

**CITY OF LAKE JACKSON, TEXAS**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

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

**PAM EAVES, FINANCE DIRECTOR**

***THIS PAGE LEFT BLANK INTENTIONALLY.***

# CITY OF LAKE JACKSON

Lake Jackson, Texas

*Comprehensive Annual Financial Report  
For the Year Ended September 30, 2006*

## Table of Contents

	<u>Page</u>
<b>INTRODUCTION SECTION</b>	
Letter of Transmittal .....	vii-xiv
Functional Organization Chart .....	xvi-xvii
Principal City Officials .....	xviii
Certificate of Achievement for Excellence in Financial Reporting.....	xix
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report .....	1-2
Management's Discussion and Analysis .....	3-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	13
Statement of Activities .....	14-15
Fund Financial Statements	
Balance Sheet - Governmental Funds .....	16
Reconciliation of the Governmental Funds Balance Sheet to the Governmental Activities Statement of Net Assets .....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Governmental Activities Statement of Activities .....	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund.....	20-21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Economic Development Special Revenue Fund .....	22
Statement of Net Assets - Proprietary Funds.....	24-25
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds .....	26
Statement of Cash Flows - Proprietary Funds .....	28-29
Notes to the Financial Statements .....	30-64
Combining and Individual Fund Statement and Schedules:	
Nonmajor Governmental Funds:	
Combining Balance Sheet.....	68-71
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances .....	72-75

# CITY OF LAKE JACKSON

Lake Jackson, Texas

*Comprehensive Annual Financial Report  
For the Year Ended September 30, 2006*

## 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 .....	78
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Motel Occupancy Tax Fund .....	79
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Memorial Garden Fund.....	80
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Economic Development Debt Service Fund .....	81
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Golf Course Debt Service Fund .....	82
Supplementary Individual Fund Financial Statement and Schedules - General Fund:	
Comparative Balance Sheet.....	85
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual .....	86-87
Supplementary Individual Fund Financial Statement and Schedules - Economic Development Fund:	
Comparative Balance Sheet.....	90
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.....	91
Supplementary Individual Fund Financial Statement and Schedules - General Debt Service Fund:	
Comparative Balance Sheet.....	95
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.....	96
Supplementary Individual Fund Financial Statement and Schedules - Proprietary Fund:	
Comparative Statement of Net Assets - Enterprise Fund.....	98-99
Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets - Enterprise Fund .....	100
Comparative Statement of Cash Flows - Enterprise Fund .....	102-103
Schedule of Revenues, Expenses, and Changes in Net Assets - Actual Compared to Budgetary Basis - Enterprise Fund .....	104-105
Comparative Statement of Net Assets - Golf Course Operating Fund.....	106-107
Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets - Golf Course Operating Fund.....	108
Comparative Statement of Cash Flows - Golf Course Operating Fund.....	110-111
Schedule of Revenues, Expenses, and Changes in Net Assets - Actual Compared to Budgetary Basis - Golf Course Operating Fund .....	112-113
Capital Assets Used in the Operation of Governmental Funds:	
Comparative Schedule by Source.....	117
Schedule by Function and Activity .....	118-119
Schedule of Changes by Function and Activity.....	120

# CITY OF LAKE JACKSON

Lake Jackson, Texas

*Comprehensive Annual Financial Report  
For the Year Ended September 30, 2006*

## Table of Contents

	<u>Page</u>
Other Schedules:	
General Fund - Sub-Funds:	
Consolidated Schedule of Assets, Liabilities, and Fund Equity .....	122-123
Consolidated Schedule of Revenues, Expenditures and Changes in Fund Equity .....	124-127
Enterprise Fund - Sub-Funds:	
Consolidated Schedule of Net Assets .....	128-131
Consolidated Schedule of Revenues, Expenditures and Changes in Net Assets .....	132-133
Consolidated Schedule of Cash Flows .....	134-135
Debt Service Schedule	
General Obligation Bonds .....	136-140
Waterworks and Sewer System Revenue Bonds .....	142-143
Insurance Coverage .....	144

## **STATISTICAL SECTION**

Table 1	Net Assets by Component.....	147
Table 2	Changes in Net Assets .....	148-149
Table 3	Fund Balances, Governmental Funds.....	150-151
Table 4	Changes in Fund Balances, Governmental Funds .....	152-153
Table 5	Assessed Value and Estimated Actual Value of Taxable Property .....	154
Table 6	Direct and Overlapping Property Tax Rates .....	155
Table 7	Principal Property Tax Payers.....	156
Table 8	Property Tax Levies and Collections.....	157
Table 9	Ratio of Outstanding Debt by Type .....	158
Table 10	Ratio of Net General Bonded Debt Outstanding.....	159
Table 11	Direct and Overlapping Governmental Activities Debt.....	160
Table 12	Pledged Revenue Coverage .....	161
Table 13	Demographic and Economic Statistics.....	162
Table 14	Principal Employers .....	163
Table 15	Full-time Equivalent City Government Employees by Function/Program.....	164
Table 16	Operating Indicators by Function/Program .....	165
Table 17	Capital Asset Statistics by Function/Program .....	166

# CITY OF LAKE JACKSON

Lake Jackson, Texas

*Comprehensive Annual Financial Report  
For the Year Ended September 30, 2006*

## Table of Contents

	<u>Page</u>
<b>FEDERAL AWARDS SECTION</b>	
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> .....	169-170
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 .....	171-172
Schedule of Findings and Questioned Costs .....	173
Schedule of Status of Prior Findings .....	174
Corrective Action Plan.....	175
Schedule of Expenditures of Federal Awards .....	176
Notes on Accounting Policies for Federal Awards .....	177-178
<b>CONTINUING FINANCIAL DISCLOSURES</b>	
Table CD1 Bond Summary and Authorization .....	181
Table CD2 Financial Information.....	182
Table CD3 Estimated Direct & Overlapping Debt Statement .....	183
Table CD4 Outstanding Debt Service Requirements - General Obligation Debt.....	184
Table CD5 Water and Sewer System Revenue Bonds Debt Service Schedule.....	185
Table CD6 Tax Adequacy .....	186
Table CD7 Tax Rate and Tax Collection Information .....	187
Table CD8 Sales Tax Collection History .....	188
Table CD9 Economic Development Fund.....	189
Table CD10 Debt Service Fund Management Index.....	190
Table CD11 Utility Debt Service Fund Management Index .....	191
Table CD12 Changes in Fund Balances Governmental Funds (Modified Accrual Basis) ..	192
Table CD13 Proprietary Fund - Statement of Revenues and Expenses.....	193
Table CD14 Water and Sewer Information .....	194
Table CD15 Top Ten Utility Customers .....	195
Table CD16 Principal Taxpayers and Assessed Valuation .....	196
Table CD17 General Fund - Budget Summary.....	197
Table CD18 Utility Fund - Budget Summary .....	198

## **INTRODUCTORY SECTION**

***THIS PAGE LEFT BLANK INTENTIONALLY.***



## CITY OF LAKE JACKSON

25 OAK DRIVE • LAKE JACKSON, TEXAS 77566-5289 • 979-415-2400 • FAX 979-297-9804

March 19, 2007

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, 2006. 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.

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.

The Comprehensive Annual Financial Report is presented in four sections: Introductory, Financial, Statistical and Federal Awards. The Introductory Section includes this transmittal letter, a listing of the City Officials and an organizational chart of the City. The Financial Section includes the independent auditors' report, a Management Discussion and Analysis (MD&A), the basic financial statements and combining and individual fund statements and schedules. The MD&A is a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors. The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis to allow for trend analysis. The Federal Awards Section includes a summary of grants and a report on internal controls associated with those grants.

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 (4.0 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 four "master" lift stations that pump directly to the treatment plant, and 37 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. 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 27,000 people; and is part of a larger community of cities known as the Brazosport Area. This area represents a population of over 77,000 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 43,000 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 42 percent of Dow's products sold in the United States and more than 22 percent of Dow's products sold globally. Along with Dow, other area petrochemical companies employ an additional 2,600 people. These companies include ConocoPhillips, BASF, Shintech and BP Amoco. For 2007 Dow Texas Operations is wrapping up the construction and start up of its new phenolic glycol ether production unit. In January 2007, Dow announced plans to expand production at its Freeport MDI facility by 50% over the next 36 months. This expansion will account for an additional 250 million pounds of capacity for a product that has a global demand of 8 billion pounds. For 2006 Dow Texas Operations has two major capital projects in the works: a \$190 million modernization of the LHC-7 hydrocarbons plant, and a new phenolic glycol ether production unit. In 2007, BASF will begin operations of its SAP (superabsorbent polymer) and polycaprolactam plants. Both have been under construction since 2005.

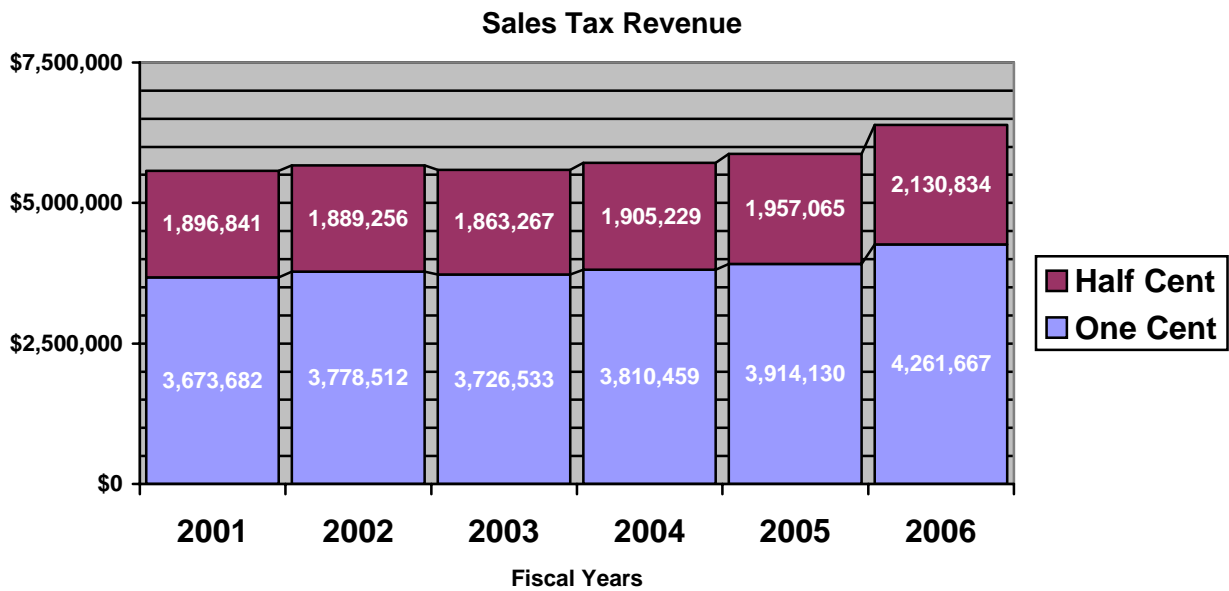
The Port of Freeport is currently the 12<sup>th</sup> largest port in United States in tonnage. The primary cargo shipped through the port includes rice, bananas, fruits, chemicals and aggregate. In the latest effort to increase commerce from the high seas, the Port of Freeport began construction of 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 40 years. 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 first phase of the project, dubbed "Berth 7" should begin construction soon.

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 in January 2005. The initial start up of the facility is targeted for early 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. In September 2006, 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. In 2006, sales tax collections increased 8.88% and exceeded budget by 8.26%. Total assessed values for all residential and commercial property in the City of Lake Jackson exceeded \$ 1.5 billion for fiscal 2006. Over the last five years new commercial, and new single family residential improvements totaled \$ 41 million, and \$ 61 million respectively.

Construction of a new Kohl's department store and accompanying strip center was completed in September, 2006. As an incentive for Kohl's the City signed a section 380 sales tax agreement with them. 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 their part of the agreement, Prime Retail is adding a theatre and food court complex to the mall as well as renovating the outside appearance. As part of their plans Prime Retail purchased the only other theatre complex in town. When construction of the Mall theatre is complete, it will be torn down and a center containing Best Buy, Pet Smart and Office Depot will be built on the location of the current theatre.



**MAJOR ISSUES AND INITIATIVES**

**Texas Water Development Board Loan Projects.** The Construction costs (including engineering and design) of the Water Reclamation Facility fell below the \$ 16 million State Revolving loan we received from the Texas Water Development Board. The Texas Water Development Board approved using \$ 2.8 million to reimburse the City for construction period interest paid from the issuance of the bonds through completion of the project. This money was reimbursed to the Utility Debt Service Fund. As a result, the operating revenue needed for debt service was reduced by a like amount and thus made available to fund additional water and sewer projects. These projects are ongoing and include several lift station projects. The largest of these projects is \$ 1.5 million designated to fund the construction of a new water storage tower. The tower should be complete in mid 2007.

**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 will be issued together in April, 2007. Phase III is projected to be issued in fiscal 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 value 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 2005 and 2006, the City received \$ 2,672,510 and \$ 2,881,045 respectfully from industrial payments.

### **Looking ahead.**

- 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. Also, it appears a group of local investors is nearing fruition on a project to purchase all of the homes in an area of town known as "the old government area". They have an offer on the property from a developer who is planning to build commercial establishments. This area of town abuts downtown Lake Jackson. This project will likely heighten interest in and speed the timing with which the City's downtown renovation projects occur.
- City Council is considering issuing \$ 2.0 million in Revenue Bonds to complete some additional water and sewer projects. The Texas Department of Transportation recently informed the City that they plan to bid the frontage roads for SH 332 in December, 2007. This represents a change in plans for them.

Until now, the plan was to bid the overpasses through town before the frontage roads. We also anticipated that the overpasses would be constructed in phases. The new plans will require the city to address water and sewer re-locates sooner than anticipated. Initial estimates on the cost of re-locates range from \$ 500,000 to \$ 750,000. Along with this project, the two other large projects being considered are: upgrades of two Master Lift Stations and the re-painting of one water tower.

## 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, 2006 the City's investment portfolio consisted of the following:

Cash (Petty cash accounts)	\$ 7,500
Bank demand accounts	1,497,166
Money Market fund	2,518,813
Investment pools:	
Lone Star	2,576,988
Texpool	12,076,599
Texstar	2,668,805
Certificates of deposit	399,000
	<u>\$ 21,744,871</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, 2005. 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 seven 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.

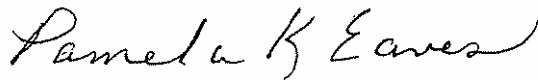
#### ACKNOWLEDGMENTS

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,

A handwritten signature in black ink, appearing to read "William P. Yenne". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

William P. Yenne  
City Manager

A handwritten signature in black ink, appearing to read "Pamela K. Eaves". The signature is cursive and elegant, with a prominent initial "P".

Pamela K. Eaves, CPA  
Director of Finance

## **FINANCIAL SECTION**

***THIS PAGE LEFT BLANK INTENTIONALLY.***

# KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS  
Limited Liability Company

Lake Jackson Office:  
8 West Way Court  
Lake Jackson, Texas 77566  
(979) 297-4075 Fax: (979) 297-6648  
(800) 399-4075

Houston Office:  
10850 Richmond Avenue, Suite 250  
Houston, Texas 77042  
(713) 974-3030 Fax: (713) 974-3513

## Independent Auditor's Report

December 13, 2006

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, 2006, 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, 2006, 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 13, 2006 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](http://www.kmkwllc.com) – Email: [kmkw@kmkwllc.com](mailto: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 13, 2006  
Page 2

*Required Supplementary Information*

The Management's Discussion and Analysis and Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund and Major Special Revenue Fund on pages 3 through 10 and 20 through 22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*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, 2006*

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, 2006. 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 \$ 73,910,704 (net assets). Of this amount, \$ 16,293,841 (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 \$ 13,070,465. 81.20% of this total amount, \$ 10,613,857 (unreserved fund balance) is available for use within the City's fund designation. Of this amount, \$ 6,359,080 has been designated for specific uses.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 7,504,971 or 51.21% of the total general fund expenditures. Of this amount, \$ 4,254,777 has not been designated for specific uses.
- The City's bonds payable decreased \$ 3,255,000 or 7.43% as there was no bond issuance in fiscal year 2006.

### 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, 2006*

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 13-15 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 2004 Infrastructure; 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, 2006*

The basic proprietary fund financial statements can be found on pages 24-29 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 30-64 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 66-120 of this report.

Other schedules can be found on pages 122-144 of this report following the combining statements. The statistical section can be found on pages 147-166 of this report following the other schedules. The federal awards section can be found on pages 169-178 of this report following the statistical section. The continuing financial disclosures can be found on pages 181-198 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 \$ 73,910,704 as of September 30, 2006.

The largest portion of the City's net assets (71.07%) 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 14,961,583	\$ 18,066,889	\$ 9,518,276	\$ 9,996,506	\$ 24,479,859	\$ 28,063,395
Capital assets	<u>52,537,995</u>	<u>51,501,825</u>	<u>41,624,420</u>	<u>42,651,901</u>	<u>94,162,415</u>	<u>94,153,726</u>
Total assets	<u>67,499,578</u>	<u>69,568,714</u>	<u>51,142,696</u>	<u>52,648,407</u>	<u>118,642,274</u>	<u>122,217,121</u>
Long-term liabilities	27,557,059	29,834,396	13,491,570	14,612,997	41,048,629	44,447,393
Other liabilities	<u>1,546,564</u>	<u>1,774,445</u>	<u>2,136,377</u>	<u>2,160,697</u>	<u>3,682,941</u>	<u>3,935,142</u>
Total liabilities	<u>29,103,623</u>	<u>31,608,841</u>	<u>15,627,947</u>	<u>16,773,694</u>	<u>44,731,570</u>	<u>48,382,535</u>
Net Assets:						
Invest in capital assets, net of related debt	25,482,995	22,161,825	27,043,902	28,016,142	52,526,897	50,177,967
Restricted	2,501,788	4,864,344	2,588,178	2,185,194	5,089,966	7,049,538
Unrestricted	<u>10,411,172</u>	<u>10,933,704</u>	<u>5,882,669</u>	<u>5,673,377</u>	<u>16,293,841</u>	<u>16,607,081</u>
Total net assets	<u>\$ 38,395,955</u>	<u>\$ 37,959,873</u>	<u>\$ 35,514,749</u>	<u>\$ 35,874,713</u>	<u>\$ 73,910,704</u>	<u>\$ 73,834,586</u>

## **CITY OF LAKE JACKSON, TEXAS**

### *Management's Discussion and Analysis For the Year Ended September 30, 2006*

An additional portion of the City's net assets of \$ 5,089,966 (6.89%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$ 16,293,841 (22.04%) may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2006, 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 a decrease of \$ 1,959,572 in restricted net assets and an increase of \$ 2,338,501 in invested in capital assets, net of related debt. The decrease in restricted net assets; and the increase in invested in capital assets, net of related debt resulted from the removal of restrictions on certain assets associated with the construction and completion of various capital projects.

