			
Unrestricted	<u>2,534,413</u>	<u>325,546</u>	
Total net assets	<u>\$ 21,880,217</u>	<u>\$ 325,546</u>	<u>\$ 238,185</u>

<u>Utility Construction</u>	<u>1996 Utility Bond</u>	<u>Wastewater Treatment Bond</u>	<u>Wastewater Treatment Bond Reserve</u>	<u>2007 Utility Bond</u>	<u>Total</u>
\$ 197,490	\$	\$	\$	\$	\$ 582,441
					40,139
					112,349
					624,167
<u>197,490</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,359,096</u>
		22,057			22,057
					283,926
					475,628
					445,833
<u>-0-</u>	<u>-0-</u>	<u>22,057</u>	<u>-0-</u>	<u>-0-</u>	<u>1,227,444</u>
197,490	-0-	22,057	-0-	-0-	2,586,540
					13,460,000
<u>197,490</u>	<u>-0-</u>	<u>22,057</u>	<u>-0-</u>	<u>-0-</u>	<u>16,046,540</u>
	25,900				19,371,704
			1,256,800		1,494,985
	540,873	364,227		1,943,986	2,849,086
<u>1,057,127</u>					<u>3,917,086</u>
<u>\$ 1,057,127</u>	<u>\$ 566,773</u>	<u>\$ 364,227</u>	<u>\$ 1,256,800</u>	<u>\$ 1,943,986</u>	<u>\$ 27,632,861</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**CONSOLIDATED SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - ENTERPRISE FUND - SUB-FUNDS**

For the Year Ended September 30, 2007

	<u>Utility</u>	<u>Utility Contingency</u>	<u>Utility Revenue Bond Interest and Sinking</u>
Operating Revenues:			
Water service	\$ 2,550,999	\$	\$
Sewer service	2,777,004		
Garbage fees	2,823,869		
Tapping and connection fees	232,050		
Other	<u>54,671</u>		
Total operating revenues	<u>8,438,593</u>	<u>-0-</u>	<u>-0-</u>
Operating Expenses:			
Utility administration	326,437		
Water production and treatment	1,689,556		
Water distribution	454,079		
Sewer collection	782,856		
Sewer treatment	1,172,500		
Sanitation	2,157,050		
Depreciation	<u>1,838,931</u>		
Total operating expenses	<u>8,421,409</u>	<u>-0-</u>	<u>-0-</u>
Operating income (loss)	<u>17,184</u>	<u>-0-</u>	<u>-0-</u>
Non-Operating Revenues (Expenses):			
Interest revenue	137,794	18,005	111,935
Gain on sale/retirement of capital assets	16,000		
Interest expense and fiscal charges			<u>(590,062)</u>
Total non-operating revenues (expenses)	<u>153,794</u>	<u>18,005</u>	<u>(478,127)</u>
Income (loss) before contributions and operating transfers	170,978	18,005	(478,127)
Transfers in	996,509		
Transfers out	(1,031,018)		
Intrafund transfers	<u>(425,784)</u>	<u>(40,000)</u>	<u>416,334</u>
Change in net assets	(289,315)	(21,995)	(61,793)
Net assets at beginning of year	<u>22,169,532</u>	<u>347,541</u>	<u>299,978</u>
Net assets at end of year	<u>\$ 21,880,217</u>	<u>\$ 325,546</u>	<u>\$ 238,185</u>

Utility Construction	1996 Utility Bond	Wastewater Treatment Bond	Wastewater Treatment Bond Reserve	2007 Utility Bond	Total
\$	\$	\$	\$	\$	\$ 2,550,999
					2,777,004
					2,823,869
					232,050
					54,671
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>		<u>8,438,593</u>
					326,437
					1,689,556
					454,079
117					782,973
					1,172,500
					2,157,050
					1,838,931
<u>117</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>8,421,526</u>
<u>(117)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>17,067</u>
76,545	34,886	17,575		41,394	438,134
					16,000
	<u>(1,888)</u>	<u>(22,498)</u>		<u>(963)</u>	<u>(615,411)</u>
<u>76,545</u>	<u>32,998</u>	<u>(4,923)</u>	<u>-0-</u>	<u>40,431</u>	<u>(161,277)</u>
76,428	32,998	(4,923)	-0-	40,431	(144,210)
					996,509
					(1,031,018)
<u>(1,748,830)</u>		<u>(47,275)</u>	<u>(58,000)</u>	<u>1,903,555</u>	<u>-0-</u>
(1,672,402)	32,998	(52,198)	(58,000)	1,943,986	(178,719)
<u>2,729,529</u>	<u>533,775</u>	<u>416,425</u>	<u>1,314,800</u>	<u>-0-</u>	<u>27,811,580</u>
<u>\$ 1,057,127</u>	<u>\$ 566,773</u>	<u>\$ 364,227</u>	<u>\$ 1,256,800</u>	<u>\$ 1,943,986</u>	<u>\$ 27,632,861</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

CONSOLIDATED SCHEDULE OF CASH FLOWS ENTERPRISE FUND - SUB-FUNDS

For the Year Ended September 30, 2007

	Utility	Utility Contingency	Utility Revenue Bond Interest and Sinking
Cash Flows from Operating Activities:			
Receipts from customers and users	\$ 8,520,146		
Payments to customers and suppliers	(3,969,801)		24,880
Payments to employees	(2,534,418)		
Net cash provided (used) by operating activities	2,015,927	-0-	24,880
Cash Flows from Non-Capital Financing Activities:			
Transfers in	996,509		
Transfers out	(1,031,018)		
Intrafund transfers	(1,182,334)	(40,000)	416,334
Net cash provided (used) by non-capital financing activities	(1,216,843)	(40,000)	416,334
Cash Flows from Capital and Related Financing Activities:			
Purchases of capital assets	(2,160,108)		
Proceeds from sale of capital assets	16,000		
Proceeds from sale of revenue bonds	1,958,334		41,666
Principal paid on capital debt	(970,000)		
Interest and fiscal charges paid on capital debt	(25,517)		(588,792)
Net cash provided (used) by capital and related financing activities	(1,181,291)	-0-	(547,126)
Cash Flows from Investing Activities:			
Interest on investments	137,794	18,005	111,935
Net cash provided by investing activities	137,794	18,005	111,935
Net increase (decrease) in cash and cash equivalents	(244,413)	(21,995)	6,023
Cash and cash equivalents at the beginning of year	2,847,101	347,541	954,729
Cash and cash equivalents at the end of year	\$ 2,602,688	\$ 325,546	\$ 960,752
Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:			
Operating income (loss)	\$ 17,184	\$	\$
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	1,838,931		
(Increase) decrease in accounts receivable	49,113		
Increase (decrease) in accounts payable	64,546		24,880
Increase (decrease) in accrued wages payable	(1,583)		
Increase (decrease) in accrued compensated absences	15,296		
Increase (decrease) in customer deposits	32,440		
Total adjustments	1,998,743	-0-	24,850
Net cash provided (used) by operating activities	\$ 2,015,927	\$ -0-	\$ 24,880

Utility Construction	1996 Utility Bond	Wastewater Treatment Bond	Wastewater Treatment Bond Reserve	2007 Utility Bond	Total
\$	\$	\$	\$	\$	\$ 8,520,146
(76,621)		(258,879)			(4,280,421)
					(2,534,418)
<u>(76,621)</u>	<u>-0-</u>	<u>(258,879)</u>	<u>-0-</u>	<u>-0-</u>	<u>1,705,307</u>
					996,509
(992,280)		(47,275)	(58,000)	1,903,555	(1,031,018)
<u>(992,280)</u>	<u>-0-</u>	<u>(47,275)</u>	<u>(58,000)</u>	<u>1,903,555</u>	<u>-0-</u>
					(34,509)
(248,119)	(616)				(2,408,843)
					16,000
					2,000,000
					(970,000)
				(963)	(615,272)
<u>(248,119)</u>	<u>(616)</u>	<u>-0-</u>	<u>-0-</u>	<u>(963)</u>	<u>(1,978,115)</u>
76,545	34,885	17,576		41,394	438,134
<u>76,545</u>	<u>34,885</u>	<u>17,576</u>	<u>-0-</u>	<u>41,394</u>	<u>438,134</u>
(1,240,475)	34,269	(288,578)	(58,000)	1,943,986	130,817
<u>2,246,973</u>	<u>489,615</u>	<u>388,943</u>	<u>1,314,800</u>	<u>-0-</u>	<u>8,589,702</u>
<u>\$ 1,006,498</u>	<u>\$ 523,884</u>	<u>\$ 100,365</u>	<u>\$ 1,256,800</u>	<u>\$ 1,943,986</u>	<u>\$ 8,720,519</u>
\$(117)	\$	\$	\$	\$	\$ 17,067
					1,838,931
(76,504)		(258,879)			49,113
					(245,957)
					(1,583)
					15,296
					<u>32,440</u>
<u>(76,504)</u>	<u>-0-</u>	<u>(258,879)</u>	<u>-0-</u>	<u>-0-</u>	<u>1,688,240</u>
<u>\$(76,621)</u>	<u>\$ -0-</u>	<u>\$(258,879)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,705,307</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**GENERAL OBLIGATION BONDS
DEBT SERVICE SCHEDULE**

September 30, 2007

Year Ending 09/30	Series 1996		Series 1997	
	Principal	Interest	Principal	Interest
2008	\$ 365,000	\$ 181,314	\$ 500,000	\$ 55,000
2009	365,000	161,239	225,000	40,500
2010	365,000	140,799	225,000	31,500
2011	365,000	119,994	225,000	22,500
2012	365,000	100,375	225,000	13,500
2013	365,000	82,125	225,000	4,500
2014	365,000	63,875		
2015	365,000	45,625		
2016	365,000	27,375		
2017	365,000	9,125		
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
TOTAL	\$ <u>3,650,000</u>	\$ <u>931,846</u>	\$ <u>1,625,000</u>	\$ <u>167,500</u>

(Continued)

Series 1997		Series 1999		Series 2001	
Principal	Interest	Principal	Interest	Principal	Interest
\$ 100,000	\$ 53,900	\$ 225,000	\$ 94,500	\$ 180,000	\$ 113,760
100,000	49,150	225,000	85,500	180,000	106,290
100,000	44,325	225,000	76,500	180,000	98,640
100,000	39,450	225,000	67,500	180,000	90,810
100,000	34,500	225,000	58,500	180,000	82,800
100,000	29,500	225,000	49,500	180,000	74,610
100,000	24,750	225,000	40,500	180,000	66,240
100,000	20,250	225,000	31,500	180,000	57,735
100,000	15,750	225,000	22,500	180,000	49,140
100,000	11,250	225,000	13,500	180,000	40,410
100,000	6,750	225,000	4,500	180,000	31,500
100,000	2,250			180,000	22,500
				180,000	13,500
				180,000	4,500
<hr/>		<hr/>		<hr/>	
<u>\$ 1,200,000</u>	<u>\$ 331,825</u>	<u>\$ 2,475,000</u>	<u>\$ 544,500</u>	<u>\$ 2,520,000</u>	<u>\$ 852,435</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**GENERAL OBLIGATION BONDS
DEBT SERVICE SCHEDULE - Continued**