#### **Analysis of the City's Operations**

**Governmental Activities:** Governmental activities increased the City of Lake Jackson's net assets by \$ 304,832. 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 \$ 2,038,540 (11.98%).

*Program revenues* increased by \$ 506,330. 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 \$ 1,532,210. Key elements of this increase are as follows:

- Property taxes increased by \$ 223,536 (4.83%) from the prior year; primarily due to an increase in assessed value on property.
- Sales taxes increased by \$ 521,305 (8.88%)--a product of the growth of the economy.
- Franchise taxes increased by \$ 292,219 (21.0%)--primarily a result of the new contractual agreement with Centerpoint Energy.
- Industrial District revenues increased \$ 208,535 (7.80%)--a result of the increase in the value of industrial district properties and the weighted tax rate of the Cities of Clute, Freeport, and Lake Jackson.
- Investment earnings increased \$ 219,822 (47.02%) due to an increase in interest rates.

**Business-type Activities:** Business activities decreased the City's net assets by \$ 359,964 (or 1.0%). Total revenues and total expenses increased from the prior year by \$ 564,475 and \$ 809,580 respectively. Total revenues increased primarily due to investment earnings and increased sales at the Wilderness Golf Course. Total expenses significantly increased primarily because of the recording of the first full year of depreciation expense for the \$ 16 million Water Reclamation Center, and the increase in fuel and electricity costs.

**CITY OF LAKE JACKSON, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2006*

The following table provides a summary of the City's operations for the year ended September 30, 2006 with comparative tables for the year ended September 30, 2005.

**CITY OF LAKE JACKSON'S CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program Revenues:						
Charges for services	\$ 1,397,728	\$ 1,415,394	\$ 10,091,039	\$ 9,741,406	\$ 11,488,767	\$ 11,156,800
Operating grants and contributions	97,341		62,298		159,639	
Capital grants and contributions	647,863	221,208			647,863	221,208
General Revenues:						
Property taxes	4,850,943	4,627,407			4,850,943	4,627,407
Sales taxes	6,392,501	5,871,195			6,392,501	5,871,195
Franchise	1,683,612	1,391,393			1,683,612	1,391,393
Industrial district	2,881,045	2,672,510			2,881,045	2,672,510
Alcoholic beverages taxes	37,092	33,402			37,092	33,402
Criminal justice taxes	17,676	16,245			17,676	16,245
Occupancy taxes	239,924	208,377			239,924	208,377
Investment earnings	687,327	467,505	395,581	243,037	1,082,908	710,542
Miscellaneous	125,927	72,298			125,927	72,298
Gain on disposition of capital assets		23,505				23,505
Total revenues	<u>19,058,979</u>	<u>17,020,439</u>	<u>10,548,918</u>	<u>9,984,443</u>	<u>29,607,897</u>	<u>27,004,882</u>
Expenses:						
General government and administration	2,602,960	2,362,231			2,602,960	2,362,231
Public safety	5,130,799	4,737,631			5,130,799	4,737,631
Public works	5,632,640	5,185,215			5,632,640	5,185,215
Culture and recreation	4,632,306	4,457,243			4,632,306	4,457,243
Interest on long-term debt	1,250,474	1,355,910			1,250,474	1,355,910
Golf course			1,786,619	1,613,195	1,786,619	1,613,195
Water and sewer			6,191,778	5,694,639	6,191,778	5,694,639
Sanitation			2,435,453	2,296,436	2,435,453	2,296,436
Total expenses	<u>19,249,179</u>	<u>18,098,230</u>	<u>10,413,850</u>	<u>9,604,270</u>	<u>29,663,029</u>	<u>27,702,500</u>
Increase (decrease) in net assets before transfers	( 190,200)	( 1,077,791)	135,068	380,173	( 55,132)	( 697,618)
Transfers	<u>495,032</u>	<u>( 79,913)</u>	<u>( 495,032)</u>	<u>79,913</u>	<u>-0-</u>	<u>-0-</u>

(continued)

**CITY OF LAKE JACKSON, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2006*

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Increase (decrease) in net assets	\$ 304,832	\$( 1,157,704)	\$( 359,964)	\$ 460,086	\$( 55,132)	\$( 697,618)
Net assets, October 1	37,959,873	39,117,577	35,874,713	35,414,627	73,834,586	74,532,204
Prior period adjustment	<u>131,250</u>				<u>131,250</u>	<u>-0-</u>
Net assets, September 30	<u>\$ 38,395,955</u>	<u>\$ 37,959,873</u>	<u>\$ 35,514,749</u>	<u>\$ 35,874,713</u>	<u>\$ 73,910,704</u>	<u>\$ 73,834,586</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 \$ 13,070,465. 81.20% of this total amount (\$ 10,613,857) 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 (\$ 80,428), 2) for prepaid expenditures (\$ 119,084) 3) to pay for debt service (\$ 550,663), and 4) for capital projects (\$ 1,706,433).

The General Fund fund balance decreased by \$ 327,278, and the Economic Development, General Debt Service Fund, and the 2004 Infrastructure balances decreased by \$ 5,042, \$ 53,382 and \$ 2,056,486, respectively.

The General (Fund) fund balance decreased as a result of budgeted capital outlays for equipment replacements. The General Debt Service (Fund) fund balance decreased due to planned reductions. In 2001, the General Debt Service Fund had accumulated fund balance of approximately \$ 900,000. Due to arbitrage considerations, the majority of this balance was allocated to the 1989 and 1993 bond issues. Subsequently, the 2003 bond issue refunded these bonds. Over the remaining life of these bonds, the fund balance for the General Debt Service Fund will be allocated to the annual payment, in an effort to further reduce the fund balance. The reduction of the 2004 infrastructure fund balance is due to capital outlays for the planned completion of projects.

**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, 2006 amounted to \$ 5,882,669. Total net assets decreased \$ 359,964.

**CITY OF LAKE JACKSON, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2006*

**General Fund Budgetary Highlights.** No budget amendments were made during the 2006 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, 2006, amounts to \$ 94,162,415 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was \$ 8,689. (\$ 1,036,170 increase for governmental activities and \$ 1,027,481 decrease in business-type activities).

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

- The completion of the Fire/EMS facility.
- Approximately \$ 1,023,766 of street and drainage improvements were completed.
- Construction continued on the Hike/Bike Trail project; construction in progress on the City's books as of the close of the fiscal year had reached \$ 685,727.

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

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 2,124,934	\$ 2,103,874	\$ 3,821,585	\$ 3,821,585	\$ 5,946,519	\$ 5,925,459
Buildings	18,876,735	15,598,327	3,222,657	3,416,849	22,099,392	19,015,176
Improvements other than buildings	5,548,654	5,925,271	14,767,940	15,377,828	20,316,594	21,303,099
Furniture, equipment and vehicles	3,320,799	2,178,347	2,129,161	2,294,520	5,449,960	4,472,867
Infrastructure	18,918,925	20,678,756	16,901,243	17,506,912	35,820,168	38,185,668
Construction in progress	<u>3,747,948</u>	<u>5,017,250</u>	<u>781,834</u>	<u>234,207</u>	<u>4,529,782</u>	<u>5,251,457</u>
Total	\$ <u>52,537,995</u>	\$ <u>51,501,825</u>	\$ <u>41,624,420</u>	\$ <u>42,651,901</u>	\$ <u>94,162,415</u>	\$ <u>94,153,726</u>

Additional information on the City of Lake Jackson's capital assets can be found in note 5 on pages 47-50 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 \$ 40,555,000. Of this amount, \$ 27,055,000 comprises 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 \$ 13,500,000 represents bonds secured by water and sewer revenues.

**CITY OF LAKE JACKSON, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2006*

**Outstanding Long-Term Debt at Year End**

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 6,700,000	\$ 7,205,000	\$	\$	\$ 6,700,000	\$ 7,205,000
Certificates of obligations	7,160,000	8,085,000			7,160,000	8,085,000
Limited tax bonds	13,195,000	14,050,000			13,195,000	14,050,000
Revenue bonds			13,500,000	14,470,000	13,500,000	14,470,000
Total	<u>\$ 27,055,000</u>	<u>\$ 29,340,000</u>	<u>\$ 13,500,000</u>	<u>\$ 14,470,000</u>	<u>\$ 40,555,000</u>	<u>\$ 43,810,000</u>

During the fiscal year, the City's total debt decreased \$ 3,255,000 or 7.43% due to maturities. 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 51-56 of this report.

**Economic Factors and Next Year's Budgets and Rates**

In the 2006-07 Budget, General fund revenues and transfers-in are budgeted to increase by 4.88% from 2005-06 budget year with general property taxes making up about 22.3% of general fund budgeted revenues and transfers-in.

Certified assessed valuations increased approximately 6.42% over the preceding year.

The property tax rate decreased from 38¢ to 37¢. In addition, the City increased the senior citizen property tax exemption from \$ 50,000 to \$ 55,000.

A 2% lump sum payment will be given to all eligible City employees in December, 2007.

As of December, 2006 the unemployment rate for the City of Lake Jackson was 3.6%, as compared to the State of Texas, which was 4.1%.

The Utility Fund 2006-07 budget is 4.46% more than the proceeding year's budget. The base sewer rates for the 2006-07 budget year will increase from \$ 8.00/month to \$ 8.50/month. In addition, 10¢ 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.

## **BASIC FINANCIAL STATEMENTS**

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**STATEMENT OF NET ASSETS**

September 30, 2006

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 12,752,323	\$ 5,097,916	\$ 17,850,239
Taxes receivable (net)	746,672		746,672
Due from other governments	9,628		9,628
Accounts receivable (net)	337,262	527,014	864,276
Investments	399,000		399,000
Inventories	80,428	151,507	231,935
Internal balances	214,576	( 214,576)	-0-
Deferred expenses	119,084	6,184	125,268
Bond issuance costs (net)	302,610	335,756	638,366
<b>Restricted Assets:</b>			
Temporarily Restricted:			
Cash and cash equivalents		3,614,475	3,614,475
<b>Capital Assets (Net of Accumulated Depreciation):</b>			
Land	2,124,934	3,821,585	5,946,519
Buildings	18,876,735	3,222,657	22,099,392
Improvements other than buildings	5,548,654	14,767,940	20,316,594
Furniture, equipment, and vehicles	3,320,799	2,129,161	5,449,960
Infrastructure	18,918,925	16,901,243	35,820,168
Construction in progress	<u>3,747,948</u>	<u>781,834</u>	<u>4,529,782</u>
Total assets	<u>67,499,578</u>	<u>51,142,696</u>	<u>118,642,274</u>
<b>Liabilities:</b>			
Accounts payable	982,726	626,475	1,609,201
Cash bonds and taxes	330,658		330,658
Accrued wages	160,769	63,742	224,511
Unearned revenue	72,411	58,823	131,234
Liabilities payable from restricted assets		1,387,337	1,387,337
<b>Noncurrent liabilities:</b>			
Due within one year	2,803,303	801,240	3,604,543
Due in more than one year	<u>24,753,756</u>	<u>12,690,330</u>	<u>37,444,086</u>
Total liabilities	<u>29,103,623</u>	<u>15,627,947</u>	<u>44,731,570</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	25,482,995	27,043,902	52,526,897
<b>Restricted For:</b>			
Debt service	795,355	1,614,778	2,410,133
Capital projects	1,706,433	950,200	2,656,633
Maintenance		23,200	23,200
Unrestricted	<u>10,411,172</u>	<u>5,882,669</u>	<u>16,293,841</u>
Total net assets	<u>\$ 38,395,955</u>	<u>\$ 35,514,749</u>	<u>\$ 73,910,704</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, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government and administration	\$ 2,602,960	\$ 520,176	\$	\$
Public safety	5,130,799		35,000	65,000
Public works	5,632,640		62,341	561,803
Culture and recreation	4,632,306	877,552		21,060
Interest on long-term debt	<u>1,250,474</u>			
Total governmental activities	<u>19,249,179</u>	<u>1,397,728</u>	<u>97,341</u>	<u>647,863</u>
Business-type Activities:				
Water and sewer	6,191,778	5,852,076	62,298	
Sanitation	2,435,453	2,668,684		
Golf course	<u>1,786,619</u>	<u>1,570,279</u>		
Total business-type activities	<u>10,413,850</u>	<u>10,091,039</u>	<u>62,298</u>	<u>-0-</u>
Total	<u>\$ 29,663,029</u>	<u>\$ 11,488,767</u>	<u>\$ 159,639</u>	<u>\$ 647,863</u>
General Revenue:				
Taxes:				
Property taxes				
Sales taxes				
Industrial district				
Franchise				
Occupancy				
Other				
Investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets – beginning				
Prior period adjustment				
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
\$( 2,082,784)	\$	\$( 2,082,784)
( 5,030,799)		( 5,030,799)
( 5,008,496)		( 5,008,496)
( 3,733,694)		( 3,733,694)
<u>( 1,250,474)</u>		<u>( 1,250,474)</u>
<u>( 17,106,247)</u>	<u>-0-</u>	<u>( 17,106,247)</u>
	( 277,404)	( 277,404)
	233,231	233,231
	<u>( 216,340)</u>	<u>( 216,340)</u>
<u>-0-</u>	<u>( 260,513)</u>	<u>( 260,513)</u>
<u>( 17,106,247)</u>	<u>( 260,513)</u>	<u>( 17,366,760)</u>
4,850,943		4,850,943
6,392,501		6,392,501
2,881,045		2,881,045
1,683,612		1,683,612
239,924		239,924
54,768		54,768
687,327	395,581	1,082,908
125,927		125,927
<u>495,032</u>	<u>( 495,032)</u>	<u>-0-</u>
<u>17,411,079</u>	<u>( 99,451)</u>	<u>17,311,628</u>
304,832	( 359,964)	( 55,132)
37,959,873	35,874,713	73,834,586
<u>131,250</u>		<u>131,250</u>
<u>\$ 38,395,955</u>	<u>\$ 35,514,749</u>	<u>\$ 73,910,704</u>

**CITY OF LAKE JACKSON**  
Lake Jackson, Texas

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

September 30, 2006

	General Fund	Economic Development	General Debt Service	2004 Infrastructure	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>						
Cash and cash equivalents	\$ 7,070,820	\$ 1,023,261	\$ 550,608	\$ 2,069,921	\$ 2,037,713	\$ 12,752,323
Receivables (Net of Allowance for Uncollectibles):						
Taxes	556,839	174,501	15,332			746,672
Accounts	299,307				37,955	337,262
Grants	8,750				878	9,628
Due from other funds	214,576				11,776	226,352
Investments	399,000					399,000
Inventories	80,428					80,428
Prepaid expenditures	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	119,084	<u>119,084</u>
Total assets	<u>\$ 8,629,720</u>	<u>\$ 1,197,762</u>	<u>\$ 565,940</u>	<u>\$ 2,069,921</u>	<u>\$ 2,207,406</u>	<u>\$ 14,670,749</u>
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ 453,816	\$	\$	\$ 374,910	\$ 154,000	\$ 982,726
Cash bonds and taxes	330,658					330,658
Accrued wages	160,769					160,769
Deferred revenue	99,078		15,277			114,355
Due to other funds	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	11,776	<u>11,776</u>
Total liabilities	<u>1,044,321</u>	<u>-0-</u>	<u>15,277</u>	<u>374,910</u>	<u>165,776</u>	<u>1,600,284</u>
Fund Balance:						
Reserved For:						
Inventory	80,428					80,428
Prepaid expenditures					119,084	119,084
Debt service			550,663			550,663
Capital projects				1,695,011	11,422	1,706,433
Unreserved, Reported In:						
General fund	7,504,971					7,504,971
Special revenue funds		1,197,762			396,050	1,593,812
Capital projects	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	1,515,074	<u>1,515,074</u>
Total fund balances	<u>7,585,399</u>	<u>1,197,762</u>	<u>550,663</u>	<u>1,695,011</u>	<u>2,041,630</u>	<u>13,070,465</u>
Total liabilities and fund balances	<u>\$ 8,629,720</u>	<u>\$ 1,197,762</u>	<u>\$ 565,940</u>	<u>\$ 2,069,921</u>	<u>\$ 2,207,406</u>	<u>\$ 14,670,749</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, 2006

Total fund balances – governmental funds balance sheet	\$ 13,070,465
<b>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 117,220,007 in assets less \$ 64,682,012 in accumulated depreciation.	52,537,995
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 \$ 26,667 and \$ 15,277, respectively.	41,944
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 \$ 302,610 (issuance costs of \$ 388,849 less amortization of \$ 86,239).	302,610
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 \$ 9,163 (discount on sale of bonds of \$ 11,477 less amortization of \$ 2,314).	9,163
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 \$ 18,111 (premium on the sale of bonds of \$ 27,166 less amortization of \$ 9,055).	( 18,111)
Payables for bond principal and other long-term debt are not reported in the funds.	( 27,055,000)
Payables for bond interest are not reported in the funds.	( 48,970)
Payables for long-term compensated absences.	<u>( 444,141)</u>
Net assets of governmental activities – statement of net assets.	\$ <u>38,395,955</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, 2006

	<u>General</u>	<u>Economic Development</u>	<u>General Debt Service</u>	<u>2004 Infrastructure</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Taxes:						
Property	\$ 3,181,611	\$	\$ 1,668,722	\$	\$	\$ 4,850,333
Sales	4,261,667	2,130,834				6,392,501
Franchise	1,683,612					1,683,612
Occupancy					239,924	239,924
Other	54,768					54,768
Industrial district	2,881,045					2,881,045
Intergovernmental	162,341			52,045	509,758	724,144
Revenue producing facilities	877,552					877,552
Fines and fees	306,426					306,426
Licenses and permits	213,750					213,750
Investment income	351,811	52,218	45,321	153,708	84,269	687,327
Contributions					1,025	1,025
Miscellaneous	<u>114,824</u>				<u>10,078</u>	<u>124,902</u>
Total revenues	<u>14,089,407</u>	<u>2,183,052</u>	<u>1,714,043</u>	<u>205,753</u>	<u>845,054</u>	<u>19,037,309</u>
Expenditures:						
Current:						
General government and administration	2,404,638					2,404,638
Public safety	4,585,013					4,585,013
Public works	2,640,909					2,640,909
Culture and recreation	3,563,540				336,552	3,900,092
Capital outlay	1,462,201			2,262,239	1,753,834	5,478,274
Debt Service:						
Principal retirement			1,150,000		1,135,000	2,285,000
Interest and fiscal charges			<u>617,425</u>		<u>615,474</u>	<u>1,232,899</u>
Total expenditures	<u>14,656,301</u>	<u>-0-</u>	<u>1,767,425</u>	<u>2,262,239</u>	<u>3,840,860</u>	<u>22,526,825</u>
Excess of revenues over (under) expenditures	<u>( 566,894)</u>	<u>2,183,052</u>	<u>( 53,382)</u>	<u>( 2,056,486)</u>	<u>( 2,995,806)</u>	<u>( 3,489,516)</u>
Other Financing Sources (Uses):						
Transfers in	1,304,686				2,510,474	3,815,160
Transfers out	( 1,074,320)	( 2,188,094)			( 57,714)	( 3,320,128)
Proceeds from disposition of assets	<u>9,250</u>					<u>9,250</u>
Total other financing sources (uses)	<u>239,616</u>	<u>( 2,188,094)</u>	<u>-0-</u>	<u>-0-</u>	<u>2,452,760</u>	<u>504,282</u>
Net change in fund balances	<u>( 327,278)</u>	<u>( 5,042)</u>	<u>( 53,382)</u>	<u>( 2,056,486)</u>	<u>( 543,046)</u>	<u>( 2,985,234)</u>
Fund balances – beginning	7,781,427	1,202,804	604,045	3,751,497	2,584,676	15,924,449
Prior period adjustment	<u>131,250</u>					<u>131,250</u>
Fund balances – ending	<u>\$ 7,585,399</u>	<u>\$ 1,197,762</u>	<u>\$ 550,663</u>	<u>\$ 1,695,011</u>	<u>\$ 2,041,630</u>	<u>\$ 13,070,465</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, 2006