September 30, 2007

Year Ending 09/30	Series 2002		Series 2002	
	Principal	Interest	Principal	Interest
2008	\$ 230,000	\$ 234,400	\$ 180,000	\$ 111,825
2009	240,000	225,000	180,000	104,175
2010	245,000	215,300	180,000	96,075
2011	260,000	205,070	180,000	87,525
2012	270,000	194,070	180,000	79,425
2013	280,000	182,380	180,000	71,775
2014	290,000	169,980	180,000	64,125
2015	305,000	156,661	180,000	56,700
2016	320,000	142,283	180,000	49,500
2017	335,000	126,886	180,000	42,300
2018	350,000	110,530	180,000	35,100
2019	370,000	93,065	180,000	27,450
2020	390,000	74,250	180,000	19,350
2021	410,000	54,250	180,000	11,475
2022	430,000	33,250	180,000	3,825
2023	450,000	11,250		
2024				
2025				
2026				
2027				
TOTAL	<u>\$ 5,175,000</u>	<u>\$ 2,228,625</u>	<u>\$ 2,700,000</u>	<u>\$ 860,625</u>

(Continued)

Series 2003		Series 2003		Series 2004	
Principal	Interest	Principal	Interest	Principal	Interest
\$ 295,000	\$ 38,337	\$ 60,000	\$ 35,955	\$ 180,000	\$ 107,460
290,000	29,562	60,000	34,230	180,000	101,520
280,000	20,802	60,000	32,355	180,000	95,580
165,000	13,629	60,000	30,360	180,000	89,640
160,000	8,145	60,000	28,290	180,000	83,700
155,000	2,713	60,000	26,190	180,000	77,760
		60,000	24,030	180,000	71,820
		60,000	21,750	180,000	65,835
		60,000	19,380	180,000	59,715
		60,000	16,950	180,000	53,370
		60,000	14,475	180,000	46,800
		60,000	11,955	180,000	40,050
		60,000	9,375	180,000	33,120
		60,000	6,750	180,000	26,010
		60,000	4,080	180,000	18,720
		60,000	1,365	180,000	11,295
				180,000	3,780
<hr/>		<hr/>		<hr/>	
<u>\$ 1,345,000</u>	<u>\$ 113,188</u>	<u>\$ 960,000</u>	<u>\$ 317,490</u>	<u>\$ 3,060,000</u>	<u>\$ 986,175</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

**GENERAL OBLIGATION BONDS
DEBT SERVICE SCHEDULE - Continued**

September 30, 2007

Year Ending 09/30	Series 2007		Totals		
	Principal	Interest	Principal	Interest	Total
2008	\$ 265,000	\$ 205,541	\$ 2,580,000	\$ 1,231,992	\$ 3,811,992
2009	215,000	196,241	2,260,000	1,133,407	3,393,407
2010	315,000	185,972	2,355,000	1,037,848	3,392,848
2011	265,000	174,734	2,205,000	941,212	3,146,212
2012	265,000	164,300	2,210,000	847,605	3,057,605
2013	265,000	153,700	2,215,000	754,753	2,969,753
2014	265,000	143,100	1,845,000	668,420	2,513,420
2015	265,000	132,500	1,860,000	588,556	2,448,556
2016	265,000	121,900	1,875,000	507,543	2,382,543
2017	265,000	111,300	1,890,000	425,091	2,315,091
2018	265,000	100,700	1,540,000	350,355	1,890,355
2019	265,000	90,100	1,335,000	287,370	1,622,370
2020	265,000	79,500	1,255,000	229,095	1,484,095
2021	265,000	68,900	1,275,000	171,885	1,446,885
2022	265,000	58,300	1,115,000	118,175	1,233,175
2023	265,000	47,700	955,000	71,610	1,026,610
2024	265,000	37,100	445,000	40,880	485,880
2025	265,000	26,500	265,000	26,500	291,500
2026	265,000	15,900	265,000	15,900	280,900
2027	<u>265,000</u>	<u>5,300</u>	<u>265,000</u>	<u>5,300</u>	<u>270,300</u>
 TOTAL	 <u>\$ 5,300,000</u>	 <u>\$ 2,119,288</u>	 <u>\$ 30,010,000</u>	 <u>\$ 9,453,497</u>	 <u>\$ 39,463,497</u>

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CITY OF LAKE JACKSON

Lake Jackson, Texas

**WATERWORKS AND SEWER SYSTEM
REVENUE BONDS - DEBT SERVICE SCHEDULE**

September 30, 2007

Year Ending 09/30	Series 1993		Series 1996	
	Principal	Interest	Principal	Interest
2008	\$ 70,000	\$ 22,905	\$ 100,000	\$ 45,650
2009	70,000	19,230	100,000	40,250
2010	70,000	15,520	100,000	35,000
2011	70,000	11,810	100,000	30,000
2012	70,000	8,065	100,000	25,000
2013	80,000	4,320	100,000	20,000
2014			100,000	15,000
2015			100,000	10,000
2016			100,000	5,000
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
TOTAL	\$ <u>430,000</u>	\$ <u>81,850</u>	\$ <u>900,000</u>	\$ <u>225,900</u>

<u>Series 2000</u>		<u>Series 2007</u>		<u>Totals</u>		
<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
\$ 800,000	\$ 456,800	\$ 100,000	\$ 85,500	\$ 1,070,000	\$ 608,355	\$ 1,678,355
800,000	427,200	100,000	80,500	1,070,000	564,680	1,634,680
800,000	397,200	100,000	75,500	1,070,000	520,720	1,590,720
800,000	366,800	100,000	70,500	1,070,000	476,610	1,546,610
800,000	336,000	100,000	65,500	1,070,000	432,065	1,502,065
800,000	304,400	100,000	60,500	1,080,000	386,970	1,466,970
800,000	272,400	100,000	56,000	1,000,000	341,400	1,341,400
800,000	240,000	100,000	52,000	1,000,000	300,000	1,300,000
800,000	206,800	100,000	48,000	1,000,000	257,800	1,257,800
800,000	173,200	100,000	44,000	900,000	215,200	1,115,200
800,000	139,200	100,000	40,000	900,000	177,200	1,077,200
800,000	104,800	100,000	36,000	900,000	138,800	1,038,800
800,000	70,000	100,000	32,000	900,000	100,000	1,000,000
800,000	35,200	100,000	28,000	900,000	61,200	961,200
		100,000	24,000	100,000	22,000	122,000
		100,000	20,000	100,000	18,000	118,000
		100,000	16,000	100,000	14,000	114,000
		100,000	12,000	100,000	10,000	110,000
		100,000	8,000	100,000	6,000	106,000
		<u>100,000</u>	<u>4,000</u>	<u>100,000</u>	<u>2,000</u>	<u>102,000</u>
<u>\$ 11,200,000</u>	<u>\$ 3,530,000</u>	<u>\$ 2,000,000</u>	<u>\$ 858,000</u>	<u>\$ 14,530,000</u>	<u>\$ 4,653,000</u>	<u>\$ 19,183,000</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

INSURANCE COVERAGE

September 30, 2007

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date</u>
Texas Municipal League:		
General and Auto Liability: Bodily injury Property damage	\$ 5,000,000	10/01/07
Other Liability: Law enforcement liability	5,000,000	10/01/07
Errors and omissions	2,000,000	10/01/07
Property coverage	38,389,100	10/01/07
American Governmental Risk and Insurance Programs:		
Windstorm and hail coverage on property, buildings and contents	35,394,980	01/26/08
Pollution liability insurance	2,000,000	10/01/07

Note 1: New Fire Station added to Property Coverage at \$ 3,247,500

Note 2: New Fire Station added to Windstorm Coverage at \$ 3,162,900

STATISTICAL SECTION

The Statistical Section presents detailed information as a context for understanding what information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health. It includes five categories of information: Financial Trends (tables 1-4), Revenue Capacity (tables 5-9), Debt Capacity (tables 10-13), Demographic and Economic Information (tables 14-15), and Operating Information (tables 16-18).

CITY OF LAKE JACKSON
Lake Jackson, Texas

Table 1
Net Assets by Component - Last Five Fiscal Years
(accrual basis of accounting)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities:					
Invested in capital assets, net of related debt	\$ 26,732,065	\$ 28,882,643	\$ 21,403,827	\$ 22,161,825	\$ 25,482,995
Restricted	9,770,649	8,224,755	7,026,879	4,864,344	2,501,788
Unrestricted	<u>11,016,903</u>	<u>10,735,612</u>	<u>10,686,871</u>	<u>10,933,704</u>	<u>10,411,172</u>
Total governmental activities net assets	<u>\$ 47,519,617</u>	<u>\$ 47,843,010</u>	<u>\$ 39,117,577</u>	<u>\$ 37,959,873</u>	<u>\$ 38,395,955</u>
Business-type Activities Net Assets:					
Invested in capital assets, net of related debt	\$ 13,319,990	\$ 15,906,078	\$ 26,654,525	\$ 28,016,142	\$ 27,043,902
Restricted	8,039,780	6,530,518	3,150,305	2,185,194	2,588,178
Unrestricted	<u>4,399,001</u>	<u>4,178,202</u>	<u>5,609,797</u>	<u>5,673,377</u>	<u>5,882,669</u>
Total business-type activities net assets	<u>\$ 25,758,771</u>	<u>\$ 26,614,798</u>	<u>\$ 35,414,627</u>	<u>\$ 35,874,713</u>	<u>\$ 35,514,749</u>
Primary Government:					
Invested in capital assets, net of related debt	\$ 40,052,055	\$ 44,788,721	\$ 48,058,352	\$ 50,177,967	\$ 52,526,897
Restricted	17,810,429	14,755,273	10,177,184	7,049,538	5,089,966
Unrestricted	<u>15,415,904</u>	<u>14,913,814</u>	<u>16,296,668</u>	<u>16,607,081</u>	<u>16,293,841</u>
Total primary government net assets	<u>\$ 73,278,388</u>	<u>\$ 74,457,808</u>	<u>\$ 74,532,204</u>	<u>\$ 73,834,586</u>	<u>\$ 73,910,704</u>

Source: Comprehensive Annual Financial Report

2007

\$ 20,767,169
7,165,037
11,707,496

\$ 39,639,702

\$ 26,957,475
4,377,171
3,862,779

\$ 35,197,425

\$ 47,724,644
11,542,208
15,570,275

\$ 74,837,127

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 2
Changes in Net Assets - Last Five Fiscal Years
(accrual basis of accounting)