Net change in fund balances – total governmental funds	\$( 2,985,234)
<b>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</b>	
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 capital outlay of \$ 5,478,274 exceeded depreciation \$ 4,399,621 in the current period.	1,078,653
Governmental funds report proceeds from the sale of assets as revenue. However, in the governmental activities statement of activities, the cost of assets disposed is offset against the proceeds to report gain or loss on the disposition of assets. The cost of assets disposed was \$ 63,543 (cost of \$ 484,692 less accumulated depreciation of \$ 421,149).	( 63,543)
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 decreased by \$ 521 and \$ 89, respectively.	610
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 amounts were for general obligation bonded debt \$ 2,285,000.	2,285,000
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.	( 24,051)
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.	2,716
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.	( 574)
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.	4,334
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.	( 14,139)
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.	<u>21,060</u>
Change in net assets of governmental activities	<u><u>\$ 304,832</u></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 - BUDGET AND ACTUAL  
GENERAL FUND**

For the Year Ended September 30, 2006

	<u>Budgeted Amounts</u>	
	<u>Original</u>	<u>Final</u>
Revenues:		
Taxes:		
Property	\$ 3,186,684	\$ 3,186,684
Sales	3,936,428	3,936,428
Franchise	1,385,000	1,385,000
Other	45,000	45,000
Industrial district	2,789,300	2,789,300
Intergovernmental	120,000	120,000
Revenue producing facilities	831,850	831,850
Fines and fees	295,800	295,800
Licenses and permits	168,350	168,350
Investment income	124,000	124,000
Miscellaneous	<u>74,350</u>	<u>74,350</u>
Total revenues	<u>12,956,762</u>	<u>12,956,762</u>
Expenditures:		
Current:		
General government and administration	2,500,179	2,500,179
Public safety	4,668,835	4,668,835
Public works	2,613,115	2,613,115
Culture and recreation	3,528,804	3,528,804
Capital outlay	<u>1,639,400</u>	<u>1,639,400</u>
Total expenditures	<u>14,950,333</u>	<u>14,950,333</u>
Excess of revenues over (under) expenditures	<u>( 1,993,571 )</u>	<u>( 1,993,571 )</u>
Other Financing Sources (Uses):		
Transfers in	1,304,686	1,304,686
Transfers out		
Sale of capital assets		
Total other financing sources (uses)	<u>1,304,686</u>	<u>1,304,686</u>
Net change in fund balance	<u>( 688,885 )</u>	<u>( 688,885 )</u>
Fund balance - beginning	7,781,427	7,781,427
Prior period adjustment		
Fund balance - ending	<u>\$ 7,092,542</u>	<u>\$ 7,092,542</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)
\$ 3,181,611	\$	\$ 3,181,611	\$ ( 5,073 )
4,261,667		4,261,667	325,239
1,683,612		1,683,612	298,612
54,768		54,768	9,768
2,881,045		2,881,045	91,745
162,341		162,341	42,341
877,552		877,552	45,702
306,426		306,426	10,626
213,750		213,750	45,400
351,811		351,811	227,811
114,824		114,824	40,474
<u>14,089,407</u>	<u>-0-</u>	<u>14,089,407</u>	<u>1,132,645</u>
2,404,638	( 2,349 )	2,402,289	97,890
4,585,013	( 9,240 )	4,575,773	93,062
2,640,909	970	2,641,879	( 28,764 )
3,563,540	( 4,562 )	3,558,978	( 30,174 )
1,462,201	( 91,075 )	1,371,126	268,274
<u>14,656,301</u>	<u>( 106,256 )</u>	<u>14,550,045</u>	<u>400,288</u>
<u>( 566,894 )</u>	<u>106,256</u>	<u>( 460,638 )</u>	<u>1,532,933</u>
1,304,686		1,304,686	-0-
( 1,074,320 )		( 1,074,320 )	( 1,074,320 )
9,250		9,250	9,250
<u>239,616</u>	<u>-0-</u>	<u>239,616</u>	<u>( 1,065,070 )</u>
( 327,278 )	106,256	( 221,022 )	467,863
7,781,427		7,781,427	-0-
131,250		131,250	( 131,250 )
<u>\$ 7,585,399</u>	<u>\$ 106,256</u>	<u>\$ 7,691,655</u>	<u>\$ 336,613</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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 1,968,210	\$ 1,968,210	\$ 2,130,834	\$ 162,624
Investment income	25,000	25,000	52,218	27,218
Total revenues	1,993,210	1,993,210	2,183,052	189,842
Expenditures				-0-
Excess of revenues over (under) expenditures	1,993,210	1,993,210	2,183,052	189,842
Other Financing Sources (Uses):				
Transfers out	( 2,189,339)	( 2,189,339)	( 2,188,094)	1,245
Total other financing sources (uses)	( 2,189,339)	( 2,189,339)	( 2,188,094)	1,245
Net change in fund balance	( 196,129)	( 196,129)	( 5,042)	191,087
Fund balance - beginning	1,202,804	1,202,804	1,202,804	-0-
Fund balance - ending	\$ 1,006,675	\$ 1,006,675	\$ 1,197,762	\$ 191,087

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

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**

September 30, 2006

	Business-Type Activities		
	Enterprise	Golf Course Operating	Total
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	\$ 4,998,427	\$ 99,489	\$ 5,097,916
Receivables (Net of Allowance for Uncollectibles):			
Accounts	497,675	29,339	527,014
Inventory		151,507	151,507
Prepaid expenses		6,184	6,184
	<u>5,496,102</u>	<u>286,519</u>	<u>5,782,621</u>
Current Restricted Assets:			
Restricted Assets:			
Cash and cash equivalents	1,984,959	23,200	2,008,159
Total current restricted assets	<u>1,984,959</u>	<u>23,200</u>	<u>2,008,159</u>
Total current assets	<u>7,481,061</u>	<u>309,719</u>	<u>7,790,780</u>
Noncurrent Assets:			
Restricted Cash and Cash Equivalents:			
Revenue bond covenant accounts	1,606,316		1,606,316
Total noncurrent restricted assets	<u>1,606,316</u>	<u>-0-</u>	<u>1,606,316</u>
Deferred charges	335,756		335,756
Capital Assets:			
Property, plant and equipment	53,036,526	8,772,352	61,808,878
Construction in progress	781,834		781,834
Less accumulated depreciation	<u>( 20,238,449)</u>	<u>( 727,843)</u>	<u>( 20,966,292)</u>
Total capital assets (net of accumulated depreciation)	<u>33,579,911</u>	<u>8,044,509</u>	<u>41,624,420</u>
Total noncurrent assets	<u>35,521,983</u>	<u>8,044,509</u>	<u>43,566,492</u>
Total assets	<u>43,003,044</u>	<u>8,354,228</u>	<u>51,357,272</u>

(Continued)

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - Continued**

September 30, 2006

	Business-Type Activities		
	Enterprise	Golf Course Operating	Total
<u>Liabilities and Net Assets</u>			
Current Liabilities:			
Accounts payable	\$ 569,519	\$ 56,956	\$ 626,475
Accrued wages	41,722	22,020	63,742
Accrued compensated absences	97,053		97,053
Deferred revenue		58,823	58,823
Revenue bonds payable	565,833		565,833
Capital leases payable – current		138,354	138,354
Due to other funds		214,576	214,576
	<u>1,274,127</u>	<u>490,729</u>	<u>1,764,856</u>
Current Liabilities Payable from Restricted Assets:			
Accounts payable	280,936		280,936
Accrued interest	259,046		259,046
Customer deposits	443,188		443,188
Revenue bonds payable	404,167		404,167
Total current liabilities payable from restricted assets	<u>1,387,337</u>	<u>-0-</u>	<u>1,387,337</u>
Total current liabilities	<u>2,661,464</u>	<u>490,729</u>	<u>3,152,193</u>
Noncurrent Liabilities:			
Revenue bonds payable (net of unamortized discounts)	12,530,000		12,530,000
Capital leases payable		160,330	160,330
Total noncurrent liabilities	<u>12,530,000</u>	<u>160,330</u>	<u>12,690,330</u>
Total liabilities	<u>15,191,464</u>	<u>651,059</u>	<u>15,842,523</u>
Net Assets:			
Invested in capital assets, net of related debt	19,298,077	7,745,825	27,043,902
Restricted For:			
Revenue bond retirement	1,614,778		1,614,778
Construction	950,200		950,200
Maintenance		23,200	23,200
Unrestricted	<u>5,948,525</u>	<u>(65,856)</u>	<u>5,882,669</u>
Total net assets	<u>\$ 27,811,580</u>	<u>\$ 7,703,169</u>	<u>\$ 35,514,749</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, 2006

	Business-Type Activities		
	Enterprise	Golf Course Operating	Total
Operating Revenues:			
Water service	\$ 2,756,232	\$	\$ 2,756,232
Sewer service	2,805,732		2,805,732
Garbage fees	2,668,684		2,668,684
Tapping and connection fees	252,556		252,556
Operating grant revenue	62,298		62,298
Golf course fees and charges		1,553,214	1,553,214
Other	37,556	17,065	54,621
Total operating revenues	8,583,058	1,570,279	10,153,337
Operating Expenses:			
Utility administration	338,120		338,120
Water production and treatment	1,718,309		1,718,309
Water distribution	466,595		466,595
Sewer collection	649,271		649,271
Sewer treatment	977,887		977,887
Sanitation	2,125,857		2,125,857
Golf course		1,481,503	1,481,503
Depreciation	1,735,998	285,522	2,021,519
Total operating expenses	8,012,037	1,767,025	9,779,062
Operating income (loss)	571,021	( 196,746)	374,275
Non-Operating Revenues (Expenses):			
Interest revenue	390,433	5,148	395,581
Loss on sale/retirement of capital assets		( 4,074)	( 4,074)
Interest expense and fiscal charges	( 615,194)	( 15,520)	( 630,714)
Total non-operating revenues (expenses)	( 224,761)	( 14,446)	( 239,207)
Income (loss) before contributions and operating transfers	346,260	( 211,192)	135,068
Transfers in	314,320	136,314	450,634
Transfers out	( 933,286)	( 12,380)	( 945,666)
Change in net assets	( 272,706)	( 87,258)	( 359,964)
Net assets at beginning of year	28,084,286	7,790,427	35,874,713
Net assets at end of year	\$ 27,811,580	\$ 7,703,169	\$ 35,514,749

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

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**CITY OF LAKE JACKSON**  
Lake Jackson, Texas

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUNDS**

For the Year Ended September 30, 2006

	Business-Type Activities		
	Enterprise	Golf Course Operating	Total
Cash Flows from Operating Activities:			
Receipts from customers and users	\$ 8,698,317	\$ 1,581,584	\$ 10,279,901
Payments to suppliers	( 3,961,324)	( 809,824)	( 4,771,148)
Payments to employees	( 2,435,461)	( 695,940)	( 3,131,401)
Payments to other funds		( 604)	( 604)
Net cash provided by operating activities	<u>2,301,532</u>	<u>75,216</u>	<u>2,376,748</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers in	314,320	136,314	450,634
Transfers out	( 933,286)	( 12,380)	( 945,666)
Net cash provided (used) by non-capital financing activities	<u>( 618,966)</u>	<u>123,934</u>	<u>( 495,032)</u>
Cash Flows from Capital and Related Financing Activities:			
Purchases of capital assets	( 1,002,613)		( 1,002,613)
Proceeds from sale of equipment		4,500	4,500
Principal paid on capital debt	( 970,000)	( 139,280)	( 1,109,280)
Interest and fiscal charges paid on capital debt	( 607,600)	( 15,520)	( 623,120)
Net cash (used) by capital and related financing activities	<u>( 2,580,213)</u>	<u>( 150,300)</u>	<u>( 2,730,513)</u>
Cash Flows from Investing Activities:			
Interest received	<u>390,433</u>	<u>5,148</u>	<u>395,581</u>
Net cash provided by investing activities	<u>390,433</u>	<u>5,148</u>	<u>395,581</u>
Net increase (decrease) in cash and cash equivalents	( 507,214)	53,998	( 453,216)
Cash and cash equivalents at the beginning of year	<u>9,096,916</u>	<u>68,691</u>	<u>9,165,607</u>
Cash and cash equivalents at the end of year	<u>\$ 8,589,702</u>	<u>\$ 122,689</u>	<u>\$ 8,712,391</u>

(Continued)

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

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

For the Year Ended September 30, 2006

	Business-Type Activities		
	Enterprise	Golf Course Operating	Total
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 571,021	\$( 196,746)	\$ 374,275
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	1,735,998	285,522	2,021,520
(Increase) decrease in accounts receivable	70,176	( 9,898)	60,278
(Increase) decrease in inventory		( 54,131)	( 54,131)
(Increase) decrease in prepaid expenses		( 6,184)	( 6,184)
Increase (decrease) in accounts payable	( 104,639)	36,005	( 68,634)
Increase (decrease) in accrued wages payable	( 3,960)	49	( 3,911)
Increase (decrease) in accrued compensated absences	( 12,147)		( 12,147)
Increase (decrease) in deferred revenue		21,203	21,203
Increase (decrease) in customer deposits	45,083		45,083
Increase (decrease) in due to other funds		( 604)	( 604)
Total adjustments	<u>1,730,511</u>	<u>271,962</u>	<u>2,002,473</u>
Net cash provided by operating activities	<u>\$ 2,301,532</u>	<u>\$ 75,216</u>	<u>\$ 2,376,748</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, 2006

**INDEX**

Note	Page
1. Summary of Significant Accounting Policies.....	31
2. Deposits, Investments and Derivatives.....	41
3. Deferred Revenue .....	45
4. Interfund Receivables, Payables and Transfers .....	46
5. Capital Assets.....	47
6. Allowance for Uncollectible Accounts .....	51
7. Long-Term Debt .....	51
8. Pension Plan .....	56
9. Texas Statewide Emergency Services Personnel Retirement Fund.....	58
10. Deferred Compensation Plan.....	61
11. Contingent Liabilities .....	62
12. Risk-Pool Participation .....	62
13. Industrial District Contract .....	62
14. Grants, Loans, Entitlements and Shared Revenues .....	63
15. Interlocal Agreement .....	64
16. Excess of Expenditures Over Appropriations .....	64
17. Prior Period Adjustment .....	64

# CITY OF LAKE JACKSON

Lake Jackson, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2006

### 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, 2006

### 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, 2006

### 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.

2004 Infrastructure Fund accounts 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 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, 2006

### 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 March of 2003, the GASB issued Statement No. 40, "Deposits and Investment Risk Disclosures – an amendment of GASB No. 3". This statement addresses common deposit and investment risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to interest rate changes. The provisions of this Statement are effective for periods beginning after June 15, 2004. This Statement was implemented for the year ended September 30, 2005.

In May of 2003, the GASB issued Statement No. 41, "Budgetary Comparison Schedules-Perspective Differences – an amendment to GASB 34". This statement clarifies the budgetary presentation requirements for governments with significant budgetary perspective differences that result in their not being able to present budgetary comparison information for their general fund and major special revenue funds. This Statement was implemented in conjunction with Statement No. 34.

# CITY OF LAKE JACKSON

Lake Jackson, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2006

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In November of 2003, the GASB issued Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". This Statement establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement are effective for periods beginning after December 15, 2004. The statement was implemented and did not have a material impact on the City's financial statements.

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. Management of the City has not determined the impact, if any, upon its financial position, results of operations or its cash flows upon adoption.

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.

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. Management of the City has not determined the impact, if any, upon its financial position, results of operations or its cash flows upon adoption.

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.

# CITY OF LAKE JACKSON

Lake Jackson, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2006

### 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, 2006:

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2006

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	\$( 327,278)
Adjustments of accrued wages	15,181
Encumbrances	<u>91,075</u>
Excess of revenues over (under) expenditures - on budget basis	<u>\$( 221,022)</u>

Proprietary Fund Types:

	<u>Enterprise Fund</u>
Change in net assets - GAAP basis	\$( 272,706)
Provisions for Current Adjustments To:	
Accrued absences and accrued wages	( 16,107)
Depreciation	1,735,998
Amortization of bond issuance costs	<u>( 25,656)</u>
Change in net assets - budgetary basis	<u>\$ 1,421,529</u>
	<u>Golf Course Operating Fund</u>
Change in net assets - GAAP basis	\$( 87,258)
Provisions for Current Adjustments To:	
Accrued wages	49
Depreciation	<u>285,522</u>
Change in net assets - budgetary basis	<u>\$ 198,313</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, 2006.

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, 2006

### 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 includes 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, 2006

### 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, 2006.

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, 2005, upon which the levy for the 2005-06 fiscal year was based, was \$ 1,284,354,706. 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, 2006, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.2493 and \$ 0.1307 per \$ 100 valuation, respectively, for a total of \$ 0.3800 per \$ 100 valuation.

Current tax collections for the year ended September 30, 2006 were 99.21% 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, 2006, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 26,612 and \$ 15,332 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, 2006

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, 2006, there is no maturing compensated absences payable in the General Fund. Accrued compensated absences reported in the Enterprise Fund at September 30, 2006 totaled \$ 97,053.