	2002	2003	2004	2005	2006
Expenses					
Governmental Activities:					
General government and administration	\$ 2,112,852	\$ 2,257,546	\$ 2,236,563	\$ 2,362,231	\$ 2,602,960
Public safety	4,574,166	4,613,337	4,540,176	4,737,631	5,130,799
Public works	4,322,800	4,379,952	5,032,811	5,185,215	5,632,640
Culture and recreation	4,141,421	4,294,610	4,281,044	4,457,243	4,632,306
Interest on long-term debt	1,055,128	1,304,392	1,338,856	1,355,910	1,250,474
Total governmental activities expenses	16,206,367	16,849,837	17,429,450	18,098,230	19,249,179
Business-type Activities:					
Water and sewer	5,123,811	4,940,714	4,806,503	5,694,639	6,191,778
Sanitation	1,956,587	2,103,697	2,128,248	2,296,436	2,435,453
Golf Course			646,775	1,613,195	1,786,619
Total business-type activities expenses	7,080,398	7,044,411	7,581,526	9,604,270	10,413,850
Total primary government expenses	\$ 23,286,765	\$ 23,894,248	\$ 25,010,976	\$ 27,702,500	\$ 29,663,029
Program Revenues					
Governmental Activities:					
Charges for Services:					
General government and administration	\$ 561,251	\$ 536,779	\$ 619,755	\$ 514,764	\$ 520,176
Public safety				3,381	
Public works				217,827	
Culture and recreation	994,180	958,594	889,460	900,630	877,552
Operating grants and contributions		83,146			97,341
Capital grants and contributions	272,471	793,350	126,410		647,863
Total governmental activities program revenues	1,827,902	2,371,869	1,635,625	1,636,602	2,142,932
Business-type Activities:					
Charges for Services:					
Water and sewer	5,623,383	5,589,987	5,530,449	5,824,846	5,852,076
Sanitation	2,477,739	2,514,062	2,555,225	2,611,266	2,668,684
Golf			523,655	1,305,294	1,570,279
Operating grants and contributions		49,369			62,298
Capital grants and contributions	160,800	1,575			
Total business-type activities program revenues	8,261,922	8,154,993	8,609,329	9,741,406	10,153,337
Total primary government program revenues	\$ 10,089,824	\$ 10,526,862	\$ 10,244,954	\$ 11,378,008	\$ 12,296,269

2007

\$ 2,933,681
5,238,784
5,346,890
4,621,273
1,225,583

19,366,211

6,407,376
2,629,561
1,868,965

10,905,902

\$ 30,272,113

\$ 442,892

244,049
974,310
25,000
856,100

2,542,351

5,614,724
2,823,869
1,637,741

10,076,334

\$ 12,618,685

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 2 - Continued
Changes in Net Assets - Last Five Fiscal Years
(accrual basis of accounting)

	2002	2003	2004	2005	2006
Net (Expense)/Revenue:					
Governmental activities	\$(14,378,465)	\$(14,477,968)	\$(15,793,825)	\$(16,461,628)	\$(17,106,247)
Business-type activities	<u>1,181,524</u>	<u>1,110,582</u>	<u>1,027,803</u>	<u>137,136</u>	<u>(260,513)</u>
Total primary governmental net expense	<u>(13,196,941)</u>	<u>(13,367,386)</u>	<u>(14,766,022)</u>	<u>(16,324,492)</u>	<u>(17,366,760)</u>
General Revenues & Other Changes in Net Assets					
Governmental Activities:					
Taxes:					
Ad valorem	3,723,962	4,196,420	4,459,509	4,627,407	4,850,943
Sales	5,667,768	5,589,800	5,715,688	5,871,195	6,392,501
Occupancy	216,608	148,933	127,660	208,377	239,924
Franchise	1,436,347	1,301,930	1,327,269	1,391,393	1,683,612
Industrial district	2,603,775	2,702,800	2,693,480	2,672,510	2,881,045
Other	49,977	46,634	49,640	49,647	54,768
Investment earnings	387,668	290,464	218,164	467,505	687,327
Miscellaneous	89,291	65,242	94,481	72,298	125,927
Gain on sale/retirement of capital assets	19,630			23,505	
Transfers	<u>376,263</u>	<u>459,138</u>	<u>(7,617,499)</u>	<u>(79,913)</u>	<u>495,032</u>
Total governmental activities	<u>14,571,289</u>	<u>14,801,361</u>	<u>7,068,392</u>	<u>15,303,924</u>	<u>17,411,079</u>
Business-type Activities:					
Investment earnings	761,289	191,440	123,215	243,037	395,581
Gain on sale/retirement of capital assets		13,143			
Miscellaneous			31,312		
Transfers	<u>(376,263)</u>	<u>(459,138)</u>	<u>7,617,499</u>	<u>79,913</u>	<u>(495,032)</u>
Total business-type activities	<u>385,026</u>	<u>(254,555)</u>	<u>7,772,026</u>	<u>322,950</u>	<u>(99,451)</u>
Total primary government	<u>14,956,315</u>	<u>14,546,806</u>	<u>14,840,418</u>	<u>15,626,874</u>	<u>17,311,628</u>
Change in Net Assets					
Governmental activities	192,824	323,393	(8,725,433)	(1,157,704)	304,832
Business-type activities	<u>1,566,550</u>	<u>856,027</u>	<u>8,799,829</u>	<u>460,086</u>	<u>(359,964)</u>
Total primary government	<u>\$ 1,759,374</u>	<u>\$ 1,179,420</u>	<u>\$ 74,396</u>	<u>\$ (697,618)</u>	<u>\$ (55,132)</u>

2007

\$(16,823,860)
(829,568)

(17,653,428)

5,020,245
6,972,467
272,624
1,596,697
3,220,061
59,590
819,379
103,123
56,533
(53,112)

18,067,607

443,132
16,000

53,112

512,244

18,579,851

1,243,747
(317,324)

\$ 926,423

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 3
Fund Balances, Governmental Funds - Last Ten Fiscal Years
(modified accrual basis of accounting)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
General Fund:					
Reserved for other*	\$ 33,601	\$ 46,655	\$ 39,269	\$ 59,973	\$ 63,746
Unreserved	<u>5,758,233</u>	<u>6,032,897</u>	<u>6,158,381</u>	<u>6,508,038</u>	<u>6,524,769</u>
Total general fund	<u>\$ 5,791,834</u>	<u>\$ 6,079,552</u>	<u>\$ 6,197,650</u>	<u>\$ 6,568,011</u>	<u>\$ 6,588,515</u>
All Other Governmental Funds Reserved For:					
Reserved For:					
Debt service	\$ 885,214	\$ 992,710	\$ 1,013,592	\$ 897,419	\$ 784,047
Capital projects	2,842,614	5,195,332	2,290,145	4,656,643	8,986,602
Unreserved, Reported In:					
Special Revenue	2,394,549	2,148,176	2,369,068	2,559,616	4,372,503
Capital projects	<u>2,132,241</u>	<u>2,567,484</u>	<u>2,176,415</u>	<u>2,018,357</u>	<u>-0-</u>
Total all other governmental funds	<u>\$ 8,254,618</u>	<u>\$ 10,903,702</u>	<u>\$ 7,849,220</u>	<u>\$ 10,132,035</u>	<u>\$ 14,143,152</u>

Note: *Includes encumbrances and prepaid items

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$ 57,388	\$ 67,614	\$ 538,565	\$ 199,512	\$ 125,301
<u>7,387,749</u>	<u>7,741,804</u>	<u>7,242,862</u>	<u>7,504,971</u>	<u>9,010,029</u>
<u>\$ 7,445,137</u>	<u>\$ 7,809,418</u>	<u>\$ 7,781,427</u>	<u>\$ 7,704,483</u>	<u>\$ 9,135,330</u>
\$ 795,592	\$ 768,321	\$ 604,045	\$ 550,663	\$ 534,831
7,071,280	5,978,847	3,998,032	1,706,433	6,344,497
3,241,768	1,694,660	1,551,229	1,593,812	1,843,390
<u>423,844</u>	<u>1,616,002</u>	<u>1,989,716</u>	<u>1,515,074</u>	<u>1,132,586</u>
<u>\$ 11,532,484</u>	<u>\$ 10,057,830</u>	<u>\$ 8,143,022</u>	<u>\$ 5,365,982</u>	<u>\$ 9,855,304</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 4
Changes in Fund Balances, Governmental Funds - Last Ten Fiscal Years
(modified accrual basis of accounting)

	1998	1999	2000	2001	2002
Revenues:					
Taxes	\$ 10,792,309	\$ 11,611,323	\$ 12,093,169	\$ 13,073,884	\$ 13,742,689
Intergovernmental	75,228	8,938	236,279	58,817	272,471
Charges for services	398,543	724,435	759,611	997,106	994,180
Fines and fees	398,720	374,354	318,983	297,281	353,082
Licenses and permits	155,833	134,694	126,362	119,542	208,169
Special assessment	14,981	15,287	14,660	4,453	4,098
Investment earnings	1,191,846	909,254	939,023	799,174	387,668
Contributions					
Miscellaneous	124,663	199,382	148,186	157,680	85,193
Total revenues	13,152,123	13,977,667	14,636,273	15,507,937	16,047,550
Expenditures:					
General government administration	1,909,788	2,091,508	2,217,451	2,356,954	1,978,733
Public safety	2,861,707	2,944,864	3,306,638	3,645,476	4,190,707
Public works	1,711,679	1,769,303	1,992,649	2,114,596	2,159,844
Culture and recreation	1,533,623	2,038,021	2,416,598	2,764,346	3,418,071
Capital outlay	6,456,942	7,821,975	5,549,145	3,523,620	3,867,639
Debt Service:					
Principal	1,070,000	1,480,000	1,550,000	1,625,000	1,580,000
Interest and fiscal charges	1,143,159	1,160,080	1,157,593	1,118,653	1,213,076
Total expenditures	16,686,898	19,305,751	18,190,074	17,148,645	18,408,070
Excess of revenues over (under) expenditures	(3,534,775)	(5,328,084)	(3,553,801)	(1,640,708)	(2,360,520)
Other Financing Sources (Uses):					
Bonds issued	8,050,000	4,250,000		3,600,000	6,000,000
Discount on bonds issued					(8,398)
Premium on bonds issued					
Sale of capital asset					19,630
Payment to bond refunding escrow agent					
Transfers in	3,390,044	4,318,597	3,436,290	3,348,985	3,662,513
Transfers out	(2,605,051)	(3,888,875)	(2,818,889)	(2,654,578)	(3,286,250)
Total other financing sources (uses)	8,834,993	4,679,722	617,401	4,294,407	6,387,495
Net change in fund balances	\$ 5,300,218	\$(648,362)	\$(2,936,400)	\$ 2,653,699	\$ 4,026,975
Debt Service as a percentage of noncapital Expenditures	21.6%	23.0%	21.4%	20.1%	19.2%

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$ 13,991,874	\$ 14,341,593	\$ 14,808,784	\$ 16,102,183	\$ 17,130,142
326,496	103,345	221,208	724,144	646,100
958,594	889,460	900,630	877,552	974,310
325,470	304,200	327,720	306,426	442,892
211,309	315,555	187,044	213,750	244,049
3,736	3,597			2,346
290,464	218,164	467,505	687,327	819,379
550,000	23,065	600	1,025	2,020
<u>61,506</u>	<u>90,884</u>	<u>71,698</u>	<u>124,902</u>	<u>97,857</u>
<u>16,719,449</u>	<u>16,289,863</u>	<u>16,985,189</u>	<u>19,037,309</u>	<u>20,359,995</u>
2,111,361	2,047,348	2,181,307	2,404,638	2,737,126
4,113,458	4,135,938	4,323,056	4,585,013	4,663,457
2,237,529	2,184,224	2,267,855	2,640,909	2,298,989
3,577,880	3,502,390	3,728,855	3,900,092	3,863,375
8,904,603	6,380,274	2,817,025	5,478,274	2,568,700
1,855,000	2,110,000	2,285,000	2,285,000	2,345,000
<u>1,470,118</u>	<u>1,374,354</u>	<u>1,338,466</u>	<u>1,232,899</u>	<u>1,267,213</u>
<u>24,269,949</u>	<u>21,734,528</u>	<u>18,941,564</u>	<u>22,526,825</u>	<u>19,743,860</u>
<u>(7,550,500)</u>	<u>(5,444,665)</u>	<u>(1,956,375)</u>	<u>(3,489,516)</u>	<u>616,135</u>
7,415,000	3,600,000			5,300,000
(3,079)				
27,166				613
25,863	137,058	71,558	9,250	56,533
(2,549,996)				
3,423,562	3,492,943	4,659,251	3,815,160	3,107,252
<u>(2,964,424)</u>	<u>(2,895,709)</u>	<u>(4,717,233)</u>	<u>(3,320,128)</u>	<u>(3,160,364)</u>
<u>5,374,092</u>	<u>4,334,292</u>	<u>13,576</u>	<u>504,282</u>	<u>5,304,034</u>
<u>\$(2,176,408)</u>	<u>\$(1,110,373)</u>	<u>\$(1,942,799)</u>	<u>\$(2,985,234)</u>	<u>\$ 5,920,169</u>
21.6%	22.7%	22.5%	20.6%	21.0%

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 5
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Estimated Market Value		Less: Tax-Exempt Property	Taxable Assessed Value	Total Direct Tax Rate
	Real Property	Personal Property			
1998	\$ 887,934,930	\$ 89,723,130	\$ 130,590,121	\$ 847,067,939	\$ 0.35000
1999	929,341,200	92,803,820	135,647,931	886,497,089	0.35000
2000	974,177,450	99,415,470	137,872,623	935,720,297	0.35000
2001	1,062,786,530	102,242,250	165,963,334	999,065,446	0.35000
2002	1,140,783,950	104,976,810	177,158,100	1,068,602,660	0.35000
2003	1,208,631,980	103,229,290	194,432,481	1,117,428,789	0.37500
2004	1,289,587,900	100,857,740	203,374,329	1,187,071,311	0.37030
2005	1,340,800,620	106,550,060	212,386,376	1,234,964,304	0.37000
2006	1,414,404,750	112,102,800	252,573,630	1,273,933,920	0.38000
2007	1,497,758,792	114,426,600	265,668,634	1,346,516,758	0.37000

Source Brazoria County Appraisal District and City's budget document.

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 6
Direct and Overlapping Property Tax Rates (per \$100 of assessed value)
Last Ten Fiscal Years

Fiscal Year	City Direct Rates			Overlapping Rates				
	Operating/ General Rate	General Obligation Debt Service	Total Direct	Brazoria County	Brazosport ISD	Brazos River Navigation	Brazosport College	Velasco Drainage
1998	\$ 0.2210	\$ 0.1290	\$ 0.3500	\$ 0.3575	\$ 1.3728	\$ 0.0800	\$ 0.0763	\$ 0.0921
1999	0.2209	0.1291	0.3500	0.3575	1.3728	0.0800	0.0763	0.0710
2000	0.2253	0.1247	0.3500	0.3575	1.3728	0.0784	0.0763	0.0690
2001	0.2359	0.1141	0.3500	0.3995	1.3728	0.0725	0.0850	0.0690
2002	0.2371	0.1129	0.3500	0.3995	1.4228	0.0725	0.0850	0.0714
2003	0.2292	0.1458	0.3750	0.4195	1.4228	0.0721	0.0850	0.7137
2004	0.2351	0.1352	0.3703	0.3595	1.4728	0.0700	0.1050	0.0739
2005	0.2369	0.1331	0.3700	0.3620	1.5228	0.0675	0.1140	0.0762
2006	0.2493	0.1307	0.3800	0.3480	1.5728	0.0650	0.1190	0.0821
2007	0.2690	0.1310	0.3700	0.3217	1.4237	0.0597	0.1220	0.0821

Source: Brazoria County Appraisal District

CITY OF LAKE JACKSON
Lake Jackson, Texas

Table 7
Principal Property Tax Payers
Current Year and Nine Years Ago

2007			1998		
Taxpayer	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxpayer	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Brazos Outlets Center LLC	\$ 25,367,650	1.88%	Southwest Shopping Centers	\$ 25,567,510	3.02%
Wal-Mart Stores Inc.	17,643,790	1.31%	Wal-Mart Stores Inc.	17,099,100	2.02%
Fazio Peter & Shari (Lowe's)	12,768,510	0.95%	Dayton Hudson Corp (Target)	9,387,350	1.11%
Home Depot	11,673,130	0.87%	Dow Chemical Company	9,032,820	1.07%
Edwater Associates LTD	11,240,910	0.83%	Houston Lighting & Power	8,177,340	0.97%
Centerpoint Energy Inc.	9,967,900	0.74%	Albertson's Inc.	7,919,790	0.93%
Dow Chemical Company	9,496,430	0.71%	Dillard Texas Operating LTD	6,974,040	0.82%
Lake Jackson Apartments Assoc	5,892,120	0.44%	Lowe's Home Centers Inc	6,598,160	0.78%
Don Davis Buick/Pontiac/GMC	5,557,820	0.41%	Southwestern Bell Telephone	6,490,240	0.77%
Dayton Hudson Corp (Target)	<u>5,250,980</u>	<u>0.39%</u>	McWhorter, Earlon (Lowes bldg)	<u>5,547,460</u>	<u>0.65%</u>
Total	<u>\$ 114,859,240</u>	<u>8.53%</u>	Total	<u>\$ 102,793,810</u>	<u>12.14%</u>

Source: Brazoria County Appraisal District

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 8
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years*	Total Collections	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1998	\$ 2,954,427	\$ 2,915,616	98.7%	\$ 35,896	\$ 2,951,512	99.9%
1999	3,113,794	3,081,546	99.0%	41,510	3,123,056	100.3%
2000	3,276,484	3,240,879	98.9%	37,778	3,278,657	100.1%
2001	3,473,983	3,465,580	99.8%	61,366	3,526,945	101.5%
2002	3,745,540	3,720,173	99.3%	50,329	3,770,502	100.7%
2003	4,195,258	4,164,483	99.3%	54,080	4,218,563	100.6%
2004	4,386,442	4,368,949	99.6%	51,525	4,420,473	100.8%
2005	4,572,468	4,562,655	99.8%	39,196	4,602,851	100.7%
2006	4,840,949	4,818,745	99.5%	23,712	4,842,457	100.0%
2007	4,982,111	4,940,579	99.2%		4,940,579	99.2%

Source: Brazoria County Tax Office

*Brazoria County began collecting the City's taxes in 1998; as a result, only available data is presented for 1997.

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 9
Sales Tax Analysis
Last Ten Fiscal Years

Fiscal Year	General Fund Sales Tax Collections	Half-Cent Sales Tax Collections ¹	Total Sales Tax Collections	Percentage Growth	Sales Tax as a % of Total Revenues	Per Capita ²
1998	\$ 3,433,084	\$ 1,671,542	\$ 5,014,626	6.1%	38.1%	\$ 190.05
1999	3,460,834	1,730,442	5,191,275	3.5%	37.1%	196.65
2000	3,601,981	1,800,991	5,402,972	4.1%	36.9%	204.43
2001	3,673,682	1,896,741	5,570,524	3.1%	35.9%	209.76
2002	3,778,512	1,889,256	5,667,768	1.7%	35.3%	210.85
2003	3,726,533	1,863,267	5,589,800	(1.4%)	33.4%	207.52
2004	3,810,459	1,905,229	5,715,688	2.3%	35.1%	211.55
2005	3,914,130	1,957,065	5,871,196	2.7%	34.6%	214.46
2006	4,261,667	2,130,834	6,392,501	8.9%	33.6%	231.49
2007	4,618,469	2,353,998	6,972,467	9.1%	34.2%	252.50

Source: Finance Department

¹ The half-cent sales tax is accounted for in the Economic Development fund. Voters approved the half-cent sales tax on May 6, 1995. This revenue is limited to payment of the costs of land, building, equipment, facilities, improvements, and maintenance and operation costs for public park purposes, recreational facilities, and infrastructure improvements for the development of new or expanded business enterprises.

² See Table 14 for population data.

CITY OF LAKE JACKSON
Lake Jackson, Texas

Table 10
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities		Business-Type Activities		Total Primary Government	Percentage of Personal Income*	Per Capita*
	General Obligation Bonds	Certificates of Obligation	Water and Sewer Revenue Bonds	Capital Leases			
1998	\$ 6,595,000	\$ 12,885,000	\$ 3,050,000	\$ -0-	\$ 22,530,000	4.54%	\$ 854
1999	10,205,000	12,045,000	2,760,000	-0-	25,010,000	5.04%	947
2000	9,495,000	11,205,000	18,520,000	-0-	39,220,000	5.68%	1,484
2001	12,310,000	10,365,000	18,350,000	-0-	41,025,000	5.91%	1,545
2002	17,570,000	9,525,000	17,380,000	-0-	44,475,000	6.33%	1,655
2003	20,250,000	9,885,000	16,410,000	-0-	46,545,000	6.61%	1,728
2004	22,640,000	8,985,000	15,440,000	546,742	47,611,742	6.74%	1,762
2005	21,255,000	8,085,000	14,470,000	437,964	44,247,964	6.18%	1,616
2006	19,895,000	7,160,000	13,500,000	298,684	40,853,684	5.66%	1,479
2007	23,775,000	6,235,000	14,530,000	326,074	44,866,074	6.22%	1,625

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

*See Table 14 for personal income and population data.