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, 2006 consisted of the following:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Supplies	\$ 52,406	\$
Supplies held for resale	<u>28,022</u>	<u>151,507</u>
	<u>\$ 80,428</u>	<u>\$ 151,507</u>

# CITY OF LAKE JACKSON

Lake Jackson, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2006

### 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, 2006, are as follows:

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2006

**NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES** - Continued

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Cash Equivalents:			
Cash (petty cash accounts)	\$ 10,100	\$	\$ 10,100
Financial Institution Deposits:			
Demand deposits	3,078,235	1,053,987	4,132,222
Local Government Investment Pools:			
Texpool	10,291,511	1,785,088	12,076,599
Lone Star Investment Pool	2,196,074	380,914	2,576,988
TexSTAR	<u>2,274,319</u>	<u>394,486</u>	<u>2,668,805</u>
	<u>\$ 17,850,239</u>	<u>\$ 3,614,475</u>	<u>\$ 21,464,714</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, 2006, in addition to petty cash of \$ 10,100, the carrying amount of the City's cash, savings, and time deposits was \$ 4,531,222. The financial institutions balances were \$ 4,761,392 at September 30, 2006. Bank balances of \$ 526,524 were covered by federal depository insurance, \$ 500,000 was covered by SIPC coverage, \$ 1,726,542 was covered by collateral pledged in the City's name, and \$ 2,008,326 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, 2006

### 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, 2006

**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, 2006 TexPool, Lone Star investment Pool, and TexSTAR, had a weighted average maturity of 24 days, 28 days, and 16 days, respectively. Although TexPool, Lone Star Investment Pool, and TexSTAR portfolios had a weighted average maturity of 24 days, 28 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, 2006.

	<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	\$ 12,076,599
Lone Star Investment Pool	N/A	Varies daily	1.00	2,576,988
TexSTAR	N/A	Varies daily	<u>1.00</u>	<u>2,668,805</u>
Total local government investment pools			<u>0.98</u>	<u>17,322,392</u>
Certificate of deposit	06-22-07	5.00%	265.00	100,000
Certificate of deposit	02-04-07	3.25%	127.00	100,000
Certificate of deposit	08-29-07	4.80%	333.00	100,000
Certificate of deposit	05-07-07	5.15%	<u>220.00</u>	<u>99,000</u>
Total certificates of deposit			<u>236.29</u>	<u>399,000</u>
Total investments			<u>6.31</u>	<u>\$ 17,721,392</u>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2006

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

Credit Risk - As of September 30, 2006, the LGIP's (which represent approximately 97.75% of the portfolio are rated AAAM by Standard and Poor's, while the certificates of deposits (2.25% 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, 2006, and holds no direct investments in derivatives at September 30, 2006.

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, 2006, 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)	\$ 26,667	\$
Delinquent property taxes receivable (debt service fund)	15,277	
Recreation memberships and deposits	<u>                    </u>	<u>72,411</u>
Total deferred/unearned revenue from governmental funds	<u>\$ 41,944</u>	<u>\$ 72,411</u>

As of September 30, 2006, the components of unearned revenue reported in the proprietary funds were as follows:

	<u>Unearned</u>
Service deposits	<u>\$ 58,823</u>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2006

**NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

**Interfund Receivables and Payables**

Interfund balances at September 30, 2006 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	\$ 11,776	\$
Golf Course Operating Fund	<u>202,800</u>	<u>                    </u>
Total General Fund	<u>214,576</u>	<u>-0-</u>
Golf Course Debt Service Fund:		
Golf Course Operating Fund	11,776	
General Fund		<u>11,776</u>
Total Golf Course Debt Service Fund	<u>11,776</u>	<u>11,776</u>
Golf Course Operating Fund:		
General Fund		202,800
Golf Course Debt Service		<u>11,776</u>
Total Golf Course Operating Fund	<u>-0-</u>	<u>214,576</u>
Total	<u>\$ 226,352</u>	<u>\$ 226,352</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, 2006 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	\$	\$ 760,000	\$ 314,320	\$	\$ 1,074,320
Economic Development	350,000	1,738,094		100,000	2,188,094
Non-Major Governmental	21,400			36,314	57,714
Proprietary Funds:					
Enterprise	933,286				933,286
Golf Course Operating		<u>12,380</u>			<u>12,380</u>
	<u>\$ 1,304,686</u>	<u>\$ 2,510,474</u>	<u>\$ 314,320</u>	<u>\$ 136,314</u>	<u>\$ 4,265,794</u>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2006

**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, 2006, was as follows:

	<u>Balance</u> <u>10/01/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/06</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,103,874	\$ 21,060	\$	\$ 2,124,934
Construction in progress	<u>5,017,250</u>	<u>4,016,073</u>	<u>5,285,375</u>	<u>3,747,948</u>
Total capital assets, not being depreciated	<u>7,121,124</u>	<u>4,037,133</u>	<u>5,285,375</u>	<u>5,872,882</u>
Capital Assets, Being Depreciated:				
Buildings	22,523,329	3,784,347	105,429	26,202,247
Improvements	10,504,587	67,726		10,572,313
Equipment	7,251,810	1,871,737	379,263	8,744,284
Infrastructure	<u>64,804,515</u>	<u>1,023,766</u>		<u>65,828,281</u>
Total capital assets, being depreciated	<u>105,084,241</u>	<u>6,747,576</u>	<u>484,692</u>	<u>111,347,125</u>
Less Accumulated Depreciation For:				
Buildings	6,925,002	495,396	94,886	7,325,512
Improvements	4,579,316	444,343		5,023,659
Equipment	5,073,463	676,285	326,263	5,423,485
Infrastructure	<u>44,125,759</u>	<u>2,783,597</u>		<u>46,909,356</u>
Total accumulated depreciation	<u>60,703,540</u>	<u>4,399,621</u>	<u>421,149</u>	<u>64,682,012</u>
Total capital assets, being depreciated, net	<u>44,380,701</u>	<u>2,347,955</u>	<u>63,543</u>	<u>46,655,113</u>
Governmental activities capital assets, net	<u>\$ 51,501,825</u>	<u>\$ 6,385,088</u>	<u>\$ 5,348,918</u>	<u>\$ 52,537,995</u>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2006

**NOTE 5 - CAPITAL ASSETS** - Continued

	<u>Balance</u> <u>10/01/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/06</u>
Business-type Activities (Utility Fund):				
Capital Assets, Not Being Depreciated:				
Construction in progress	\$ <u>234,207</u>	\$ <u>682,417</u>	\$ <u>134,790</u>	\$ <u>781,834</u>
Total capital assets, not being depreciated	<u>234,207</u>	<u>682,417</u>	<u>134,790</u>	<u>781,834</u>
Capital Assets, Being Depreciated:				
Buildings	5,399,947			5,399,947
Improvements other than buildings	24,278,525	134,790		24,413,315
Equipment	4,312,650	320,196	63,120	4,569,726
Infrastructure	<u>18,653,538</u>			<u>18,653,538</u>
Total capital assets, being depreciated	<u>52,644,660</u>	<u>454,986</u>	<u>63,120</u>	<u>53,036,526</u>
Less Accumulated Depreciation:				
Buildings	3,113,155	132,533		3,245,688
Improvements other than buildings	11,670,658	594,958		12,265,616
Equipment	2,635,132	413,555	63,120	2,985,567
Infrastructure	<u>1,146,626</u>	<u>594,952</u>		<u>1,741,578</u>
Total accumulated depreciation	<u>18,565,571</u>	<u>1,735,998</u>	<u>63,120</u>	<u>20,238,449</u>
Total capital assets, being depreciated, net	<u>34,079,089</u>	<u>( 1,281,012)</u>	<u>-0-</u>	<u>32,798,077</u>
Business-type activities capital assets, net	\$ <u>34,313,296</u>	\$ <u>( 598,595)</u>	\$ <u>134,790</u>	\$ <u>33,579,911</u>
	<u>Balance</u> <u>10/01/05</u>	<u>Adjustments/</u> <u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/06</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>745,215</u>		<u>10,717</u>	<u>734,498</u>
Total capital assets, being depreciated	<u>4,961,484</u>	<u>-0-</u>	<u>10,717</u>	<u>4,950,767</u>

(continued)

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2006

**NOTE 5 - CAPITAL ASSETS** - Continued

	<u>Balance</u> <u>10/01/05</u>	<u>Adjustments/</u> <u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/06</u>
Less Accumulated Depreciation:				
Buildings	\$ 92,489	\$ 61,659	\$	\$ 154,148
Improvements other than buildings	223,762	149,720		373,482
Equipment	<u>128,213</u>	<u>74,143</u>	<u>2,143</u>	<u>200,213</u>
Total accumulated depreciation	<u>444,464</u>	<u>285,522</u>	<u>2,143</u>	<u>727,843</u>
Total capital assets, being depreciated, net	<u>4,517,020</u>	<u>( 285,522)</u>	<u>8,574</u>	<u>4,222,924</u>
Business-type activities capital assets, net	<u>\$ 8,338,605</u>	<u>\$ ( 285,522)</u>	<u>\$ 8,574</u>	<u>\$ 8,044,509</u>
	<u>Balance</u> <u>10/01/05</u>	<u>Adjustments/</u> <u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/06</u>
Business-type Activities (Combined):				
Capital Assets, Not Being Depreciated:				
Land	\$ 3,821,585	\$	\$	\$ 3,821,585
Construction in progress	<u>234,207</u>	<u>682,417</u>	<u>134,790</u>	<u>781,834</u>
Total capital assets, not being depreciated	<u>4,055,792</u>	<u>682,417</u>	<u>134,790</u>	<u>4,603,419</u>
Capital Assets, Being Depreciated:				
Buildings	6,622,493			6,622,493
Improvements other than buildings	27,272,248	134,790		27,407,038
Equipment	5,057,865	320,196	73,837	5,304,224
Infrastructure	<u>18,653,538</u>	<u>                    </u>	<u>                    </u>	<u>18,653,538</u>
Total capital assets, being depreciated	<u>57,606,144</u>	<u>454,986</u>	<u>73,837</u>	<u>57,987,293</u>
Less Accumulated Depreciation:				
Buildings	3,205,644	194,192		3,399,836
Improvements other than buildings	11,894,420	744,678		12,639,098
Equipment	2,763,345	487,698	65,263	3,185,780
Infrastructure	<u>1,146,626</u>	<u>594,952</u>	<u>                    </u>	<u>1,741,578</u>
Total accumulated depreciation	<u>19,010,035</u>	<u>2,021,520</u>	<u>65,263</u>	<u>20,966,292</u>
Total capital assets, being depreciated, net	<u>38,596,109</u>	<u>( 1,566,534)</u>	<u>8,574</u>	<u>37,021,001</u>
Business-type activities capital assets, net	<u>\$ 42,651,901</u>	<u>\$ ( 884,117)</u>	<u>\$ 143,364</u>	<u>\$ 41,624,420</u>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2006

NOTE 5 - CAPITAL ASSETS - Continued

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

Governmental Activities:

General government	\$ 194,192
Public safety	511,608
Public works, including depreciation of infrastructure	2,965,626
Culture and recreation	<u>728,195</u>

Total depreciation expense-governmental activities \$ 4,399,621

Business-type Activities:

Water and sewer	\$ 1,426,402
Sanitation	309,596
Golf course	<u>285,522</u>

Total depreciation expense-business-type activities \$ 2,021,520

Governmental Fund Construction Commitments

The City has entered into contracts for construction as of September 30, 2006, as follows:

	Project Authorization	Expended to Date	Commitment
N. Dixie Drive reconstruction	\$ 964,292	\$ 499,462	\$ 464,830
Begonia Outfall	352,816	181,227	171,589
Brazos Oaks reconstruction (engineering)	150,754	30,964	119,790
Oak Drive phase 3	233,126	202,866	30,260
Oak Drive phase 4	232,075	209,017	23,058
Oak Drive phase 5	<u>176,044</u>	<u>150,484</u>	<u>25,560</u>
Total	\$ <u>2,109,107</u>	\$ <u>1,274,020</u>	\$ <u>835,087</u>

Proprietary Fund Construction Commitments

	Project Authorization	Expended to Date	Commitment
Elevated Storage Tank	\$ <u>1,197,000</u>	\$ <u>406,975</u>	\$ <u>790,025</u>

# CITY OF LAKE JACKSON

Lake Jackson, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2006

### 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	\$ 23,333
Debt Service Fund	<u>14,643</u>
Total	<u>\$ 37,976</u>

#### 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, 2006 was \$ 29,596.

#### 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 \$ 102,678 for the year ended September 30, 2006.

### 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.

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2006

**NOTE 7 - LONG-TERM DEBT** - Continued

**General Obligation Bonds\Certificates of Obligation** - Continued

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.

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.

General obligation bonds and certificates of obligation payable for governmental activities at September 30, 2006, are summarized as follows:

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/06
		Issued	Maturity	Callable	
Certificates of Obligation Series 1996	5.00 - 7.00	1996	2013	2007	\$ 4,015,000
Certificates of Obligation Series 1997	4.00 - 6.00	1997	2013	2008	2,125,000
General Obligation Bond - Series 1997	4.50 - 6.50	1997	2019	2008	1,300,000
General Obligation Bond - Series 1999	4.00 - 6.00	1999	2019	2009	2,700,000
General Obligation Bond - Series 2001	4.10 - 6.00	2001	2021	2011	2,700,000
Limited Tax Bond - Series 2002	4.00 - 5.00	2002	2023	2013	5,395,000 (continued)

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2006

NOTE 7 - LONG-TERM DEBT - Continued

General Obligation Bonds\Certificates of Obligation - Continued

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/06
		Issued	Maturity	Callable	
Limited Tax Bond - Series 2002A	2.75 - 4.50	2002	2022	2013	\$ 2,880,000
Limited Tax Refunding Bond - Series 2003	2.50 - 3.50	2003	2013	N/A	1,650,000
Certificates of Obligation Series 2003	2.50 - 4.55	2003	2023	2012	1,020,000
Limited Tax Bond Series 2004	3.30 - 4.20	2004	2024	2013	<u>3,270,000</u>
<b>Total</b>					<b><u>\$ 27,055,000</u></b>

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

Bonds outstanding, October 1	\$ 29,340,000
Maturities	<u>( 2,285,000)</u>
Bonds outstanding, September 30	<b><u>\$ 27,055,000</u></b>

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, 2006, the amount of ad valorem taxes collected for interest and sinking was \$ 1,668,722. The debt service requirements for principal and interest was \$ 3,517,899. In addition, \$ 1,750,474 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, 2006:

Year Ending September 30,	Principal	Interest	Total Requirements
2007	\$ 2,345,000	\$ 1,124,430	\$ 3,469,430
2008	2,315,000	1,026,451	3,341,451
2009	2,045,000	937,166	2,982,166
2010	2,040,000	851,876	2,891,876
2011	1,940,000	766,478	2,706,478
2012-2016	8,680,000	2,651,377	11,331,377
2017-2021	5,970,000	1,013,296	6,983,296
2022-2025	<u>1,720,000</u>	<u>87,565</u>	<u>1,807,565</u>
<b>Total</b>	<b><u>\$ 27,055,000</u></b>	<b><u>\$ 8,458,639</u></b>	<b><u>\$ 35,513,639</u></b>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2006

NOTE 7 - LONG-TERM DEBT - Continued

Revenue Bonds Payable

Revenue bonds payable for business-type activities at September 30, 2006, are summarized as follows:

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/06
		Issued	Maturity	Callable	
Revenue Bonds Series 1993A	2.50 - 5.40	1993	2013	2003	\$ 500,000
Revenue Bonds - Series 1996	5.00 - 7.00	1996	2016	2007	1,000,000
Revenue Bonds - Series 2000	5.00 - 7.00	2000	2021	2011	<u>12,000,000</u>
Total					<u>\$ 13,500,000</u>

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

Bonds outstanding, October 1	\$ 14,470,000
Maturities	<u>( 970,000)</u>
Bonds outstanding, September 30	<u>\$ 13,500,000</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, 2006, the required balance in the sinking fund was \$ 639,665. 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, 2006, the required balance in the reserve fund was \$ 1,535,195. At September 30, 2006, the balance in the City's reserve/sinking accounts designated for interest and sinking totaled \$ 663,215; and the designated amount for the reserve totaled \$ 1,606,316. The total account balance of \$ 2,269,529 is sufficient to cover the combined reserve and sinking requirement of \$ 2,174,860.

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, 2006:

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2006

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>
2007	\$ 970,000	\$ 565,195	\$ 1,535,195
2008	970,000	525,355	1,495,355
2009	970,000	486,680	1,456,680
2010	970,000	447,720	1,417,720
2011	970,000	408,610	1,378,610
2012-2016	4,650,000	1,446,985	6,096,985
2017-2021	<u>4,000,000</u>	<u>522,400</u>	<u>4,522,400</u>
Total	<u>\$ 13,500,000</u>	<u>\$ 4,402,945</u>	<u>\$ 17,902,945</u>

Capital Leases

During the fiscal years ending September 30, 2006 and 2005, the City purchased various golf course machinery and equipment under capital leases, with effective interest rates ranging from 1.14% to 4.86%. Current requirements for principal and interest expenditures accounted for in the Golf Course Operating Fund were \$ 139,280 and \$ 15,520, 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	\$ 711,362
Less accumulated depreciation	<u>156,445</u>
Total	<u>\$ 554,917</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, 2006:

<u>Year Ended September 30,</u>	<u>Amount</u>
2007	\$ 147,332
2008	160,657
2009	<u>3,713</u>
	311,702
Less amount representing interest	<u>13,018</u>
Net present value of minimum lease payments	<u>\$ 298,684</u>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2006

**NOTE 7 - LONG-TERM DEBT** - Continued

**Changes in Outstanding Debt**

Transactions for the year ended September 30, 2006 are summarized as follows:

	<u>Balance</u> <u>10-01-05</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>09-30-06</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Type Activities:</b>					
General obligation bonds	\$ 7,205,000	\$	\$ 505,000	\$ 6,700,000	\$ 505,000
Certificates of obligation bonds	8,085,000		925,000	7,160,000	925,000
Limited tax bonds	14,050,000		855,000	13,195,000	915,000
<b>Components of Bonded Debt:</b>					
Premiums on bonds	20,827		2,716	18,111	2,717
Discounts on bonds	( 9,737)	574		( 9,163)	( 574)
Accrued interest payable	53,304	48,970	53,304	48,970	48,970
Compensated absences	<u>430,002</u>	<u>408,366</u>	<u>394,227</u>	<u>444,141</u>	<u>407,190</u>
Total governmental activities	<u>29,834,396</u>	<u>457,910</u>	<u>2,735,247</u>	<u>27,557,059</u>	<u>2,803,303</u>
<b>Business-Type Activities:</b>					
Revenue bonds	14,470,000		970,000	13,500,000	970,000
Capital leases	437,964		139,280	298,684	138,354
<b>Components of Bonded Debt:</b>					
Accrued interest payable	277,108	259,048	277,108	259,048	259,048
Compensated absences	<u>109,200</u>	<u>89,200</u>	<u>101,347</u>	<u>97,053</u>	<u>97,053</u>
Total business-type activities	15,294,272	348,248	1,487,735	14,154,785	1,464,455
<b>Less Portion Payable from Restricted Assets:</b>					
Revenue bonds payable	404,167			404,167	404,167
Accrued interest payable	<u>277,108</u>	<u>259,048</u>	<u>277,108</u>	<u>259,048</u>	<u>259,048</u>
Net business-type activities	<u>14,612,997</u>	<u>89,200</u>	<u>1,210,627</u>	<u>13,491,570</u>	<u>801,240</u>
Total government (net)	<u>\$ 44,447,393</u>	<u>\$ 547,110</u>	<u>\$ 3,945,874</u>	<u>\$ 41,048,629</u>	<u>\$ 3,604,543</u>

**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 881 administered by TMRS, an agent multiple-employer public employee retirement system.

# CITY OF LAKE JACKSON

Lake Jackson, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2006

### NOTE 8 - PENSION PLAN - Continued

#### Plan Description - Continued

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% (increasing 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, 2005 valuation is effective for rates beginning January 2007).

The last actuarial valuation was conducted on December 31, 2005. 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, 2006

**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)
2003	\$ 18,687,107	\$ 20,894,297	\$ 2,207,190	89.40%	\$ 7,390,148	29.90%
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%

\* 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>
2004	\$ 660,899	100.00%
2005	722,700	100.00%
2006	742,690	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, 2006

### 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, 10 were covered by Lake Jackson Emergency Services Department (ESD) and 41 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 79<sup>th</sup> 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, 2006

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.

Required Supplementary Information - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - 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:

- <sup>1</sup> The actuarial accrued liability is based upon the entry age actuarial cost method.
- <sup>2</sup> 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 <sup>1</sup>	65%
August 31, 2005	3,206,300 <sup>2</sup>	50%
August 31, 2006	2,753,035 <sup>3</sup>	100%

- <sup>1</sup> Based on the August 31, 2002 actuarial valuation.
- <sup>2</sup> Based on the original August 31, 2004 actuarial valuation.
- <sup>3</sup> 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, 2006

### 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, 2006

### 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.

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, 2006.

### 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, 2006 amounted to \$ 2,881,045.

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2006

**NOTE 14 - GRANTS, LOANS, ENTITLEMENTS AND SHARED REVENUES**

During the year ended September 30, 2006, the City applied for and received federal grants related to various activities. The operations of these grants are reported in the General Fund, Capital Projects Funds, and the Enterprise Fund. 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>2004 Infrastructure</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
Federal Grants:				
U.S. Department of Housing and Urban Development:				
Community Development Block Grant	\$	\$ 52,045	\$ 102,803	\$ 154,848
U.S. Department of Transportation:				
Congestion Mitigation/Air Quality Improvement Funds - Clean Vehicle (Hike and Bike Trail)			361,303	361,303
U.S. Department of Homeland Security:				
Public Assistance Grant - Hurricane Rita	62,341			62,341
Emergency Preparedness and Response Directorate	65,000			65,000
U.S. Department of Justice:				
COPS Universal Hiring Award	<u>35,000</u>			<u>35,000</u>
 Total	 <u>\$ 162,341</u>	 <u>\$ 52,045</u>	 <u>\$ 464,106</u>	 <u>\$ 678,492</u>
				 <u>Enterprise Fund</u>
Federal Grants:				
U.S. Department of Homeland Security:				
Public Assistance Grant - Hurricane Rita				<u>\$ 62,298</u>

As of September 30, 2006, 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, 2006

### 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, 2006, the City paid the Shelter \$ 96,000 under this agreement.

### NOTE 16 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended September 30, 2006, expenditures exceeded appropriations in the funds as follows:

Special Revenue Funds:	
Motel Occupancy Tax	\$ 34,824

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**

Golf Course Fund – This fund is used to account for the proceeds of various bond issues for construction of the Wilderness Golf Course.

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.

1999 Infrastructure Fund – This fund is used to account for the proceeds of a \$ 4,250,000 bond issue for constructing or reconstruction and improving street, drainage, sidewalks and water and sewer improvements.

2001 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.

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS**

September 30, 2006

	Special Revenue Funds		
	Park	Motel Occupancy Tax	Memorial Garden
Assets:			
Cash and cash equivalents	\$ 290,404	\$ 133,363	\$ 5,023
Receivables (Net of Allowance for Uncollectibles):			
Accounts			
Grants			
Due from other funds			
Prepaid expenditures			
Total assets	\$ 290,404	\$ 133,363	\$ 5,023
Liabilities:			
Accounts payable	\$ 32,740	\$	\$
Due to other funds			
Total liabilities	32,740	-0-	-0-
Fund Balances:			
Reserved:			
Prepaid expenditures			
Capital projects			
Unreserved, undesignated	257,664	133,363	5,023
Total fund balances	257,664	133,363	5,023
Total liabilities and fund balances	\$ 290,404	\$ 133,363	\$ 5,023



**CITY OF LAKE JACKSON**

Lake Jackson, Texas

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS - Continued

September 30, 2006

	Capital Projects		
	General Construction	1992 Bond Construction	Youth Sportsplex
Assets:			
Cash and cash equivalents	\$ 1,543,821	\$ 1,132	\$ 13,181
Receivables (Net of Allowance for Uncollectibles):			
Accounts	37,955		
Grants	878		
Due from other funds			
Prepaid expenditures	119,084		
 Total assets	<u>\$ 1,701,738</u>	<u>\$ 1,132</u>	<u>\$ 13,181</u>
 Liabilities:			
Accounts payable	\$ 67,580	\$	\$ 10,154
Due to other funds			
 Total liabilities	<u>67,580</u>	<u>-0-</u>	<u>10,154</u>
 Fund Balances:			
Reserved:			
Prepaid expenditures	119,084		
Capital projects		1,132	3,027
Unreserved, undesignated	1,515,074		
 Total fund balances	<u>1,634,158</u>	<u>1,132</u>	<u>3,027</u>
 Total liabilities and fund balances	<u>\$ 1,701,738</u>	<u>\$ 1,132</u>	<u>\$ 13,181</u>

<u>Funds</u>		Total Nonmajor Governmental Funds
<u>Golf Course</u>	<u>Fire/EMS</u>	
\$	\$ 50,789	\$ 2,037,713
		37,955
		878
		11,776
<u>                    </u>	<u>                    </u>	<u>119,084</u>
<u>\$ -0-</u>	<u>\$ 50,789</u>	<u>\$ 2,207,406</u>
\$	\$ 43,526	\$ 154,000
<u>                    </u>	<u>                    </u>	<u>11,776</u>
<u>-0-</u>	<u>43,526</u>	<u>165,776</u>
		119,084
	7,263	11,422
<u>                    </u>	<u>                    </u>	<u>1,911,124</u>
<u>-0-</u>	<u>7,263</u>	<u>2,041,630</u>
<u>\$ -0-</u>	<u>\$ 50,789</u>	<u>\$ 2,207,406</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, 2006

	Special Revenue Funds		
	Park	Motel Occupancy Tax	Memorial Garden
Revenues:			
Motel occupancy tax	\$	\$ 239,924	\$
Intergovernmental			
Investment income	9,094	5,210	193
Contributions			1,025
Miscellaneous			
	<u>9,094</u>	<u>245,134</u>	<u>1,218</u>
Total revenues			
Expenditures:			
Current:			
Cultural and Recreation:			
Contribution to Fine Arts Council		32,606	
Contribution to Museum of Natural Science		48,909	
Contribution to Chamber of Commerce		70,000	
Contribution to Historical Museum		55,909	
Other	59,125		
Capital outlay	19,872		
Debt Service:			
Principal			
Interest and fiscal charges			
	<u>78,997</u>	<u>207,424</u>	<u>-0-</u>
Total expenditures			
Excess of revenues over (under) expenditures	( 69,903)	37,710	1,218
Other Financing Sources (Uses):			
Transfers in	100,000		
Transfers out		( 21,400)	
	<u>100,000</u>	<u>( 21,400)</u>	<u>-0-</u>
Total other financing sources (uses)			
Net changes in fund balances	30,097	16,310	1,218
Fund balance – beginning	<u>227,567</u>	<u>117,053</u>	<u>3,805</u>
Fund balance – ending	<u>\$ 257,664</u>	<u>\$ 133,363</u>	<u>\$ 5,023</u>

Debt Service Funds

<u>Economic Development</u>	<u>Golf Course</u>
\$	\$
_____	_____
-0-	-0-
_____	_____
865,000	270,000
<u>323,694</u>	<u>291,780</u>
<u>1,188,694</u>	<u>561,780</u>
( <u>1,118,694</u> )	( <u>561,780</u> )
1,188,694	561,780
_____	_____
<u>1,188,694</u>	<u>561,780</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, 2006

	Capital Projects		
	General Construction	1992 Bond Construction	Youth Sportsplex
Revenues:			
Motel occupancy tax	\$	\$	\$
Intergovernmental	509,758		
Investment income	57,969		( 859)
Contributions			
Miscellaneous	<u>10,078</u>		
Total revenues	<u>577,805</u>	<u>-0-</u>	<u>( 859)</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	70,003		
Capital outlay	1,523,360		
Debt Service:			
Principal			
Interest and fiscal charges			
Total expenditures	<u>1,593,363</u>	<u>-0-</u>	<u>-0-</u>
Excess of revenues over (under) expenditures	<u>( 1,015,558)</u>	<u>-0-</u>	<u>( 859)</u>
Other Financing Sources (Uses):			
Transfers in	660,000		
Transfers out			
Total other financing sources (uses)	<u>660,000</u>	<u>-0-</u>	<u>-0-</u>
Net change in fund balances	( 355,558)	-0-	( 859)
Fund balance – beginning	<u>1,989,716</u>	<u>1,132</u>	<u>3,886</u>
Fund balance – ending	<u>\$ 1,634,158</u>	<u>\$ 1,132</u>	<u>\$ 3,027</u>

<u>Funds</u>		Total Nonmajor Governmental Funds
<u>Golf Course</u>	<u>Fire/EMS</u>	
\$	\$	\$ 239,924
		509,758
	12,662	84,269
		1,025
		<u>10,078</u>
<u>-0-</u>	<u>12,661</u>	<u>845,054</u>
		32,606
		48,909
		70,000
		55,909
		129,128
	210,602	1,753,834
		1,135,000
		<u>615,474</u>
<u>-0-</u>	<u>210,602</u>	<u>3,840,860</u>
<u>-0-</u>	<u>( 197,940)</u>	<u>( 2,995,806)</u>
		2,510,474
<u>( 36,314)</u>		<u>( 57,714)</u>
<u>( 36,314)</u>	<u>-0-</u>	<u>2,452,760</u>
<u>( 36,314)</u>	<u>( 197,940)</u>	<u>( 543,046)</u>
<u>36,314</u>	<u>205,203</u>	<u>2,584,676</u>
<u>\$ -0-</u>	<u>\$ 7,263</u>	<u>\$ 2,041,630</u>

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**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, 2006  
With Comparative Actual Total for 2005

	2006			Variance with Final Budget- Positive (Negative)	2005
	Budgeted Amounts		Actual		Actual GAAP Basis
	Original	Final			
Revenues:					
Investment income	\$ 3,500	\$ 3,500	\$ 9,094	\$ 5,594	\$ 5,291
Contribution				-0-	
<b>Total revenues</b>	<b>3,500</b>	<b>3,500</b>	<b>9,094</b>	<b>5,594</b>	<b>\$ 5,291</b>
Expenditures:					
Current:					
Culture and recreation			59,125	( 59,125)	92,455
Capital outlay	85,000	85,000	19,872	65,128	14,480
<b>Total expenditures</b>	<b>85,000</b>	<b>85,000</b>	<b>78,997</b>	<b>6,003</b>	<b>106,935</b>
Excess of revenues over (under) expenditures	( 81,500)	( 81,500)	( 69,903)	11,597	( 101,644)
Other Financing Sources (Uses):					
Transfers in			100,000	( 100,000)	75,000
<b>Total other financing sources (uses)</b>	<b>-0-</b>	<b>-0-</b>	<b>100,000</b>	<b>( 100,000)</b>	<b>75,000</b>
<b>Net changes in fund balance</b>	<b>( 81,500)</b>	<b>( 81,500)</b>	<b>30,097</b>	<b>( 88,403)</b>	<b>( 26,644)</b>
Fund balance – beginning	227,567	227,567	227,567	-0-	254,211
<b>Fund balance – ending</b>	<b>\$ 146,067</b>	<b>\$ 146,067</b>	<b>\$ 257,664</b>	<b>\$( 88,403)</b>	<b>\$ 227,567</b>

**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, 2006  
With Comparative Actual Totals for 2005

	2006			Variance with Final Budget- Positive (Negative)	2005
	Budgeted Amounts		Actual		Actual GAAP Basis
	Original	Final			
Revenues:					
Occupancy tax	\$ 150,000	\$ 150,000	\$ 239,924	\$ 89,924	\$ 208,377
Investment income	<u>2,000</u>	<u>2,000</u>	<u>5,210</u>	<u>3,210</u>	<u>2,864</u>
Total revenues	<u>152,000</u>	<u>152,000</u>	<u>245,134</u>	<u>93,134</u>	<u>211,241</u>
Expenditures:					
Current:					
Culture and recreation	<u>172,600</u>	<u>172,600</u>	<u>207,424</u>	<u>( 34,824)</u>	<u>188,918</u>
Total expenditures	<u>172,600</u>	<u>172,600</u>	<u>207,424</u>	<u>( 34,824)</u>	<u>188,918</u>
Excess of revenues over (under) expenditures	<u>( 20,600)</u>	<u>( 20,600)</u>	<u>37,710</u>	<u>58,310</u>	<u>22,323</u>
Other Financing Sources (Uses):					
Transfers out	<u>( 21,400)</u>	<u>( 21,400)</u>	<u>( 21,400)</u>	<u>-0-</u>	<u>( 20,000)</u>
Total other financing sources (uses)	<u>( 21,400)</u>	<u>( 21,400)</u>	<u>( 21,400)</u>	<u>-0-</u>	<u>( 20,000)</u>
Net changes in fund balance	<u>( 42,000)</u>	<u>( 42,000)</u>	<u>16,310</u>	<u>58,310</u>	<u>2,323</u>
Fund balance – beginning	<u>117,053</u>	<u>117,053</u>	<u>117,053</u>	<u>-0-</u>	<u>114,730</u>
Fund balance – ending	<u>\$ 75,053</u>	<u>\$ 75,053</u>	<u>\$ 133,363</u>	<u>\$ 58,310</u>	<u>\$ 117,053</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, 2006  
With Comparative Actual Totals for 2005

	2006			Variance with Final Budget- Positive (Negative)	2005
	Budgeted Amounts		Actual		Actual GAAP Basis
	Original	Final			
Revenues:					
Investment income	\$	\$	\$ 193	\$ 193	\$ 93
Contributions			1,025	1,025	600
Total revenues	-0-	-0-	1,218	1,218	693
Expenditures:					
Current:					
Culture and recreation				-0-	228
Total expenditures			-0-	-0-	228
Excess of revenues over (under) expenditures	-0-	-0-	1,218	1,218	465
Other financing sources (uses)				-0-	
Net changes in fund balance	-0-	-0-	1,218	1,218	465
Fund balance – beginning	3,805	3,805	3,805	-0-	3,340
Fund balance – ending	\$ 3,805	\$ 3,805	\$ 5,023	\$ 1,218	\$ 3,805

**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, 2006  
With Comparative Actual Total for 2005

	2006			Variance with Final Budget- Positive (Negative)	2005
	Budgeted Amounts		Actual		Actual GAAP Basis
	Original	Final			
Revenues	\$ _____	\$ _____	\$ _____	\$ -0-	\$ _____
Expenditures:					
Debt Service:					
Principal	865,000	865,000	865,000	-0-	840,000
Interest and fiscal charges	<u>324,339</u>	<u>324,339</u>	<u>323,694</u>	<u>645</u>	<u>369,708</u>
Total expenditures	<u>1,189,339</u>	<u>1,189,339</u>	<u>1,188,694</u>	<u>645</u>	<u>1,209,708</u>
Excess of revenues over (under) expenditures	<u>( 1,189,339)</u>	<u>( 1,189,339)</u>	<u>( 1,188,694)</u>	<u>645</u>	<u>( 1,209,708)</u>
Other Financing Sources (Uses):					
Transfers in	<u>1,189,339</u>	<u>1,189,339</u>	<u>1,188,694</u>	<u>( 645)</u>	<u>1,209,708</u>
Total other financing sources (uses)	<u>1,189,339</u>	<u>1,189,339</u>	<u>1,188,694</u>	<u>( 645)</u>	<u>1,209,708</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, 2006

With Comparative Actual Totals for 2005

	2006			Variance with Final Budget- Positive (Negative)	2005
	Budgeted Amounts		Actual		Actual GAAP Basis
	Original	Final			
Revenues	\$ _____	\$ _____	\$ _____	\$ -0-	\$ _____
Expenditures:					
Debt Service:					
Principal	260,000	260,000	270,000	( 10,000)	260,000
Interest and fiscal charges	<u>302,380</u>	<u>302,380</u>	<u>291,780</u>	<u>10,600</u>	<u>301,480</u>
Total expenditures	<u>562,380</u>	<u>562,380</u>	<u>561,780</u>	<u>600</u>	<u>561,480</u>
Excess of revenues over (under) expenditures	<u>( 562,380)</u>	<u>( 562,380)</u>	<u>( 561,780)</u>	<u>600</u>	<u>( 561,480)</u>
Other Financing Sources (Uses):					
Transfers in	<u>562,380</u>	<u>562,380</u>	<u>561,780</u>	<u>( 600)</u>	<u>561,480</u>
Total other financing sources (uses)	<u>562,380</u>	<u>562,380</u>	<u>561,780</u>	<u>( 600)</u>	<u>561,480</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.