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 11
Ratio of Net General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	Gross Bonded Debt ⁰	Less: Amounts Available in Debt Service Fund	Less: Amounts Payable from Half-Cent Optional Tax ¹	Less: Amounts Payable from Enterprise Revenues ²	Net Bonded Debt	Percentage of Actual Taxable Value of Property ³	Per Capita ⁴
1998	\$ 19,480,000	\$ 885,214	\$ 12,885,000	\$ 54,043	\$ 5,655,743	2.30%	\$ 738
1999	22,250,000	992,710	12,045,000	44,940	9,167,350	2.51%	843
2000	20,700,000	1,013,592	11,205,000	35,981	8,445,427	2.21%	783
2001	22,675,000	897,419	10,365,000	31,356	11,381,225	2.27%	854
2002	27,095,000	784,047	9,525,000	26,733	16,759,220	2.54%	1,008
2003	30,135,000	795,592	9,885,000	-0-	19,454,408	2.70%	1,119
2004	31,625,000	768,321	14,790,000	-0-	16,066,679	2.66%	1,171
2005	29,340,000	603,990	13,690,000	-0-	15,046,010	2.38%	1,072
2006	27,055,000	550,608	12,555,000	-0-	13,949,392	2.12%	980
2007	30,010,000	534,776	11,410,000	-0-	18,065,224	2.23%	1,087

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

⁰ Does not include Revenue Bonds

¹ Includes Series 2002 Limited Tax G.O. bonds and Series 1996, 1997, and 2003 Certificates of Obligation; all of which are being repaid from revenues generated from the half-cent optional sales tax.

² Includes the general obligation bonds that were repaid from water and sewer revenues. This is equal to 2.89% of the 1989 Refunding Issue.

³ See Table 5 for property value data.

⁴ See Table 14 for population data.

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 12
Direct and Overlapping Governmental Activities Debt
As of September 30, 2007

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Velasco Drainage District	\$ -0-	16.86%	\$ -0-
Brazosport I.S.D.	138,483,500	16.01%	22,171,208
Brazosport Jr. College	15,206,173	16.01%	2,434,508
Brazos River Harbor Navigation District	11,010,000	15.22%	1,675,722
Brazoria County	71,244,643	8.79%	6,262,404
Angleton Drainage District	-0-	3.44%	-0-
Angleton-Danbury Hospital District	19,555,000	1.22%	238,571
Columbia-Brazoria I.S.D.	40,940,747	0.84%	343,902
Angleton I.S.D.	29,529,743	0.78%	<u>230,332</u>
Subtotal, overlapping debt			33,356,648
City of Lake Jackson (direct debt)	30,010,000	100.00%	<u>30,010,000</u>
Total direct and overlapping debt			\$ <u>63,366,648</u>

Source: Taxing jurisdictions, and the *Texas Municipal Advisory Council of Texas*.

CITY OF LAKE JACKSON
Lake Jackson, Texas

Table 13
Pledged Revenue Coverage
Last Ten Fiscal Years

Fiscal Year	Water and Sewer System Revenue Bonds						
	Utility Revenue and Other ⁰	Less: Operating Expenses ¹	Net Available Revenue	Average Annual Requirement	Average Coverage	Maximum Annual Requirements	Maximum Coverage
1998	\$ 4,778,976	\$ 3,180,277	\$ 1,598,699	\$ 247,605	6.46	\$ 479,560	3.33
1999	5,678,991	3,348,707	2,330,284	235,127	9.91	459,725	5.07
2000	6,536,318	3,540,953	2,995,365	225,146	13.30	394,830	7.59
2001	6,383,480	3,857,399	2,526,081	1,307,890	1.93	311,740	8.10
2002	6,384,672	3,881,134	2,503,538	1,285,888	1.95	1,725,920	1.45
2003	5,794,570	3,849,608	1,944,962	1,263,482	1.54	1,689,195	1.15
2004	5,676,717	3,768,023	1,908,694	1,240,652	1.54	1,651,600	1.16
2005	6,063,698	3,908,603	2,155,095	1,217,347	1.77	1,613,535	1.34
2006	6,242,509	4,150,183	2,092,326	1,193,530	1.75	1,574,600	1.33
2007	6,052,858	4,425,545	1,627,313	959,150	1.70	1,678,355	0.97

Source: Lake Jackson Finance Department

⁰ Utility Revenue and Other include water, sewer, connection fees, investment earnings; and excludes garbage fees.

¹ Excludes interest and depreciation expense.

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 14
Demographic and Economic Statistics
Last Ten Calendar Years

Year	Estimated Population	Estimated Personal Income	Per Capita Personal Income	Median Age ¹	School Enrollment	Unemploy- ment Rate	Labor Force
1998	26,386	\$ 496,004,028	\$ 18,798	--	6,409	4.0%	13,793
1999	26,399	496,248,402	18,798	--	6,458	4.5%	13,652
2000	26,430	690,695,190	26,133	34.5	6,431	4.1%	13,806
2001	26,557	694,014,081	26,133	--	6,424	4.0%	13,974
2002	26,881	702,481,173	26,133	--	6,445	5.1%	14,526
2003	26,936	703,918,488	26,133	--	6,536	5.0%	14,951
2004	27,018	706,061,394	26,133	--	6,476	5.3%	14,960
2005	27,377	715,443,141	26,133	--	6,409	4.7%	14,180
2006	27,614	721,636,662	26,133	--	6,472	3.6%	14,467
2007	27,614	721,636,662	26,133	--	6,921	3.8%	14,439

Source: Estimated Population, per capital income, and median age provided U.S. Census and the Economic Development Alliance for Brazoria County.

Estimated personal income is derived from per capital personal income and estimated population.

School enrollment provided by Brazosport Independent School District.

Unemployment rate and Labor Force provided by the Texas Employment Commission website.

¹ Median age only available in Census Years.

CITY OF LAKE JACKSON
Lake Jackson, Texas

Table 15
Principal Employers
Current Year and Nine Years Ago

2007			1998		
Employer	Employees	Percentage of Total City Employment	Employer	Estimated Employees	Percentage of Total City Employment
Brazosport Memorial Hospital	667	4.62%	Wal Mart Stores Inc.	550	3.99%
Wal-Mart	482	3.34%	Brazosport Memorial Hospital	486	3.52%
Brazosport I.S.D.	415	2.87%	Brazosport I.S.D.	405	2.94%
Dow Credit Union	210	1.45%	City of Lake Jackson	192	1.39%
City of Lake Jackson	206	1.43%	Dow Credit Union	190	1.38%
Target	160	1.11%	Lowes	120	0.87%
Lowes	136	0.94%	Target	130	0.94%
Home Depot	88	0.61%	Home Depot	89	0.65%
Ryan's Steakhouse	65	0.45%	Ryan's Steakhouse	60	0.44%
Randall's	63	0.44%	Albertson's	48	0.35%
Jerry's Food King	47	0.33%	Stanley Supermarket	48	0.35%
Total	<u>2,539</u>	<u>17.58%</u>	Total	<u>2,318</u>	<u>16.81%</u>

Source: Principal Employers

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 16
Full-time Equivalent City Government Employees by
Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Government and Administration	24	25	29	30	31	31	32	31	31	31
Public Safety:										
Police	52	53	53	57	57	57	57	57	58	58
Fire	2	2	2	2	2	2	2	1	1	1
Humane	2	2	3	3	3	3	3	3	3	3
Culture and Recreation	25	26	26	27	27	27	27	27	27	27
Public Works:										
Streets	7	7	7	7	7	7	7	7	7	7
Drainage	15	15	15	15	15	15	15	15	15	15
Code Enforcement	6	6	6	6	6	6	6	6	6	6
Garbage	9	9	9	9	9	9	9	9	9	9
Water and Sewer	37	39	40	41	41	40	38	38	37	37
Sanitation	<u>27</u>	<u>25</u>								
	<u>206</u>	<u>209</u>	<u>215</u>	<u>222</u>	<u>223</u>	<u>222</u>	<u>221</u>	<u>219</u>	<u>219</u>	<u>219</u>

Source: City Budget

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 17
Operating Indicators by Function/Program
Last Ten Fiscal Years

Function/Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Public Safety:										
Police:										
% Criminal Offenses Cleared	38%	54%	41%	52%	79%	73%	64%	52%	55%	65%
Traffic contacts	14,296	11,674	10,238	12,586	15,955	15,822	17,119	16,406	18,039	18,000
Fire:										
Fire calls	239	356	406	422	455	455	469	486	519	530
EMS calls	1,085	1,292	1,452	1,367	1,488	1,488	1,514	1,629	1,891	1,946
Inspections	288	284	371	228	330	n/a	226	253	243	230
Public Works:										
Streets:										
Potholes repaired	2,372	2,256	1,625	671	598	559	486	481	314	450
Gutter sweeping (cu yd)	1,760	1,732	2,000	1,759	1,137	1,293	1,176	1,676	1,430	1,500
Culture and Recreation:										
Recreation Center members ⁰	3,958	5,164	5,454	5,769	5,415	5,091	5,586	4,937	5,864	5,760
Recreation Center Attendance ⁰	97,859	161,525	185,598	201,959	246,631	251,638	241,350	168,967	142,234	190,000
Water and Sewer:										
Number of sewer leaks Repaired	136	97	111	62	107	16	45	133	3	20
Linear feet of sewer mains cleaned ¹	183,230	206,230	99,525	8,900	60,150	11,100	39,085	122,216	47,735	100,000
Sanitation:										
Refuse Collected: ²										
Residential garbage (cu yd)	20,110	20,510	23,036	18,550	23,851	23,237	25,000	27,060	27,031	27,225
Commercial garbage (cu yd)	27,464	38,090	25,518	34,450	34,934	35,934	37,000	26,698	40,459	40,835

Source: City Departments

⁰ 65,500 square foot Recreation Center opened June 1, 1998.

² Does not include non-compacted refuse collection.

N/A - Data not available

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 18
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Public Safety:										
Police Stations	1	1	1	1	1	1	1	1	1	1
Fire Stations	2	2	2	2	2	2	2	2	2	2
Culture and Recreation:										
Tennis Courts	8	8	8	8	8	8	8	8	8	8
Swimming Pools	2	2	2	2	2	2	2	2	2	2
Community Center	1	1	2	2	2	2	2	2	2	2
Recreation Center	1	1	1	1	1	1	1	1	1	1
Parks Acreage ¹	1,082	1,082	1,111	1,111	1,111	1,111	1,111	1,111	1,111	1,121
Parks	22	22	23	23	23	23	23	23	23	23
Baseball/softball fields ²	15	15	23	23	23	23	23	23	23	23
Soccer fields ²	17	17	24	24	24	24	24	24	24	24
Water:										
Water mains (miles)	130	130	130	130	130	130	130	130	130	130
Fire Hydrants	842	867	875	916	917	917	917	917	917	917
Wastewater³										
Maximum daily treatment capacity (thousands of gallons)	2,150	2,150	2,150	2,150	2,150	2,150	2,150	6,150	6,150	6,150

Source: Various City departments

¹ In 2007 Dow donated 9.86 acres of land.

² In 2000 the Youth Sportsplex was completed. The Sportsplex provides 6 softball fields, 7 soccer fields and 2 baseball fields.

³ The expansion and upgrade of the Wastewater treatment plant was completed in 2005.

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FEDERAL AWARDS SECTION

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KENNEMER, MASTERS & LUNSFORD

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Houston Office:
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Houston, Texas 77042
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Independent Auditor's Report

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

December 18, 2007

To the Honorable Mayor and
Members of Council
City of Lake Jackson
Lake Jackson, Texas 77566

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Jackson (the "City") as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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To the Honorable Mayor and
Members of Council
City of Lake Jackson
December 18, 2007
Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We have performed tests designed to verify the City's compliance with the requirements of the Public Funds Investment Act. During the year ended September 30, 2007, no instances of noncompliance were found.