***THIS PAGE LEFT BLANK INTENTIONALLY.***

# CITY OF LAKE JACKSON

Lake Jackson, Texas

## COMPARATIVE BALANCE SHEET - General Fund

September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 7,070,820	\$ 7,405,717
Receivable (Net of Allowance for Uncollectibles):		
Taxes	556,839	396,820
Accounts	299,307	272,072
Grants	8,750	
Due from other funds	214,576	215,180
Investments	399,000	399,000
Inventories	80,428	72,490
Prepaid expenditures	<u>                    </u>	<u>375,000</u>
Total assets	<u>\$ 8,629,720</u>	<u>\$ 9,136,279</u>

### Liabilities and Fund Balance

Liabilities:		
Accounts payable	\$ 453,816	\$ 818,576
Cash bonds and taxes	330,658	311,944
Accrued wages	160,769	145,588
Deferred revenue	<u>99,078</u>	<u>78,744</u>
Total liabilities	<u>1,044,321</u>	<u>1,354,852</u>
Fund Balance:		
Reserved For:		
Inventory	80,428	72,490
Prepaid expenditures		375,000
Encumbrances		91,075
Unreserved:		
Undesignated	<u>7,504,971</u>	<u>7,242,862</u>
Total fund balance	<u>7,585,399</u>	<u>7,781,427</u>
Total liabilities and fund balance	<u>\$ 8,629,720</u>	<u>\$ 9,136,279</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, 2006

With Comparative Actual Totals for 2005

	Budgeted Amounts	
	Original	Final
Revenues:		
Taxes:		
Property	\$ 3,186,684	\$ 3,186,684
Sales	3,936,428	3,936,428
Franchise	1,385,000	1,385,000
Other	45,000	45,000
Industrial district	2,789,300	2,789,300
Intergovernmental	120,000	120,000
Revenue producing facilities	831,850	831,850
Fines and fees	295,800	295,800
Licenses and permits	168,350	168,350
Investment income	124,000	124,000
Miscellaneous	74,350	74,350
	<u>12,956,762</u>	<u>12,956,762</u>
Total revenues		
Expenditures:		
Current:		
General government and administration	2,500,179	2,500,179
Public safety	4,668,835	4,668,835
Public works	2,613,115	2,613,115
Culture and recreation	3,528,804	3,528,804
Capital outlay	1,639,400	1,639,400
	<u>14,950,333</u>	<u>14,950,333</u>
Total expenditures		
Excess of revenues over (under) expenditures	<u>( 1,993,571 )</u>	<u>( 1,993,571 )</u>
Other Financing Sources (Uses):		
Transfers in	1,304,686	1,304,686
Transfers out		
Proceeds from disposition of capital assets		
	<u>1,304,686</u>	<u>1,304,686</u>
Total other financing sources (uses)		
Net change in fund balance	<u>( 688,885 )</u>	<u>( 688,885 )</u>
Fund balance - beginning	7,781,427	7,781,427
Prior period adjustment		
Fund balance - ending	<u>\$ 7,092,542</u>	<u>\$ 7,092,542</u>

2006			2005	
Actual GAAP Basis	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Variance with Final Budget- Positive (Negative)	Actual GAAP Basis
\$ 3,181,611	\$	\$ 3,181,611	\$( 5,073)	\$ 2,955,475
4,261,667		4,261,667	325,239	3,914,130
1,683,612		1,683,612	298,612	1,391,393
54,768		54,768	9,768	49,647
2,881,045		2,881,045	91,745	2,672,510
162,341		162,341	42,341	3,381
877,552		877,552	45,702	900,630
306,426		306,426	10,626	327,720
213,750		213,750	45,400	187,044
351,811		351,811	227,811	217,165
<u>114,824</u>		<u>114,824</u>	<u>40,474</u>	<u>71,698</u>
<u>14,089,407</u>	<u>-0-</u>	<u>14,089,407</u>	<u>1,132,645</u>	<u>12,690,793</u>
2,404,638	( 2,349)	2,402,289	97,890	2,181,307
4,585,013	( 9,240)	4,575,773	93,062	4,323,056
2,640,909	970	2,641,879	( 28,764)	2,267,855
3,563,540	( 4,562)	3,558,978	( 30,174)	3,378,936
<u>1,462,201</u>	<u>( 91,075)</u>	<u>1,371,126</u>	<u>268,274</u>	<u>363,826</u>
<u>14,656,301</u>	<u>( 106,256)</u>	<u>14,550,045</u>	<u>400,288</u>	<u>12,514,980</u>
<u>( 566,894)</u>	<u>106,256</u>	<u>( 460,638)</u>	<u>1,532,933</u>	<u>175,813</u>
1,304,686		1,304,686	-0-	1,234,862
( 1,074,320)		( 1,074,320)	( 1,074,320)	( 1,510,224)
<u>9,250</u>		<u>9,250</u>	<u>9,250</u>	<u>71,558</u>
<u>239,616</u>	<u>-0-</u>	<u>239,616</u>	<u>( 1,065,070)</u>	<u>( 203,804)</u>
( 327,278)	106,256	( 221,022)	467,863	( 27,991)
7,781,427	-0-	7,781,427	-0-	7,809,418
<u>131,250</u>		<u>131,250</u>	<u>( 131,250)</u>	
<u>\$ 7,585,399</u>	<u>\$ 106,256</u>	<u>\$ 7,691,655</u>	<u>\$ 336,613</u>	<u>\$ 7,781,427</u>

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 1,023,261	\$ 1,059,990
Receivable (Net of Allowance for Uncollectibles):		
Taxes	<u>174,501</u>	<u>142,814</u>
Total assets	<u>\$ 1,197,762</u>	<u>\$ 1,202,804</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Liabilities	\$ <u>-0-</u>	\$ <u>-0-</u>
Fund Balance:		
Unreserved:		
Undesignated	<u>1,197,762</u>	<u>1,202,804</u>
Total fund balance	<u>1,197,762</u>	<u>1,202,804</u>
Total liabilities and fund balance	<u>\$ 1,197,762</u>	<u>\$ 1,202,804</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, 2006  
With Comparative Actual Totals for 2005

	2006			Variance with Final Budget- Positive (Negative)	2005
	Budgeted Amounts		Actual GAAP Basis		Actual GAAP Basis
	Original	Final			
Revenues:					
Sales taxes	\$ 1,968,210	\$ 1,968,210	\$ 2,130,834	\$ 162,624	\$ 1,957,065
Investment income	<u>25,000</u>	<u>25,000</u>	<u>52,218</u>	<u>27,218</u>	<u>32,168</u>
Total revenues	<u>1,993,210</u>	<u>1,993,210</u>	<u>2,183,052</u>	<u>189,842</u>	<u>1,989,233</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>1,993,210</u>	<u>1,993,210</u>	<u>2,183,052</u>	<u>189,842</u>	<u>1,989,233</u>
Other Financing Sources (Uses):					
Transfers out	<u>( 2,189,339)</u>	<u>( 2,189,339)</u>	<u>( 2,188,094)</u>	<u>1,245</u>	<u>( 2,108,808)</u>
Total other financing sources (uses)	<u>( 2,189,339)</u>	<u>( 2,189,339)</u>	<u>( 2,188,094)</u>	<u>1,245</u>	<u>( 2,108,808)</u>
Net changes in fund balance	( 196,129)	( 196,129)	( 5,042)	191,087	( 119,575)
Fund balance – beginning	<u>1,202,804</u>	<u>1,202,804</u>	<u>1,202,804</u>	<u>-0-</u>	<u>1,322,379</u>
Fund balance – ending	<u>\$ 1,006,675</u>	<u>\$ 1,006,675</u>	<u>\$ 1,197,762</u>	<u>\$ 191,087</u>	<u>\$ 1,202,804</u>

***THIS PAGE LEFT BLANK INTENTIONALLY.***

***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.

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

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

September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 550,608	\$ 603,990
Receivable (Net of Allowance for Uncollectibles):		
Taxes	<u>15,332</u>	<u>15,243</u>
Total assets	<u>\$ 565,940</u>	<u>\$ 619,233</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Deferred revenue	\$ <u>15,277</u>	\$ <u>15,188</u>
Total liabilities	<u>15,277</u>	<u>15,188</u>
Fund Balance:		
Reserved For:		
Debt service	<u>550,663</u>	<u>604,045</u>
Total fund balance	<u>550,663</u>	<u>604,045</u>
Total liabilities and fund balance	<u>\$ 565,940</u>	<u>\$ 619,233</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, 2006  
(With Comparative Actual Totals for 2005)

	2006			Variance with Final Budget- Positive (Negative)	2005
	Budgeted Amounts		Actual GAAP Basis		Actual GAAP Basis
	Original	Final			
Revenues:					
Taxes	\$ 1,676,554	\$ 1,676,554	\$ 1,668,722	\$ ( 7,832)	\$ 1,660,187
Investment income	<u>18,000</u>	<u>18,000</u>	<u>45,321</u>	<u>27,321</u>	<u>27,815</u>
Total revenues	<u>1,694,554</u>	<u>1,694,554</u>	<u>1,714,043</u>	<u>19,489</u>	<u>1,688,002</u>
Expenditures:					
Debt Service:					
Principal	1,150,000	1,150,000	1,150,000	-0-	1,185,000
Interest and fiscal charges	<u>620,273</u>	<u>620,273</u>	<u>617,425</u>	<u>2,848</u>	<u>667,278</u>
Total expenditures	<u>1,770,273</u>	<u>1,770,273</u>	<u>1,767,425</u>	<u>2,848</u>	<u>1,852,278</u>
Excess of revenues over (under) expenditures	<u>( 75,719)</u>	<u>( 75,719)</u>	<u>( 53,382)</u>	<u>22,337</u>	<u>( 164,276)</u>
Other Financing Sources (Uses):					
Total other financing sources (uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net changes in fund balance	<u>( 75,719)</u>	<u>( 75,719)</u>	<u>( 53,382)</u>	<u>22,337</u>	<u>( 164,276)</u>
Fund balance – beginning	<u>604,045</u>	<u>604,045</u>	<u>604,045</u>	<u>-0-</u>	<u>768,321</u>
Fund balance – ending	<u>\$ 528,326</u>	<u>\$ 528,326</u>	<u>\$ 550,663</u>	<u>\$ 22,337</u>	<u>\$ 604,045</u>

**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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 4,998,427	\$ 5,091,436
Receivables (Net of Allowance for Uncollectibles):		
Accounts	<u>497,675</u>	<u>567,851</u>
	<u>5,496,102</u>	<u>5,659,287</u>
Restricted Assets:		
Cash and cash equivalents	<u>1,984,959</u>	<u>1,688,585</u>
Total restricted assets	<u>1,984,959</u>	<u>1,688,585</u>
Total current assets	<u>7,481,061</u>	<u>7,347,872</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents:		
Revenue bond covenant accounts	<u>1,606,316</u>	<u>2,316,895</u>
Total noncurrent restricted assets	<u>1,606,316</u>	<u>2,316,895</u>
Deferred charges	<u>335,756</u>	<u>361,411</u>
Capital Assets:		
Property, plant and equipment	53,036,526	52,644,660
Construction in process	781,834	234,207
Less accumulated depreciation	<u>(20,238,449)</u>	<u>(18,565,571)</u>
Total capital assets (net of accumulated depreciation)	<u>33,579,911</u>	<u>34,313,296</u>
Total noncurrent assets	<u>35,521,983</u>	<u>36,991,602</u>
Total assets	<u>43,003,044</u>	<u>44,339,474</u>

(Continued)

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**COMPARATIVE STATEMENTS OF NET ASSETS**  
Enterprise Fund - Continued

September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities:		
Accounts payable	\$ 569,519	\$ 345,888
Accrued wages	41,722	45,682
Accrued compensated absences	97,053	109,200
Revenue bonds payable	<u>565,833</u>	<u>565,833</u>
	<u>1,274,127</u>	<u>1,066,603</u>
Current Liabilities Payable from Restricted Assets:		
Accounts payable	280,936	609,205
Accrued interest	259,046	277,108
Customer deposits	443,188	398,105
Revenue bonds payable	<u>404,167</u>	<u>404,167</u>
Total current liabilities payable from restricted assets	<u>1,387,337</u>	<u>1,688,585</u>
Total current liabilities	2,661,464	2,755,188
Noncurrent Liabilities:		
Revenue bonds payable (net of unamortized discounts)	<u>12,530,000</u>	<u>13,500,000</u>
Total liabilities	<u>15,191,464</u>	<u>16,255,188</u>
Net Assets:		
Invested in capital assets, net of related debt	19,298,077	20,115,501
Restricted For:		
Revenue bond retirement	1,614,778	1,560,090
Construction	950,200	611,804
Unrestricted	<u>5,948,525</u>	<u>5,796,891</u>
Total net assets	<u>\$ 27,811,580</u>	<u>\$ 28,084,286</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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Water service	\$ 2,756,232	\$ 2,796,435
Sewer service	2,805,732	2,758,168
Garbage fees	2,668,684	2,611,266
Tapping and connection fees	252,556	232,658
Operating grant revenue	62,298	
Other	<u>37,556</u>	<u>37,585</u>
Total operating revenues	<u>8,583,058</u>	<u>8,436,112</u>
Operating Expenses:		
Utility administration	338,120	378,148
Water production and treatment	1,718,309	1,678,978
Water distribution	466,595	430,747
Sewer collection	649,271	524,822
Sewer treatment	977,887	895,908
Sanitation	2,125,857	2,063,709
Depreciation	<u>1,735,998</u>	<u>1,361,779</u>
Total operating expenses	<u>8,012,037</u>	<u>7,334,091</u>
Operating income	<u>571,021</u>	<u>1,102,021</u>
Non-Operating Revenues (Expenses):		
Interest revenue	390,433	238,852
Loss on sale/retirement of capital assets		( 2,641)
Interest expense and fiscal charges	<u>( 615,194)</u>	<u>( 654,343)</u>
Total non-operating revenues (expenses)	<u>( 224,761)</u>	<u>( 418,132)</u>
Income (loss) before contributions and operating transfers	346,260	683,889
Transfers in	314,320	935,224
Transfers out	<u>( 933,286)</u>	<u>( 864,862)</u>
Change in net assets	( 272,706)	754,251
Net assets at beginning of year	<u>28,084,286</u>	<u>27,330,035</u>
Net assets at end of year	<u>\$ 27,811,580</u>	<u>\$ 28,084,286</u>

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

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

For the Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Receipts from customers and users	\$ 8,698,317	\$ 8,448,981
Payments to suppliers	( 3,961,324)	( 3,497,482)
Payments to employees	( 2,435,461)	( 2,420,766)
Net cash provided by operating activities	<u>2,301,532</u>	<u>2,530,733</u>
Cash Flows from Non-Capital Financing Activities:		
Transfers in	314,320	935,224
Transfers out	( 933,286)	( 864,862)
Net cash provided (used) by non-capital financing activities	<u>( 618,966)</u>	<u>70,362</u>
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	( 1,002,613)	( 1,418,768)
Principal paid on capital debt	( 970,000)	( 970,000)
Interest and fiscal charges paid on capital debt	( 607,600)	( 646,534)
Net cash (used) by capital and related financing activities	<u>( 2,580,213)</u>	<u>( 3,035,302)</u>
Cash Flows from Investing Activities:		
Interest received	<u>390,433</u>	<u>238,852</u>
Net cash provided by investing activities	<u>390,433</u>	<u>238,852</u>
Net (decrease) in cash and cash equivalents	( 507,214)	( 195,355)
Cash and cash equivalents at the beginning of year	<u>9,096,916</u>	<u>9,292,271</u>
Cash and cash equivalents at the end of year	<u>\$ 8,589,702</u>	<u>\$ 9,096,916</u>

(Continued)

# CITY OF LAKE JACKSON

Lake Jackson, Texas

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

For the Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating income	\$ <u>571,021</u>	\$ <u>1,102,021</u>
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	1,735,998	1,361,779
(Increase) decrease in accounts receivable	70,176	( 9,846)
Increase (decrease) in accounts payable	( 104,639)	42,348
Increase (decrease) in accrued wages payable	( 3,960)	10,257
Increase (decrease) in accrued compensated absences	( 12,147)	1,459
Increase (decrease) in customer deposits	<u>45,083</u>	<u>22,715</u>
Total adjustments	<u>1,730,511</u>	<u>1,428,712</u>
Net cash provided by operating activities	<u>\$ 2,301,532</u>	<u>\$ 2,530,733</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, 2006

With Comparative Actual Totals for 2005

	Budgeted Amounts	
	Original	Final
Operating Revenues:		
Water service	\$ 2,908,290	\$ 2,908,290
Sewer service	2,936,278	2,936,278
Garbage fees	2,694,244	2,694,244
Tapping and connection fees	204,500	204,500
Operating grant revenue		
Other	<u>67,300</u>	<u>67,300</u>
Total revenues	<u>8,810,612</u>	<u>8,810,612</u>
Operating Expenses:		
Utility administration	420,090	420,090
Water production and treatment	1,776,750	1,776,750
Water distribution	499,370	499,370
Sewer connection	720,864	720,864
Sewer treatment	989,155	989,155
Sanitation	2,158,380	2,158,380
Depreciation		
Total operating expenses	<u>6,564,609</u>	<u>6,564,609</u>
Operating income	<u>2,246,003</u>	<u>2,246,003</u>
Non-operating Revenues (Expenses):		
Interest revenue	126,000	126,000
Gain (loss) on disposition of capital assets		
Interest expense and fiscal charge	<u>( 608,600)</u>	<u>( 608,600)</u>
Total non-operating revenues (expenses)	<u>( 482,600)</u>	<u>( 482,600)</u>
Income before contributions and transfers	1,763,403	1,763,403
Transfers in		
Transfers out	<u>( 933,286)</u>	<u>( 933,286)</u>
Change in net assets	830,117	830,117
Net assets at beginning of year	<u>28,084,286</u>	<u>28,084,286</u>
Net assets at end of year	<u>\$ 28,914,403</u>	<u>\$ 28,914,403</u>

2006			2005	
Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Variance with Final Budget-Positive (Negative)	Actual GAAP Basis
\$ 2,756,232	\$	\$ 2,756,232	\$( 152,058)	\$ 2,796,435
2,805,732		2,805,732	( 130,546)	2,758,168
2,668,684		2,668,684	( 25,560)	2,611,266
252,556		252,556	48,056	232,658
62,298		62,298	62,298	
37,556		37,556	( 29,744)	37,585
<u>8,583,058</u>	<u>-0-</u>	<u>8,583,058</u>	<u>( 227,554)</u>	<u>8,436,112</u>
338,120	1,505	339,625	80,465	378,148
1,718,309	( 6,135)	1,712,174	64,576	1,678,978
466,595	324	466,919	32,451	430,747
649,271	( 570)	648,701	72,163	524,822
977,887	11,075	988,962	193	895,908
2,125,857	9,909	2,135,766	22,614	2,063,709
1,735,998	( 1,735,998)	-0-	-0-	1,361,779
<u>8,012,037</u>	<u>( 1,719,890)</u>	<u>6,292,147</u>	<u>272,462</u>	<u>7,334,091</u>
<u>571,021</u>	<u>1,719,890</u>	<u>2,290,911</u>	<u>44,908</u>	<u>1,102,021</u>
390,433		390,433	264,433	238,852
( 615,194)	( 25,655)	( 640,849)	-0-	( 2,641)
( 224,761)	( 25,655)	( 250,416)	( 32,249)	( 654,343)
346,260	1,694,235	2,040,495	232,184	( 418,132)
314,320		2,040,495	277,092	683,889
( 933,286)		( 933,286)	314,320	935,224
( 272,706)	1,694,235	1,421,529	-0-	( 864,862)
<u>28,084,286</u>		<u>28,084,286</u>	<u>591,412</u>	<u>754,251</u>
<u>\$ 27,811,580</u>	<u>\$ 1,694,235</u>	<u>\$ 29,505,815</u>	<u>\$ -0-</u>	<u>\$ 27,330,035</u>
			<u>\$ 591,412</u>	<u>\$ 28,084,286</u>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**COMPARATIVE STATEMENT OF NET ASSETS**  
Golf Course Operating Fund

September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 99,489	\$ 55,391
Receivables (Net of Allowance for Uncollectibles):		
Accounts	29,339	19,441
Inventory	151,507	97,376
Prepaid expenses	<u>6,184</u>	<u></u>
	<u>286,519</u>	<u>172,208</u>
Restricted Assets:		
Cash and cash equivalents	<u>23,200</u>	<u>13,300</u>
Total restricted assets	<u>23,200</u>	<u>13,300</u>
Total current assets	<u>309,719</u>	<u>185,508</u>
Capital Assets:		
Property, plant and equipment	8,772,352	8,783,069
Less accumulated depreciation	<u>( 727,843 )</u>	<u>( 444,464 )</u>
Total capital assets (net of accumulated depreciation)	<u>8,044,509</u>	<u>8,338,605</u>
Total noncurrent assets	<u>8,044,509</u>	<u>8,338,605</u>
Total assets	<u>8,354,228</u>	<u>8,524,113</u>

(Continued)

# CITY OF LAKE JACKSON

Lake Jackson, Texas

## COMPARATIVE STATEMENTS OF NET ASSETS Golf Course Operating Fund - Continued

September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities:		
Accounts payable	\$ 56,956	\$ 20,951
Accrued wages	22,020	21,971
Deferred revenues	58,823	37,620
Capital leases payable - current	138,354	134,446
Due to other funds	<u>214,576</u>	<u>215,180</u>
Total current liabilities	490,729	430,168
Noncurrent Liabilities:		
Capital leases payable - net of current	<u>160,330</u>	<u>303,518</u>
Total liabilities	<u>651,059</u>	<u>733,686</u>
Net Assets:		
Invested in capital assets, net of related debt	7,745,825	7,900,641
Restricted For:		
Maintenance	23,200	13,300
Unrestricted	<u>( 65,856)</u>	<u>( 123,514)</u>
Total net assets	<u>\$ 7,703,169</u>	<u>\$ 7,790,427</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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Course and ground	\$ 699,186	\$ 647,592
Cart	305,491	267,238
Pro shop	259,274	174,952
Range	67,507	56,353
Food and beverage	221,756	155,605
Other	<u>17,065</u>	<u>3,554</u>
Total operating revenues	<u>1,570,279</u>	<u>1,305,294</u>
Operating Expenses:		
Cost of Sales:		
Pro shop	165,826	99,150
Food and beverage	67,852	67,852
Payroll and related benefits	695,989	643,241
Other expenses	467,836	413,903
Management fee	84,000	84,000
Depreciation	<u>285,522</u>	<u>285,258</u>
Total operating expenses	<u>1,767,025</u>	<u>1,593,404</u>
Operating income (loss)	<u>( 196,746)</u>	<u>( 288,110)</u>
Non-Operating Revenues (Expenses):		
Interest revenue	5,148	4,185
Loss on sale/retirement of capital assets	( 4,074)	
Interest expense and fiscal charges	<u>( 15,520)</u>	<u>( 19,791)</u>
Total non-operating revenues (expenses)	<u>( 14,446)</u>	<u>( 15,606)</u>
Income (loss) before contributions and operating transfers	( 211,192)	( 303,716)
Capital contributions		21,931
Transfers in	136,314	
Transfers out	<u>( 12,380)</u>	<u>( 12,380)</u>
Change in net assets	( 87,258)	( 294,165)
Net assets at beginning of year	<u>7,790,427</u>	<u>8,084,592</u>
Net assets at end of year	<u>\$ 7,703,169</u>	<u>\$ 7,790,427</u>

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

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

For the Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Receipts from customers and users	\$ 1,581,584	\$ 1,306,440
Payments to suppliers	( 809,824)	( 725,510)
Payments to employees	( 695,940)	( 621,270)
Payments to other funds	<u>( 604)</u>	<u>( 2,900)</u>
Net cash provided (used) by operating activities	<u>75,216</u>	<u>( 43,240)</u>
Cash Flows from Non-Capital Financing Activities:		
Transfers in	136,314	
Transfers out	<u>( 12,380)</u>	<u>( 12,380)</u>
Net cash (used) by non-capital financing activities	<u>123,934</u>	<u>( 12,380)</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds from sale of equipment	4,500	
Principal paid on capital debt	( 139,280)	( 108,777)
Interest and fiscal charges paid on capital debt	<u>( 15,520)</u>	<u>( 19,791)</u>
Net cash (used) by capital and related financing activities	<u>( 150,300)</u>	<u>( 128,568)</u>
Cash Flows from Investing Activities:		
Interest received	<u>5,148</u>	<u>4,185</u>
Net cash provided by investing activities	<u>5,148</u>	<u>4,185</u>
Net increase (decrease) in cash and cash equivalents	53,998	( 180,003)
Cash and cash equivalents at the beginning of year	<u>68,691</u>	<u>248,694</u>
Cash and cash equivalents at the end of year	<u>\$ 122,689</u>	<u>\$ 68,691</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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating income (loss)	\$( <u>196,746</u> )	\$( <u>288,110</u> )
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	285,522	285,258
(Increase) decrease in accounts receivable	( 9,898)	1,146
(Increase) decrease in inventory	( 54,131)	( 49,365)
(Increase) decrease in prepaids	( 6,184)	
Increase (decrease) in accounts payable	36,005	( 4,918)
Increase (decrease) in accrued wages	49	( 21,971)
Increase (decrease) in deferred revenues	21,203	37,620
Increase (decrease) in due to other funds	( <u>604</u> )	( <u>2,900</u> )
Total adjustments	<u>271,962</u>	<u>244,870</u>
Net cash provided (used) by operating activities	\$ <u><u>75,216</u></u>	\$( <u><u>43,240</u></u> )
Noncash Investing, Capital, and Financing Activities:		
Contributions of capital assets from government	\$ <u>          </u>	\$ <u>21,930</u>
Net effect of noncash transactions	\$ <u><u>-0-</u></u>	\$ <u><u>21,930</u></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, 2006  
With Comparative Actual Totals for 2005

	Budgeted Amounts	
	Original	Final
Operating Revenues:		
Course and ground	\$ 825,813	\$ 825,813
Cart	299,389	299,389
Pro shop	149,384	149,384
Range	50,802	50,802
Food and beverage	162,788	162,788
Other		
Total operating revenues	<u>1,488,176</u>	<u>1,488,176</u>
Operating Expenses:		
Cost of Sales:		
Pro shop	104,569	104,569
Food and beverage	53,358	53,358
Payroll and related benefits	675,682	675,682
Other expenses	545,531	545,531
Management fee	84,000	84,000
Depreciation		
Total operating expenses	<u>1,463,140</u>	<u>1,463,140</u>
Operating income (loss)	<u>25,036</u>	<u>25,036</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	25,036	25,036
Capital contributions		
Transfers in		
Transfers out	<u>( 22,380)</u>	<u>( 22,380)</u>
Change in net assets	2,656	2,656
Net assets at beginning of year	<u>7,790,427</u>	<u>7,790,427</u>
Net assets at end of year	<u>\$ 7,793,083</u>	<u>\$ 7,793,083</u>

2006			2005	
Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Variance with Final Budget- Positive (Negative)	Actual GAAP Basis
\$ 699,186	\$	\$ 699,186	\$( 126,627 )	\$ 647,592
305,491		305,491	6,102	267,238
259,274		259,274	109,890	174,952
67,507		67,507	16,705	56,353
221,756		221,756	58,968	155,605
17,065		17,065	17,065	3,554
<u>1,570,279</u>	<u>-0-</u>	<u>1,570,279</u>	<u>82,103</u>	<u>1,305,294</u>
165,826		165,826	( 61,257 )	99,150
67,852		67,852	( 14,494 )	67,852
695,989	( 49 )	695,940	( 20,258 )	643,241
467,836		467,836	77,695	413,903
84,000		84,000	-0-	84,000
285,522	( 285,522 )	-0-	-0-	285,258
<u>1,767,025</u>	<u>( 285,571 )</u>	<u>1,481,454</u>	<u>( 18,314 )</u>	<u>1,593,404</u>
( 196,746 )	285,571	88,825	63,789	( 288,110 )
5,148		5,148	5,148	4,185
( 4,074 )		( 4,074 )	( 4,074 )	
( 15,520 )		( 15,520 )	( 15,520 )	( 19,791 )
( 14,446 )	-0-	( 14,446 )	( 14,446 )	( 15,606 )
( 211,192 )	285,571	74,379	49,343	( 303,716 )
		-0-	-0-	21,931
136,314		136,314	136,314	
( 12,380 )		( 12,380 )	10,000	( 12,380 )
( 87,258 )	285,571	198,313	196,657	( 294,165 )
<u>7,790,427</u>		<u>7,790,427</u>	<u>-0-</u>	<u>8,084,592</u>
<u>\$ 7,703,169</u>	<u>\$ 285,571</u>	<u>\$ 7,988,740</u>	<u>\$ 196,657</u>	<u>\$ 7,790,427</u>

***THIS PAGE LEFT BLANK INTENTIONALLY.***

## ***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.

***THIS PAGE LEFT BLANK INTENTIONALLY.***

# CITY OF LAKE JACKSON

Lake Jackson, Texas

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

September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Governmental Funds Capital Assets:		
Land	\$ 2,124,934	\$ 2,103,874
Buildings	26,202,247	22,523,329
Improvements other than buildings	10,572,313	10,504,587
Machinery and equipment	8,744,284	7,251,810
Infrastructure	65,828,281	64,804,515
Construction in progress	<u>3,747,948</u>	<u>5,017,250</u>
Total governmental funds capital assets	<u>\$ 117,220,007</u>	<u>\$ 112,205,365</u>
Investments in Governmental Funds Capital Assets by Source:		
General fund	\$ 8,382,212	\$ 7,356,620
Special revenue fund	2,620,358	2,579,426
Capital projects fund	84,165,529	80,607,630
Contributed	<u>22,051,908</u>	<u>21,661,689</u>
Total governmental funds capital assets	<u>\$ 117,220,007</u>	<u>\$ 112,205,365</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, 2006

<u>Function</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements Other Than Buildings</u>
General government	\$ 822,663	\$ 2,071,442	\$ 1,055,727
Public safety		7,316,573	464,849
Public works		1,877,845	91,660
Culture and recreation	<u>1,302,271</u>	<u>14,936,387</u>	<u>8,960,077</u>
 Total governmental funds capital assets	 <u>\$ 2,124,934</u>	 <u>\$ 26,202,247</u>	 <u>\$ 10,572,313</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>
\$ 1,110,943	\$	\$ 194,890	\$ 5,255,665
4,219,606			12,001,028
1,964,490	65,828,281	2,974,786	72,737,062
<u>1,449,245</u>	<u></u>	<u>578,272</u>	<u>27,226,252</u>
<u>\$ 8,744,284</u>	<u>\$ 65,828,281</u>	<u>\$ 3,747,948</u>	<u>\$ 117,220,007</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, 2006

Function	Governmental Funds Capital Assets 10/01/05	Additions	Deductions	Governmental Funds Capital Assets 09/30/06
General government	\$ 5,088,929	\$ 166,736	\$	\$ 5,255,665
Public safety	11,020,201	1,279,547	298,720	12,001,028
Public works	70,075,732	2,814,160	152,830	72,737,062
Culture and recreation	<u>26,020,503</u>	<u>1,238,891</u>	<u>33,142</u>	<u>27,226,252</u>
 Total governmental funds capital assets	 <u>\$ 112,205,365</u>	 <u>\$ 5,499,334</u>	 <u>\$ 484,692</u>	 <u>\$ 117,220,007</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, 2006

	General	Clearing	Payroll	General Contingencies
<u>Assets</u>				
Cash and cash equivalents	\$ 7,300	\$ 7,063,520	\$	\$
Receivables (Net of Allowance for Uncollectibles):				
Taxes	26,612			
Customer accounts	299,307			
Sales tax	349,002			
Franchise tax	181,225			
Grants	8,750			
Due from clearing fund	4,266,336		91,413	843,477
Due from other funds		214,576		
Investments		399,000		
Inventories:				
Resale items	28,022			
Supplies	52,406			
Total assets	\$ 5,218,960	\$ 7,677,096	\$ 91,413	\$ 843,477
<u>Liabilities and Fund Balances</u>				
<u>Liabilities:</u>				
Accounts payable	\$ 298,250	\$	\$ 86,413	\$
Cash bonds and taxes	330,658			
Accrued wages	160,769			
Deferred revenue	99,078			
Due to other funds		7,677,096		
Total liabilities	888,755	7,677,096	86,413	-0-
<u>Fund Balances:</u>				
<u>Reserved:</u>				
Inventory	80,428			
<u>Unreserved:</u>				
<u>Designated:</u>				
Unemployment insurance				
Noncurrent liabilities				843,477
Equipment replacement				
Special events				
Undesignated	4,249,777		5,000	
Total fund balances	4,330,205	-0-	5,000	843,477
Total liabilities and fund balances	\$ 5,218,960	\$ 7,677,096	\$ 91,413	\$ 843,477

<u>Equipment Replacement</u>	<u>Unemployment Insurance</u>	<u>Special Events</u>	<u>Consolidation</u>	<u>Total</u>
\$	\$	\$	\$	\$ 7,070,820
				26,612
				299,307
				349,002
				181,225
				8,750
2,236,821	231,929	7,120	( 7,677,096)	-0-
				214,576
				399,000
				28,022
				<u>52,406</u>
<u>\$ 2,236,821</u>	<u>\$ 231,929</u>	<u>\$ 7,120</u>	<u>\$( 7,677,096)</u>	<u>\$ 8,629,720</u>
\$ 69,066	\$	\$ 87	\$	\$ 453,816
				330,658
				160,769
				99,078
			( 7,677,096)	-0-
<u>69,066</u>	<u>-0-</u>	<u>87</u>	<u>( 7,677,096)</u>	<u>1,044,321</u>
				80,428
	231,929			231,929
				843,477
2,167,755				2,167,755
		7,033		7,033
				<u>4,254,777</u>
<u>2,167,755</u>	<u>231,929</u>	<u>7,033</u>	<u>-0-</u>	<u>7,585,399</u>
<u>\$ 2,236,821</u>	<u>\$ 231,929</u>	<u>\$ 7,120</u>	<u>\$( 7,677,096)</u>	<u>\$ 8,629,720</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, 2006

	General	Clearing	Payroll	General Contingencies
Revenues:				
Taxes:				
Property	\$ 3,181,611	\$	\$	\$
Sales	4,261,667			
Franchise	1,683,612			
Other	54,768			
Industrial district	2,881,045			
Recreation	877,552			
Fines and fees	306,426			
Licenses and permits	213,750			
Interest	214,798			34,997
Miscellaneous	63,305			
Intergovernmental	97,341			
Total revenues	13,835,875	-0-	-0-	34,997
Expenditures:				
General Government and Administration:				
General administration	981,315			
Finance	665,213			
Elections	7,421			
Legal	98,944			
Municipal court	235,365			
Engineering	318,886			
Public Safety:				
Police	3,733,301			
Fire	385,490			
EMS department	228,944			
Humane	197,860			
Public works:				
Garage	575,567			
Street	682,102			
Drainage	874,578			
Building inspection	448,539			
Sanitation				
Culture and recreation:				
Parks	984,220			
Recreation	1,727,048			
Civic Center & Jasmine Hall	447,130			
Commissions and Boards	262,410			
Special Events	44,344			
Capital outlay	189,695			
Total expenditures	13,088,372	-0-	-0-	-0-

(Continued)

<u>Equipment Replacement</u>	<u>Unemployment Insurance</u>	<u>Special Events</u>	<u>Consolidation</u>	<u>Total</u>
\$	\$	\$	\$	\$ 3,181,611
				4,261,667
				1,683,612
				54,768
				2,881,045
				877,552
				306,426
				213,750
91,755	10,261			351,811
37,441		14,078		114,824
<u>65,000</u>				<u>162,341</u>
<u>194,196</u>	<u>10,621</u>	<u>14,078</u>	<u>-0-</u>	<u>14,089,407</u>
45,774	12,303			1,039,392
				665,213
				7,421
				98,944
				235,365
39,417				358,303
39,418				3,772,719
				385,490
				228,944
				197,860
				575,567
				682,102
				874,578
39,417				487,956
20,706				20,706
39,417				1,023,637
				1,727,048
				447,130
				262,410
		58,971		103,315
<u>1,272,506</u>				<u>1,462,201</u>
<u>1,496,655</u>	<u>12,303</u>	<u>58,971</u>	<u>-0-</u>	<u>14,656,301</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, 2006

	<u>General</u>	<u>Clearing</u>	<u>Payroll</u>	<u>General Contingencies</u>
Excess of revenues over (under) expenditures	\$ <u>747,503</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>34,997</u>
Other Financing Sources (Uses):				
Transfers in	1,157,578			240,000
Transfers out	( 1,707,007)			( 267,189)
Sale of capital assets	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total other financing sources (uses)	<u>( 549,429)</u>	<u>-0-</u>	<u>-0-</u>	<u>( 27,189)</u>
Net change in fund balances	198,074	-0-	-0-	7,808
Fund balances, October 1	4,132,131		5,000	835,669
Prior period adjustment	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Fund balances, September 30	<u>\$ 4,330,205</u>	<u>\$ -0-</u>	<u>\$ 5,000</u>	<u>\$ 843,477</u>

<u>Equipment Replacement</u>	<u>Unemployment Insurance</u>	<u>Special Events</u>	<u>Consolidation</u>	<u>Total</u>
\$( 1,302,459)	\$( 2,042)	\$( 44,893)	\$ -0-	\$( 566,894)
1,079,904		41,400	( 1,214,196)	1,304,686
( 314,320)			1,214,196	( 1,074,320)
<u>9,250</u>				<u>9,250</u>
<u>774,834</u>	<u>-0-</u>	<u>41,400</u>	<u>-0-</u>	<u>239,616</u>
( 527,625)	( 2,042)	( 3,493)	-0-	( 327,278)
2,564,130	233,971	10,526		7,781,427
<u>131,250</u>			<u>-0-</u>	<u>131,250</u>
<u>\$ 2,167,755</u>	<u>\$ 231,929</u>	<u>\$ 7,033</u>	<u>\$ -0-</u>	<u>\$ 7,585,399</u>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

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

September 30, 2006

	<u>Utility</u>	<u>Utility Contingency</u>	<u>Utility Revenue Bond Interest and Sinking</u>
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	\$ 2,403,913	\$ 347,541	\$
Receivables (Net of Allowance for Uncollectibles):			
Accounts	<u>497,675</u>	<u>                    </u>	<u>                    </u>
	<u>2,901,588</u>	<u>347,541</u>	<u>-0-</u>
Current Restricted Assets:			
Cash and cash equivalents	<u>443,188</u>	<u>                    </u>	<u>663,213</u>
Total restricted current assets	<u>443,188</u>	<u>-0-</u>	<u>663,213</u>
Total current assets	<u>3,344,776</u>	<u>347,541</u>	<u>663,213</u>
Noncurrent Assets:			
Restricted Cash and Cash Equivalents:			
Revenue bond covenant accounts	<u>                    </u>	<u>                    </u>	<u>291,516</u>
Total noncurrent restricted assets	<u>-0-</u>	<u>-0-</u>	<u>291,516</u>
Deferred charges	<u>                    </u>	<u>                    </u>	<u>8,462</u>
Capital Assets:			
Property, plant and equipment	53,036,526		
Construction in progress			
Less accumulated depreciation	<u>( 20,238,449)</u>	<u>                    </u>	<u>                    </u>
Total capital assets (net of accumulated depreciation)	<u>32,798,077</u>	<u>-0-</u>	<u>-0-</u>
Total noncurrent assets	<u>32,798,077</u>	<u>-0-</u>	<u>299,978</u>
Total assets	<u>36,142,853</u>	<u>347,541</u>	<u>963,191</u>