We noted certain matters that we reported to management of the City, in a separate letter dated December 18, 2007.

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

Kennebec, Masters & Hurdford, LLC

KENNEMER, MASTERS & LUNSFORD

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Independent Auditor's Report

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

December 18, 2007

To the Honorable Mayor and
Members of Council
City of Lake Jackson
Lake Jackson, Texas 77566

Compliance

We have audited the compliance of the City of Lake Jackson (the "City"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

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Members: American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants,
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To the Honorable Mayor and
Members of Council
City of Lake Jackson
December 18, 2007
Page 2

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Kennemer, Masters & Hunsford, LLC

CITY OF LAKE JACKSON

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2007*

Page 1 of 1

I. Summary of auditor's results:

1. Type of auditor's report issued on the financial statements: Unqualified.
2. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the financial statements.
3. Noncompliance, which is material to the financial statements: None.
4. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the major program.
5. Type of auditor's report on compliance for major programs: Unqualified.
6. Did the audit disclose findings, which are required to be reported under Sec._510(a):
No.
7. Major Programs:
20.205 Congestion Mitigation/Air Quality Improvement Fund – Clean Vehicle Program.
8. Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000.
9. Low risk auditee: No.

II. Findings related to the financial statements

None.

III. Findings and questioned costs related to the federal awards.

None.

CITY OF LAKE JACKSON
SCHEDULE OF STATUS OF PRIOR FINDING
YEAR ENDED SEPTEMBER 30, 2007

None.

CITY OF LAKE JACKSON
CORRECTIVE ACTION PLAN
YEAR ENDED SEPTEMBER 30, 2007

None.

CITY OF LAKE JACKSON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Project/Grant Number	Expenditures Indirect Costs or Award Amount
<u>U.S. Department of Transportation</u>			
Passed Through Texas Department of Transportation:			
Congestion Mitigation/Air Quality Improvement Fund – Clean Vehicle Program (Oyster Creek Bikeway)	20.205	TXDOT CSJ091231143	\$ 325,785
Passed Through the Houston-Galveston Area Council:			
Congestion Mitigation/Air Quality Improvement Funds - Clean Vehicle Program (CNG Garbage Trucks)	20.205	TS54707-72	<u>107,663</u>
TOTAL DEPARTMENT OF TRANSPORTATION			<u>433,448</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed Through Brazoria County:			
Community Development Block Grant	14.239	---	<u>12,652</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>12,652</u>
<u>U.S. Department of Energy</u>			
Passed Through the Texas State Energy Conservation Office:			
CNG Station Expansion	81.041	CM172	<u>150,000</u>
TOTAL DEPARTMENT OF ENERGY			<u>150,000</u>
<u>U.S. Department of Justice</u>			
Direct:			
COPS Universal Hiring Award	16.710	2005UMWX0020	<u>25,000</u>
TOTAL DEPARTMENT OF JUSTICE			<u>25,000</u>
TOTAL FEDERAL ASSISTANCE			\$ <u><u>621,100</u></u>

See notes to supplement Schedule of Expenditures of Federal Awards.

CITY OF LAKE JACKSON

NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2007

1. The City uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designated to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designated to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available resources. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn is divided into separate "fund types". The following fund types were utilized to account for federal awards.

Governmental Fund Types:

General Fund is the general operating fund of the City. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund. Federal financial assistance not required to be reported in other funds are accounted for in the General Fund. The General Fund is considered a major fund.

General Construction Fund is used to account for resources and expenditures dedicated to small general capital improvements. Projects primarily include street rehabilitation and drainage projects, as well as some public facility enhancements. The General Construction Fund is considered a non-major fund.

2004 Infrastructure Fund accounts for the proceeds of various bond issues and related grants for constructing or reconstructing and improving street, drainage, sidewalks, waters and sewer improvements, and other infrastructure projects. The 2004 Infrastructure Fund is considered a major fund.

2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund Types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal loan funds are recorded as a liability when received and included with other revenue bonds payable. Expenditures and expenses made under the provisions of the grant are recorded when incurred.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H. Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Supplement.

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CONTINUING FINANCIAL DISCLOSURES

The Continuing Financial Disclosure Tables present various financial data originally distributed in a debt official statement. The City is required to update financial tables originally distributed in a debt official statement within six months after the end of each fiscal year. This information is also sent to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the Securities and Exchange Commission ("SEC").

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CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-1 Bond Summary and Authorization

Summary of Bonds Outstanding

General Obligation Bonds

1996 Combination Tax and Revenue Certificates of Obligation	\$ 3,650,000
1997 General Obligation Bonds	1,200,000
1997 Combination Tax and Revenue Certificates of Obligation	1,625,000
1999 General Obligation Bonds	2,475,000
2001 General Obligation Bonds	2,520,000
2002A Limited Tax General Obligation Bonds	2,700,000
2002 Limited Tax General Obligation Bonds	5,175,000
2003 Limited Tax Refunding Bonds	1,345,000
2003 Combination Tax and Revenue Certificates of Obligations	960,000
2004 Limited Tax Bonds	3,060,000
2007 Limited Tax Bonds	<u>5,300,000</u>
Total Ad Valorem Tax Secured Debt Outstanding	\$ <u>30,010,000</u>

While the 1996, 1997 and 2003 Combination Tax and Revenue Certificates of Obligation are secured by a pledge of Ad Valorem Tax Revenues, they are to be paid totally from revenues generated by the Optional Half Cent Sales Tax.

Waterworks and Sewer System Bonds

1993A Waterworks and Sewer System Bonds	\$ 430,000
1996 Waterworks and Sewer System Bonds	900,000
2000 Waterworks and Sewer System Bonds	11,200,000
2000 Waterworks and Sewer System Bonds	<u>2,000,000</u>
Total Waterworks and Sewer System Debt Outstanding	\$ <u>14,530,000</u>

General Obligation Bonds Authorized but not Issued

In May 2005, voters approved an additional \$ 7.7 million in infrastructure and facility bonds. \$ 5.3 million of the bonds were sold in 2007. \$ 2.4 million will be sold in the summer of 2008.

Waterworks and Sewer System Bonds Authorized but not Issued

None.

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-2

Financial Information

(As of 1/31/08, adjusted to include \$ 2,400,000 General Obligation, Series 2008)

2007 Assessed Valuation (100% of Actual) ¹	\$ <u>1,391,605,040</u>
<u>General Obligation Bonds Outstanding</u>²	
Presently outstanding	\$ 30,010,000
Series 2008, General Obligations	<u>2,400,000</u>
Gross debt	32,410,000
Less: Debt Service Cash Balance	<u>2,259,864</u>
Net Debt	\$ <u>30,150,136</u>
Ratio of Net Debt to 2006 Assessed Valuation	2.17%
2008 Estimated Population	28,000
2007 Assessed Valuation per Capita	\$ 49,700.18
Net Debt per Capita	\$ 1,076.79
Area of the City miles	18 square

¹ Net of exemptions in the amount of \$ 274,123,140.

² Excludes the Waterworks and Sewer System Revenue Bonds outstanding.

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-3
Estimated Direct & Overlapping Debt Statement

Political Subdivision	Net Debt		Estimated Percent Overlapping	Amount Overlapping
	Amount	As of		
Angleton I.S.D.	\$ 29,529,743	08/31/07	0.78%	\$ 230,332
Angleton-Danbury Hospital District	19,555,000	09/30/07	1.22%	238,571
Angleton Drainage District	-0-	09/30/07	3.44%	-0-
Brazoria County	71,244,643	09/30/07	8.79%	6,262,404
Brazosport I.S.D.	138,483,500	08/31/07	16.01%	22,171,208
Brazos River Harbor Navigation District	11,010,000	09/30/07	15.22%	1,675,722
Brazosport Jr. College	15,206,173	08/31/07	16.01%	2,434,508
Columbia-Brazoria I.S.D.	40,940,747	08/31/07	0.84%	343,902
Velasco Drainage District	-0-	09/30/07	16.86%	-0-
Total Overlapping Debt				33,356,648
City of Lake Jackson				30,150,136
Total Direct and Overlapping Debt				\$ <u>63,506,784</u>
Ratio of Total Direct and Overlapping Debt to 2007 Assessed Valuation				4.56%
Per Capital Total Direct and Overlapping Debt				\$ <u>2,268</u>
Assessed Valuation per Capita				\$ <u>49,700</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-4
Outstanding Debt Service Requirements
General Obligation Debt

Fiscal Year Ending 09/30	Existing Debt Service	\$ 2,400,000 General Obligation Series 2008 ¹		Total Debt Service Requirements
		Principal	Interest	
2008	\$ 3,811,992	\$	\$ 60,000	\$ 3,871,992
2009	3,393,407	120,000	120,000	3,633,407
2010	3,392,848	120,000	114,000	3,626,848
2011	3,146,212	120,000	108,000	3,374,212
2012	3,057,605	120,000	102,000	3,279,605
2013	2,969,753	120,000	96,000	3,185,753
2014	2,513,420	120,000	90,000	2,723,420
2015	2,448,556	120,000	84,000	2,652,556
2016	2,382,543	120,000	78,000	2,580,543
2017	2,315,091	120,000	72,000	2,507,091
2018	1,890,355	120,000	66,000	2,076,355
2019	1,622,370	120,000	60,000	1,802,370
2020	1,484,095	120,000	54,000	1,658,095
2021	1,446,885	120,000	48,000	1,614,885
2022	1,233,175	120,000	42,000	1,395,175
2023	1,026,610	120,000	36,000	1,182,610
2024	485,880	120,000	30,000	635,880
2025	291,500	120,000	24,000	435,500
2026	280,900	120,000	18,000	418,900
2027	270,300	120,000	12,000	402,300
2028		120,000	6,000	126,000
	<u>\$ 39,463,497</u>	<u>\$ 2,400,000</u>	<u>\$ 1,320,000</u>	<u>\$ 43,183,497</u>

¹ Estimated 2007 Debt Issuance (5% interest rate)

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-5 Water and Sewer System Revenue Bonds Debt Service Schedule

<u>Fiscal Year Ending 09/30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service Requirements</u>
2008	\$ 1,070,000	\$ 610,855	\$ 1,680,855
2009	1,070,000	567,180	1,637,180
2010	1,070,000	523,220	1,593,220
2011	1,070,000	479,110	1,549,110
2012	1,070,000	434,565	1,504,565
2013	1,080,000	389,220	1,469,220
2014	1,000,000	343,400	1,343,400
2015	1,000,000	302,000	1,302,000
2016	1,000,000	259,800	1,259,800
2017	900,000	217,200	1,117,200
2018	900,000	179,200	1,079,200
2019	900,000	140,800	1,040,800
2020	900,000	102,000	1,002,000
2021	900,000	63,200	963,200
2022	100,000	24,000	124,000
2023	100,000	20,000	120,180
2024	100,000	16,000	116,000
2025	100,000	12,000	112,000
2026	100,000	8,000	108,000
2027	<u>100,000</u>	<u>4,000</u>	<u>104,000</u>
	<u>\$ 14,530,000</u>	<u>\$ 4,695,750</u>	<u>\$ 19,225,930</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-6 Tax Adequacy

The following calculation does not include the estimated fund balance as of 9/30/08, the debt service on the 1996, 1997 or 2003 Certificates of Obligation, nor the 2002 Golf Course General Obligation bonds (these are to be repaid from the half cent sales tax).

	<u>Average Requirements (2008-2028)</u>	<u>Maximum Requirement 2008</u>
General Obligation Debt Service Requirements	\$ 1,220,402	\$ 2,150,323
Debt Service Fund tax rate required on 2007 Assessed Taxable Valuation of \$ 1,391,605,040 @ 98% collection	\$ 0.089	\$ 0.158

Including the Certificates of Obligation and the 2002 General Obligation bonds, the calculation is as follows:

	<u>Average Requirements (2008-2028)</u>	<u>Maximum Requirement 2008</u>
General Obligation Debt Service Requirements	\$ 2,056,357	\$ 3,871,992
Debt Service Fund tax rate required on 2007 Assessed Taxable Valuation of \$ 1,391,605,040 @ 98% collection	\$ 0.151	\$ 0.284

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-7 Tax Rate and Tax Collection Information

Tax Collection Period

Taxes are due October 1 and are delinquent after January 31. No discounts are given on early payments. Penalty and interest on delinquent payments are rigidly enforced.

Tax Collection Record

Tax Year	Assessed Taxable Valuation	Tax Rate	Percent Tax Collections		Year Ending
			Current	Total	
1996	\$ 829,035,849	0.3450	98.7%	99.7%	09/30/97
1997	844,876,452	0.3500	98.7%	99.7%	09/30/98
1998	889,655,350	0.3500	97.8%	99.3%	09/30/99
1999	983,861,770	0.3500	98.0%	99.8%	09/30/00
2000	999,065,446	0.3500	98.6%	99.9%	09/30/.01
2001	1,068,602,660	0.3500	98.3%	99.9%	09/30/02
2002	1,117,428,789	0.3750	99.4%	100.2%	09/30/03
2003	1,187,071,311	0.3703	98.6%	100.9%	09/30/04
2004	1,237,823,934	0.3700	98.4%	100.9%	09/30/05
2005	1,273,933,920	0.3800	98.3%	100.2%	09/30/06
2006	1,354,217,330	0.3700	97.9%	100.0%	09/30/07
2007	1,391,605,040	0.3850	80.7%	81.1%	thru 1/31/08

Tax Rate Limitations

The City is a Home Rule City with a maximum authorized rate for all purposes of \$ 2.50 per \$ 100 assessed valuation. This maximum tax rate is imposed both by the Constitution of the State of Texas and the City Charter. Under the rules of the Texas attorney general, the City may issue general obligation debt in an amount no greater than that which can be serviced by a debt tax of \$ 1.50 per \$ 100 assessed valuation, based on 90% collections.

Tax Rate Distribution

Tax Year	2007	2006	2005	2004	2003
General Fund	\$ 0.2329	\$ 0.2390	\$ 0.2493	\$ 0.23519	\$ 0.2351
Debt Service Fund	<u>0.1521</u>	<u>0.1310</u>	<u>0.1307</u>	<u>0.1341</u>	<u>0.1352</u>
Total Tax Rate	<u>\$ 0.3850</u>	<u>\$ 0.3700</u>	<u>\$ 0.3800</u>	<u>\$ 0.3700</u>	<u>\$ 0.3703</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-8 Sales Tax Collection History

City Sales Tax Collection

The City adopted the provisions of Article 1066c, VACS, Section 9, authorizing a 1% sales tax. In addition, on May 6, 1995, the voters of Lake Jackson approved the levy and collection of a one-half cent sales tax to fund the cost of land, buildings, equipment, facilities, improvements and maintenance and operation for public park purposes, recreational facilities, and for infrastructure improvements for development of new or expanded business enterprises.

Sales Tax Collection History

<u>Fiscal Year</u>	<u>One Cent Sales Tax</u>	<u>Optional Half Cent Sales Tax¹</u>
1998	\$ 3,343,084	\$ 1,671,542
1999	3,460,834	1,730,442
2000	3,601,981	1,800,991
2001	3,673,682	1,896,841
2002	3,778,512	1,889,256
2003	3,726,533	1,863,267
2004	3,810,459	1,905,229
2005	3,914,130	1,957,065
2006	4,261,667	2,130,834
2007	4,618,469	2,353,998

¹ The Economic Development Fund is used to account for the revenue from the Optional Half Cent Sales Tax.

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-9
Economic Development Fund

<u>Resources</u>	<u>ACTUAL 2005-06</u>	<u>BUDGET 2006-07</u>	<u>ACTUAL 2006-07</u>	<u>ADOPTED 2007-08</u>
Fund Balance	\$ <u>1,202,804</u>	\$ <u>1,197,762</u>	\$ <u>1,197,762</u>	\$ <u>1,474,715</u>
Revenues:				
Half Cent Sales Tax	2,130,834	2,137,500	2,353,998	2,509,500
Interest income	<u>52,218</u>	<u>28,500</u>	<u>66,809</u>	<u>40,275</u>
	<u>2,183,052</u>	<u>2,166,000</u>	<u>2,420,807</u>	<u>2,549,775</u>
 Total Resources	 \$ <u>3,385,856</u>	 \$ <u>3,363,762</u>	 \$ <u>3,618,569</u>	 \$ <u>4,024,490</u>
<u>Expenditures</u>	<u>ACTUAL 2005-06</u>	<u>BUDGET 2006-07</u>	<u>ACTUAL 2006-07</u>	<u>ADOPTED 2007-08</u>
Transfer to Economic Development Debt Service	\$ 1,188,694	\$ 1,145,274	\$ 1,144,629	\$ 1,101,314
Transfer to Golf Course Debt Service	549,400	550,000	549,225	550,000
Golf Course Operating Contingency	100,000	100,000	100,000	100,000
Mall Entrance	-0-	150,000	-0-	-0-
Transfer to General Fund	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>
 Total Expenditures	 \$ <u>2,188,094</u>	 \$ <u>2,295,274</u>	 \$ <u>2,143,854</u>	 \$ <u>2,101,314</u>
 Ending Fund Balance	 \$ <u>1,197,762</u>	 \$ <u>1,068,488</u>	 \$ <u>1,474,715</u>	 \$ <u>1,923,176</u>

The transfer to the Economic Development Debt Service Fund is to provide funds for the payment of Debt Service obligations on the \$ 7.3 million Recreation Center Certificates of Obligation and the \$ 5.9 million Civic Center/Plaza and Youth Sportsplex Certificates of Obligation.

The \$ 350,000 transfer to the General Fund is to subsidize the Recreation Center operations. In prior years this amount was \$ 250,000. In fiscal year 2003 it was increased to \$ 350,000 at City Council's request to allow additional General Fund money to be used for debt service on the infrastructure and facility bond issue.

In 2001 - 2002 City Council and the Lake Jackson Development Corporation authorized \$ 200,000 for 2001 - 2002 and \$ 550,000 annually for ten years to subsidize the operations of the Golf Course. This subsidy is reflected as a transfer to the Golf Course Debt Service Fund.

As part of the 2005-06 budget process, the Lake Jackson Development Corporation recommended, and City Council approved, an additional Golf Course contingency of \$ 300,000 to be funded in \$ 100,000 increments over three years.

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-10
Debt Service Fund Management Index

General Debt Service Fund

Debt Service Fund Balance as of 9/30/07	\$	534,831
Debt Service Tax Levy of \$.152129 per \$ 100 of Assessed Valuation on 2007 Assessed Valuation of \$ 1,391,605,040 at 98% collection		2,074,694
Interest Earnings on Debt Service Fund		<u>25,000</u>
Total Available for 2008 Debt Service		2,634,525
Less: 2008 Debt Service Requirements		<u>2,156,323</u>
Projected Debt Service Fund Balance at 9/30/08	\$	<u><u>478,202</u></u>

Economic Development and Golf Course Debt Service Funds

These funds were established to account for the debt service on all bond issues which are to be repaid with the revenue from the optional half-cent sales tax. Currently, there are four outstanding issues. The 1996 Recreation Center CO's, the 1997 Civic Center & Youth Sportsplex CO's, the 2002 Golf Course CO's, and the 2003 Golf Course CO's.

	<u>Golf Course</u>	<u>Economic Development</u>
Debt Service Fund Balance as of 9/30/07	\$ -0-	\$ -0-
Transfer from Golf Course Operations	11,730	
Transfer from Economic Development Fund (Sales Tax Revenue)	<u>550,000</u>	<u>1,101,314</u>
Total Available for 2008 Debt Service	561,730	1,101,314
Less: 2008 Debt Service Requirements	<u>561,730</u>	<u>1,101,314</u>
Projected Debt Service Fund Balance at 9/30/08	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-11
Utility Debt Service Fund Management Index

Utility Revenue Interest and Sinking Fund (Including Reserve Balance)

Debt Service Fund Balance as of 9/30/07	\$ 960,752
Transfer from Utility Operating Fund (as budgeted)	1,588,900
Transfer from Debt Service Reserve (as budgeted)	29,600
2008 Projected Interest Earnings	<u>71,000</u>
Total Available for 2008 Debt Service	2,650,252
Less: 2008 Debt Service Requirements (including agent fees)	<u>1,684,855</u>
Projected Debt Service Fund Balance at 9/30/08	<u>\$ 965,397</u>

The above fund accounts for the interest and sinking portion for all Utility bonds. It also represents the reserve portion for all outstanding bonds, except the 2000 \$ 16 million issue. It is reflected below.

Utility Debt Service Fund Reserve

Debt Service Reserve Fund Balance as of 9/30/07	\$ 1,256,800
Transfers as budgeted:	
from Wastewater Treatment Construction Fund	-0-
from Utility Contingency	-0-
Less: 2008 Transfer to Debt Service	<u>29,600</u>
Projected Reserve Fund Balance at 9/30/08	<u>\$ 1,227,200</u>

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-12
Changes in Fund Balances
Governmental Funds (Modified Accrual Basis)

	Fiscal Year	
	2007	2006
Revenues:		
Taxes	\$ 17,130,142	\$ 16,102,183
Intergovernmental	646,100	724,144
Charges for services	974,310	877,552
Fines and fees	442,892	306,426
Licenses and permits	244,049	213,750
Special assessment	3,246	-0-
Investment earnings	819,379	687,327
Contributions	2,020	1,025
Miscellaneous	97,857	124,902
Total revenues	20,359,995	19,037,309
Expenditures:		
General government and administration	2,737,126	2,404,638
Public safety	4,663,457	4,585,013
Public works	2,298,989	2,640,909
Culture and recreation	3,863,375	3,900,092
Capital Outlay	2,568,700	5,478,274
Debt Service:		
Principal	2,345,000	2,285,000
Interest and fiscal charges	1,267,213	1,232,899
Total expenditures	19,743,860	22,526,825
Excess of revenues over (under) expenditures	616,135	(3,489,516)
Other Financing Sources (Uses):		
Bonds issued	5,300,000	-0-
Premium on bonds issued	613	-0-
Sale of capital assets	56,533	9,250
Transfers in	3,107,252	3,815,160
Transfers out	(3,160,364)	(3,320,128)
Total other financing sources (uses)	5,304,034	504,282
Net change in fund balances	\$ 5,920,169	\$(2,985,234)

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-13
Proprietary Fund - Statement of Revenues and Expenses

The following schedule presents a summary of the Proprietary Funds for the fiscal year ended September 30, 2007 and 2006.

	2007	2006
Revenues:		
Water and sewer services	\$ 5,328,003	\$ 5,561,964
Sanitation service	2,823,869	2,668,684
Tapping and connection fees	232,050	252,556
Golf course fees and charges	1,637,735	1,553,214
Other	54,677	116,919
	<u>10,076,334</u>	<u>10,153,337</u>
Operating Expenses:		
Utility administration	326,437	338,121
Reimbursed administrative	438,389	438,389
Water and sewer	4,099,108	3,812,062
Golf course	1,568,306	1,481,503
Sanitation	2,157,050	2,125,857
	<u>8,589,290</u>	<u>8,195,932</u>
Net revenues as described by Bond ordinance	<u>1,487,044</u>	<u>1,957,405</u>
Nonoperating Revenues (Expenses):		
Depreciation ¹	(2,130,173)	(2,022,054)
Interest earnings	443,132	395,581
Gain (loss) on disposition of capital assets	16,000	(4,074)
Interest expense and fiscal charges	(624,828)	(630,714)
Transfers:		
for franchise fee	(102,000)	(102,000)
for equipment replacement	(490,629)	(392,897)
for Golf Course debt service	(12,380)	(12,380)
Assets purchased by general fund	1,096,510	450,634
	<u>(1,804,368)</u>	<u>(2,317,904)</u>
Net income	<u>\$ (317,324)</u>	<u>\$ (360,499)</u>
Coverage of average annual debt service requirements	1.70X	1.75X
Customer count (residential & commercial)	8,765	8,820

¹ Includes first full year of depreciation of the \$ 16 million Water Reclamation Center.

CITY OF LAKE JACKSON
Lake Jackson, Texas

Table CD-14
Water and Sewer Information

Water and Sewer Rates

Current water and sewer rates became effective October 1, 2007.

Water:	First 2000 gallons	\$ 8.50 Minimum
	Over 2000 gallons	\$ 2.80 per 1,000 gallons
Sewer:	First 2000 gallons	\$ 9.50 Minimum
	Over 2000 gallons	\$ 3.15 per 1,000 gallons

Residential sewer charges stop at 15,000 gallons.

Water Supply Facilities

The City continues to purchase two million gallons of treated surface water per day from the Brazosport Water Authority. The current cost per 1,000 gallons is \$ 1.61.

In addition to the above, the City operates 11 water wells with a peak production capacity of 7.6 million gallons. Water storage capacity includes five elevated tanks (2.55 million gallons of capacity) and 4 ground storage tanks (2.0 million gallons total capacity).

Wastewater Treatment Plant

Sewer treatment is provided to the City by one water reclamation facility. This facility has a permitted capacity of 5.89 million gallons per day. Wastewater generated throughout the City flows through a series of lift stations prior to reaching the treatment plant. There are currently three "master" lift stations that pump directly to the treatment plant, and 38 lift stations that serve various subdivisions and convey wastewater to a "master" lift station.

Water and Sewer Customers

Currently, the City has 21 apartment complexes (2,600 units); 465 Commercial businesses and 8,300 residences utilizing the City's water and sewer services.

CITY OF LAKE JACKSON
Lake Jackson, Texas

Table CD-15
Top Ten Utility Customers

<u>Name of Business</u>	<u>Type of Business</u>	<u>FY 2007 Consumption in 1000's</u>	<u>Total Percent of Water Consumed</u>
Brazosport Hospital	Hospital	19,500	2.28%
Star Bright Market	Gas Station/Car Wash	17,092	2.00%
Oyster Creek Apartments	Apartment	14,158	1.65%
Woodhollow Apartments	Apartment	12,581	1.47%
Jackson Square #1	Apartment	11,571	1.35%
TAJ Properties	Apartment	8,443	0.99%
Buc-ee's #29	Gas Station/Car Wash	8,218	0.96%
Raamco Raintree LP	Apartment	8,209	0.96%
Veard-Lake Jackson Ltd.	Apartment	7,821	0.91%
Gateway at Lake Jackson	Apartment	<u>7,328</u>	<u>0.86%</u>
		<u><u>114,921</u></u>	<u><u>13.42%</u></u>

Total water consumption for the period October 1, 2006 to September 30, 2007 in thousands of gallons was 856,188.

CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-16
Principal Taxpayers and Assessed Valuation

Principal Taxpayers

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Tax Year 2007 Assessed Taxable Valuation</u>	<u>Percent of Assessed Valuation</u>
Brazos Outlets Center LLC	Retail	\$ 20,187,550	1.45%
Wal-Mart Stores Inc.	Retail	16,679,590	1.20%
Home Depot	Retail	11,318,580	0.81%
Edgewater Associates LTD	Apartments	11,240,910	0.81%
Fazio Peter & Shari (Lowe's)	Home Improvement	10,963,850	0.79%
Dow Chemical Company	Various property	9,820,892	0.71%
Centerpoint Energy Inc.	Utility	9,360,250	0.67%
Buc-ee's Ltd.	Retail	7,562,690	0.54%
Lake Jackson Apartments Assoc LP	Apartments	5,892,120	0.42%
Texas Dow Employees Credit Union	Financial Institution	5,811,570	0.42%
Dillard Texas Operating LTD	Retail	5,396,310	0.39%
Windcrest/Lake Jackson LTD	Apartments	5,126,520	0.37%
Southwestern Bell Telephone Co.	Utility	5,065,080	0.36%
Carriage Inn - Lake Jackson LTD	Assisted living	4,920,060	0.35%
Leo Martin Chevrolet Inc.	Dealership	4,762,730	0.34%
Dayton Hudson Corp (Target)	Retail	4,742,370	0.34%
Raamco Raintree LP	Apartments	4,617,860	0.33%
Red Palm 8B LTD Prtnshp	Various property	4,362,810	0.31%
Kohl/s Texas LP	Retail	4,200,000	0.30%
Linmark Oaks LLC (Flagridge)	Apartments	<u>4,162,590</u>	<u>0.30%</u>
		<u>\$ 156,194,330</u>	<u>11.22%</u>

Assessed Valuation by Classification

<u>Classification</u>	<u>2007 Assessed Taxable Valuation</u>	<u>Percent of Total</u>
Residential	\$ 1,046,753,480	75.22%
Real, Vacant Platted Lots/Tracts	13,535,820	0.97%
Commercial & Industrial	203,416,490	14.62%
Real Acreage (Land Only)	11,938,660	0.86%
Utilities and Pipelines	110,038,020	7.91%
Special Inventory and other	<u>5,922,570</u>	<u>0.43%</u>

\$ 1,391,605,040

100.00%

CITY OF LAKE JACKSON
Lake Jackson, Texas

Table CD-17
General Fund - Budget Summary

On September 4, 2007 the 2007-08 budget was adopted by the City Council. The following General Fund Operating Budget is presented on a budget basis presentation.

	<u>2005-06</u> Actual	<u>2006-07</u> Actual	<u>2007-08</u> Adopted Budget
Revenues:			
Property tax	\$ 3,181,611	\$ 3,236,792	\$ 3,274,135
Sales tax	4,261,667	4,618,469	4,935,000
Franchise fees	1,785,612	1,698,697	1,630,000
Industrial district	2,881,045	3,220,061	3,352,000
Licenses and permits	213,750	244,049	222,450
Fines and fees	306,426	442,892	327,800
Civic Center fees	258,901	290,767	236,250
Recreation Center fees	618,651	683,543	587,350
Intergovernmental	197,427	127,204	167,640
Interest and other	232,784	302,928	229,520
Utility Administrative fee	438,389	438,389	438,389
Transfer from Economic Development	350,000	350,000	350,000
Transfer from General Contingency	<u>267,189</u>	<u>140,000</u>	<u>-0-</u>
Total revenues	<u>\$ 14,993,452</u>	<u>\$ 15,793,790</u>	<u>\$ 15,738,217</u>
Expenditures:			
General government services	\$ 2,728,431	\$ 1,530,540	\$ 1,900,256
Financial services	930,230	959,920	1,049,919
Legal services	98,944	112,452	133,800
Public safety services	4,932,163	5,077,674	5,668,489
Engineering services	336,051	355,734	403,108
Public works services	2,745,765	2,616,352	3,184,353
Parks & recreation services	2,761,385	2,661,429	3,104,334
Miscellaneous services	<u>262,413</u>	<u>349,735</u>	<u>306,275</u>
Total expenditures	<u>\$ 14,795,382</u>	<u>\$ 13,663,836</u>	<u>\$ 15,738,217</u>

CITY OF LAKE JACKSON
Lake Jackson, Texas

Table CD-18
Utility Fund - Budget Summary

On September 4, 2007 the 2007-08 budget was adopted by the City Council. The following Utility Fund Operating Budget is presented on a budget basis presentation.

	<u>2005-06</u> Actual	<u>2006-07</u> Actual	<u>2007-08</u> Adopted Budget
Revenues:			
Plumbing fees	\$ 13,215	\$ 15,470	\$ 15,000
FEMA Hurricane reimbursement	62,298	-0-	-0-
Tap fees	42,836	37,050	35,000
Administrative fees	196,505	179,530	191,500
Water sales	2,849,867	2,658,343	3,193,094
Sewer sales	2,814,770	2,777,004	3,233,290
Senior discount	(87,457)	(107,344)	(90,000)
Sanitation sales	2,653,468	2,823,869	2,941,795
Other revenues	37,568	70,673	52,800
Interest	122,527	137,795	140,800
Transfer from Utility Contingency	<u>40,000</u>	<u>40,000</u>	<u>-0-</u>
Total revenues	<u>\$ 8,745,597</u>	<u>\$ 8,632,389</u>	<u>\$ 9,713,279</u>
Expenditures:			
Utility administration	\$ 362,279	\$ 349,288	\$ 380,230
Water	2,244,383	2,202,989	2,477,868
Wastewater	1,670,547	2,043,062	2,077,203
Sanitation	2,355,600	2,477,768	2,648,689
Non-departmental	<u>2,077,389</u>	<u>1,910,389</u>	<u>2,129,289</u>
Total expenditures	<u>\$ 8,710,198</u>	<u>\$ 8,983,497</u>	<u>\$ 9,713,279</u>