(Continued)

<u>Utility Construction</u>	<u>1996 Utility Bond</u>	<u>Wastewater Treatment Bond</u>	<u>Wastewater Treatment Bond Reserve</u>	<u>Total</u>
\$ 2,246,973	\$	\$	\$	\$ 4,998,427
				<u>497,675</u>
<u>2,246,973</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>5,496,102</u>
	<u>489,615</u>	<u>388,943</u>		<u>1,984,959</u>
<u>-0-</u>	<u>489,615</u>	<u>388,943</u>	<u>-0-</u>	<u>1,984,959</u>
<u>2,246,973</u>	<u>489,615</u>	<u>388,943</u>	<u>-0-</u>	<u>7,481,061</u>
			<u>1,314,800</u>	<u>1,606,316</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,314,800</u>	<u>1,606,316</u>
	<u>18,876</u>	<u>308,418</u>		<u>335,756</u>
				53,036,526
<u>756,550</u>	<u>25,284</u>			781,834
				( 20,238,449)
<u>756,550</u>	<u>25,284</u>	<u>-0-</u>	<u>-0-</u>	<u>33,579,911</u>
<u>756,550</u>	<u>44,160</u>	<u>308,418</u>	<u>1,314,800</u>	<u>35,521,983</u>
<u>3,003,523</u>	<u>533,775</u>	<u>697,361</u>	<u>1,314,800</u>	<u>43,003,044</u>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

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

September 30, 2006

	<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	\$ 295,525	\$	\$
Accrued wages	41,722		
Accrued compensated absences	97,053		
Revenue bonds payable	<u>565,833</u>		
	<u>1,000,133</u>	<u>-0-</u>	<u>-0-</u>
Current Liabilities Payable from Restricted Assets:			
Accounts payable			
Accrued interest			259,046
Customer deposits	443,188		
Revenue bonds payable			<u>404,167</u>
Total current liabilities payable from restricted assets	<u>443,188</u>	<u>-0-</u>	<u>663,213</u>
Total current liabilities	1,443,321	-0-	663,213
Noncurrent Liabilities:			
Revenue bonds payable (net of unamortized discounts)	<u>12,530,000</u>		
Total liabilities	<u>13,973,321</u>	<u>-0-</u>	<u>663,213</u>
Net Assets:			
Invested in capital assets, net of related debt	19,298,077		
Restricted For:			
Revenue bond retirement			299,978
Construction			
Unrestricted	<u>2,871,455</u>	<u>347,541</u>	
Total net assets	<u>\$ 22,169,532</u>	<u>\$ 347,541</u>	<u>\$ 299,978</u>

Utility Construction	1996 Utility Bond	Wastewater Treatment Bond	Wastewater Treatment Bond Reserve	Total
\$ 273,994	\$	\$	\$	\$ 569,519
				41,722
				97,053
				565,833
<u>273,994</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,274,127</u>
		280,936		280,936
				259,046
				443,188
				404,167
<u>-0-</u>	<u>-0-</u>	<u>280,936</u>	<u>-0-</u>	<u>1,387,337</u>
273,994	-0-	280,936	-0-	2,661,464
				12,530,000
<u>273,994</u>	<u>-0-</u>	<u>280,936</u>	<u>-0-</u>	<u>15,191,464</u>
				19,298,077
	533,775	416,425	1,314,800	1,614,778
<u>2,729,529</u>				950,200
				5,948,525
<u>\$ 2,729,529</u>	<u>\$ 533,775</u>	<u>\$ 416,425</u>	<u>\$ 1,314,800</u>	<u>\$ 27,811,580</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, 2006

	Utility	Utility Contingency	Utility Revenue Bond Interest and Sinking
<b>Operating Revenues:</b>			
Water service	\$ 2,756,232	\$	\$
Sewer service	2,805,732		
Garbage fees	2,668,684		
Tapping and connection fees	252,556		
Grant revenue	62,298		
Other	37,556		
Total operating revenues	8,583,058	-0-	-0-
<b>Operating Expenses:</b>			
Utility administration	338,120		
Water production and treatment	1,718,309		
Water distribution	466,595		
Sewer collection	613,147		
Sewer treatment	977,887		
Sanitation	2,125,857		
Depreciation	1,735,998		
Total operating expenses	7,975,913	-0-	-0-
Operating income (loss)	607,145	-0-	-0-
<b>Non-Operating Revenues (Expenses):</b>			
Interest revenue	122,527	14,746	93,496
Interest expense and fiscal charges			( 590,808)
Total non-operating revenues (expenses)	122,527	14,746	( 497,312)
Income (loss) before contributions and operating transfers	729,672	14,746	( 497,312)
<b>Capital Contributions:</b>			
<b>Transfers In (Out):</b>			
Transfers in	314,320		
Transfers out	( 933,286)		
Intrafund transfers	( 392,210)	-0-	552,000
Change in net assets	( 281,504)	14,746	54,688
Net assets at beginning of year	22,451,036	332,795	245,290
Net assets at end of year	\$ 22,169,532	\$ 347,541	\$ 299,978

<u>Utility Construction</u>	<u>1996 Utility Bond</u>	<u>Wastewater Treatment Bond</u>	<u>Wastewater Treatment Bond Reserve</u>	<u>Total</u>
\$	\$	\$	\$	\$ 2,756,232
				2,805,732
				2,668,684
				252,556
				62,298
				<u>37,556</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>8,583,058</u>
				338,120
				1,718,309
				466,595
36,124				649,271
				977,887
				2,125,857
				<u>1,735,998</u>
<u>36,124</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>8,012,037</u>
<u>( 36,124)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>571,021</u>
103,294	29,251	27,119		390,433
	<u>( 1,888)</u>	<u>( 22,498)</u>		<u>( 615,194)</u>
<u>103,294</u>	<u>27,363</u>	<u>4,621</u>	<u>-0-</u>	<u>( 224,761)</u>
67,170	27,363	4,621	-0-	346,260
				314,320
				<u>( 933,286)</u>
<u>40,210</u>		<u>( 200,000)</u>		<u>-0-</u>
107,380	27,363	( 195,379)	-0-	( 272,706)
<u>2,622,149</u>	<u>506,412</u>	<u>611,804</u>	<u>1,314,800</u>	<u>28,084,286</u>
<u>\$ 2,729,529</u>	<u>\$ 533,775</u>	<u>\$ 416,425</u>	<u>\$ 1,314,800</u>	<u>\$ 27,811,580</u>

# CITY OF LAKE JACKSON

Lake Jackson, Texas

## CONSOLIDATED SCHEDULE OF CASH FLOWS ENTERPRISE FUND - SUB-FUNDS

For the Year Ended September 30, 2006

	Utility	Utility Contingency	Utility Revenue Bond Interest and Sinking
Cash Flows from Operating Activities:			
Receipts from customers and users	\$ 8,698,317		
Payments to customers and suppliers	( 3,870,925)		
Payments to employees	( 2,435,461)		
Net cash provided (used) by operating activities	2,391,931	-0-	-0-
Cash Flows from Non-Capital Financing Activities:			
Transfers in	314,320		
Transfers out	( 933,286)		
Intrafund transfers	( 392,210)		552,000
Net cash provided (used) by non-capital financing activities	( 1,011,176)	-0-	552,000
Cash Flows from Capital and Related Financing Activities:			
Purchases of capital assets	( 454,986)		
Principal paid on capital debt	( 970,000)		
Interest and fiscal charges paid on capital debt			( 607,600)
Net cash provided (used) by capital and related financing activities	( 1,424,986)	-0-	( 607,600)
Cash Flows from Investing Activities:			
Interest on investments	122,527	14,746	93,496
Net cash provided by investing activities	122,527	14,746	93,496
Net increase (decrease) in cash and cash equivalents	78,296	14,746	37,896
Cash and cash equivalents at the beginning of year	2,768,804	332,795	916,834
Cash and cash equivalents at the end of year	\$ 2,847,100	\$ 347,541	\$ 954,730
Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:			
Operating income (loss)	\$ 607,145	\$	\$
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	1,735,998		
(Increase) decrease in accounts receivable	70,176		
Increase (decrease) in accounts payable	( 50,364)		
Increase (decrease) in accrued wages payable	( 3,960)		
Increase (decrease) in accrued compensated absences	( 12,147)		
Increase (decrease) in customer deposits	45,083		
Total adjustments	1,784,786	-0-	-0-
Net cash provided (used) by operating activities	\$ 2,391,931	\$ -0-	\$ -0-

Utility Construction	1996 Utility Bond	Wastewater Treatment Bond	Wastewater Treatment Bond Reserve	Total
\$ 237,870	\$	\$ ( 328,269)	\$	\$ 8,698,317
				( 3,961,324)
				( 2,435,461)
<u>237,870</u>	<u>-0-</u>	<u>( 328,269)</u>	<u>-0-</u>	<u>2,301,532</u>
				314,320
<u>40,210</u>		<u>( 200,000)</u>		<u>( 933,286)</u>
				<u>-0-</u>
<u>40,210</u>	<u>-0-</u>	<u>( 200,000)</u>	<u>-0-</u>	<u>( 618,966)</u>
( 522,343)	( 25,284)			( 1,002,613)
				( 970,000)
				( 607,600)
<u>( 522,343)</u>	<u>( 25,284)</u>	<u>-0-</u>	<u>-0-</u>	<u>( 2,580,213)</u>
<u>103,294</u>	<u>29,251</u>	<u>27,119</u>		<u>390,433</u>
<u>103,294</u>	<u>29,251</u>	<u>27,119</u>	<u>-0-</u>	<u>390,433</u>
( 140,969)	3,967	( 501,150)	-0-	( 507,214)
<u>2,387,942</u>	<u>485,648</u>	<u>890,093</u>	<u>1,314,800</u>	<u>9,096,916</u>
<u>\$ 2,246,973</u>	<u>\$ 489,615</u>	<u>\$ 388,943</u>	<u>\$ 1,314,800</u>	<u>\$ 8,589,702</u>
<u>\$( 36,124)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 571,021</u>
				1,735,998
				70,176
<u>273,994</u>		<u>( 328,269)</u>		<u>( 104,639)</u>
				<u>( 3,960)</u>
				<u>( 12,147)</u>
				<u>45,083</u>
<u>273,994</u>	<u>-0-</u>	<u>( 328,269)</u>	<u>-0-</u>	<u>1,730,511</u>
<u>\$ 237,870</u>	<u>\$ -0-</u>	<u>\$( 328,269)</u>	<u>\$ -0-</u>	<u>\$ 2,301,532</u>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**GENERAL OBLIGATION BONDS  
DEBT SERVICE SCHEDULE**

September 30, 2006

Year Ending 09/30	Series 1996		Series 1997	
	Principal	Interest	Principal	Interest
2007	\$ 365,000	\$ 201,024	\$ 500,000	\$ 76,750
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				
TOTAL	<u>\$ 4,015,000</u>	<u>\$ 1,132,870</u>	<u>\$ 2,125,000</u>	<u>\$ 244,250</u>

(Continued)

<u>Series 1997</u>		<u>Series 1999</u>		<u>Series 2001</u>	
<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
\$ 100,000	\$ 58,875	\$ 225,000	\$ 104,344	\$ 180,000	\$ 122,850
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>\$ 1,300,000</u>	<u>\$ 390,700</u>	<u>\$ 2,700,000</u>	<u>\$ 648,844</u>	<u>\$ 2,700,000</u>	<u>\$ 975,285</u>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

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

September 30, 2006

Year Ending 09/30	Series 2002		Series 2002	
	Principal	Interest	Principal	Interest
2007	\$ 220,000	\$ 243,400	\$ 180,000	\$ 118,350
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				
TOTAL	<u>\$ 5,395,000</u>	<u>\$ 2,472,025</u>	<u>\$ 2,880,000</u>	<u>\$ 978,975</u>

(Continued)

<u>Series 2003</u>		<u>Series 2003</u>		<u>Series 2004</u>	
<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
\$ 305,000	\$ 47,337	\$ 60,000	\$ 37,605	\$ 210,000	\$ 113,895
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
<u>\$ 1,650,000</u>	<u>\$ 160,525</u>	<u>\$ 1,020,000</u>	<u>\$ 355,095</u>	<u>\$ 3,270,000</u>	<u>\$ 1,100,070</u>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

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

September 30, 2006

Year Ending 09/30	Totals		
	Principal	Interest	Total
2007	\$ 2,345,000	\$ 1,124,430	\$ 3,469,430
2008	2,315,000	1,026,451	3,341,451
2009	2,045,000	937,166	2,982,166
2010	2,040,000	851,876	2,891,876
2011	1,940,000	766,478	2,706,478
2012	1,945,000	683,305	2,628,305
2013	1,950,000	601,053	2,551,053
2014	1,580,000	525,320	2,105,320
2015	1,595,000	456,056	2,051,056
2016	1,610,000	385,643	1,995,643
2017	1,625,000	313,791	1,938,791
2018	1,275,000	249,655	1,524,655
2019	1,070,000	197,270	1,267,270
2020	990,000	149,595	1,139,595
2021	1,010,000	102,985	1,112,985
2022	850,000	59,875	909,875
2023	690,000	23,910	713,910
2024	<u>180,000</u>	<u>3,780</u>	<u>183,780</u>
TOTAL	<u>\$ 27,055,000</u>	<u>\$ 8,458,639</u>	<u>\$ 35,513,639</u>

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

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

September 30, 2006

<u>Year Ending</u> <u>09/30</u>	<u>Series 1993</u>		<u>Series 1996</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 70,000	\$ 26,545	\$ 100,000	\$ 52,650
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				
TOTAL	<u>\$ 500,000</u>	<u>\$ 108,395</u>	<u>\$ 1,000,000</u>	<u>\$ 278,550</u>

Series 2000	
Principal	Interest
\$ 800,000	\$ 486,000
800,000	456,800
800,000	427,200
800,000	397,200
800,000	366,800
800,000	336,000
800,000	304,400
800,000	272,400
800,000	240,000
800,000	206,800
800,000	173,200
800,000	139,200
800,000	104,800
800,000	70,000
<u>800,000</u>	<u>35,200</u>
<u>\$ 12,000,000</u>	<u>\$ 4,016,000</u>

Totals		
Principal	Interest	Total
\$ 970,000	\$ 565,195	\$ 1,535,195
970,000	525,355	1,495,355
970,000	486,680	1,456,680
970,000	447,720	1,417,720
970,000	408,610	1,378,610
970,000	369,065	1,339,065
980,000	328,720	1,308,720
900,000	287,400	1,187,400
900,000	250,000	1,150,000
900,000	211,800	1,111,800
800,000	173,200	973,200
800,000	139,200	939,200
800,000	104,800	904,800
800,000	70,000	870,000
<u>800,000</u>	<u>35,200</u>	<u>835,200</u>
<u>\$ 13,500,000</u>	<u>\$ 4,402,945</u>	<u>\$ 17,902,945</u>

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

**INSURANCE COVERAGE**

September 30, 2006

<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	10/01/07
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 5-8), Debt Capacity (tables 9-12), Demographic and Economic Information (tables 13-14), and Operating Information (tables 15-17).

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**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

# 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
<b>Expenses</b>					
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
<b>Program Revenues</b>					
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

# 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>
<b>General Revenues &amp; Other Changes in Net Assets</b>					
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>
<b>Change in Net Assets</b>					
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>

# CITY OF LAKE JACKSON

Lake Jackson, Texas

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
General Fund:					
Reserved for other*	\$ 201,596	\$ 33,601	\$ 46,655	\$ 39,269	\$ 59,973
Unreserved	<u>4,427,050</u>	<u>5,758,233</u>	<u>6,032,897</u>	<u>6,158,381</u>	<u>6,508,038</u>
Total general fund	<u>\$ 4,628,646</u>	<u>\$ 5,791,834</u>	<u>\$ 6,079,552</u>	<u>\$ 6,197,650</u>	<u>\$ 6,568,011</u>
All Other Governmental Funds Reserved For:					
Reserved For:					
Debt service	\$ 809,673	\$ 885,214	\$ 992,710	\$ 1,013,592	\$ 897,419
Capital projects	3,281,549	2,842,614	5,195,332	2,290,145	4,656,643
Unreserved, Reported In:					
Special Revenue	1,886,221	2,394,549	2,148,176	2,369,068	2,559,616
Capital projects	<u>1,693,306</u>	<u>2,132,241</u>	<u>2,567,484</u>	<u>2,176,415</u>	<u>2,018,357</u>
Total all other governmental funds	<u>\$ 7,670,749</u>	<u>\$ 8,254,618</u>	<u>\$ 10,903,702</u>	<u>\$ 7,849,220</u>	<u>\$ 10,132,035</u>

Note: \*Includes encumbrances and prepaid items

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 63,746	\$ 57,388	\$ 67,614	\$ 538,565	\$ 80,428
<u>6,524,769</u>	<u>7,387,749</u>	<u>7,741,804</u>	<u>7,242,862</u>	<u>7,504,971</u>
<u>\$ 6,588,515</u>	<u>\$ 7,445,137</u>	<u>\$ 7,809,418</u>	<u>\$ 7,781,427</u>	<u>\$ 7,585,399</u>
\$ 784,047	\$ 795,592	\$ 768,321	\$ 604,045	\$ 550,663
8,986,602	7,071,280	5,978,847	3,998,032	1,825,517
4,372,503	3,241,768	1,694,660	1,551,229	1,593,812
<u>                    </u>	<u>423,844</u>	<u>1,616,002</u>	<u>1,989,716</u>	<u>1,515,074</u>
<u>\$ 14,143,152</u>	<u>\$ 11,532,484</u>	<u>\$ 10,057,830</u>	<u>\$ 8,143,022</u>	<u>\$ 5,485,066</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)

	1997	1998	1999	2000	2001
Revenues:					
Taxes	\$ 9,880,517	\$ 10,792,309	\$ 11,611,323	\$ 12,093,169	\$ 13,073,884
Intergovernmental	29,357	75,228	8,938	236,279	58,817
Charges for services	197,419	398,543	724,435	759,611	997,106
Fines and fees	359,613	398,720	374,354	318,983	297,281
Licenses and permits	154,339	155,833	134,694	126,362	119,542
Special assessment	10,257	14,981	15,287	14,660	4,453
Investment earnings	886,949	1,191,846	909,254	939,023	799,174
Contributions					
Miscellaneous	185,858	124,663	199,382	148,186	157,680
Total revenues	<u>11,704,309</u>	<u>13,152,123</u>	<u>13,977,667</u>	<u>14,636,273</u>	<u>15,507,937</u>
Expenditures:					
General government administration	1,794,690	1,909,788	2,091,508	2,217,451	2,356,954
Public safety	2,653,505	2,861,707	2,944,864	3,306,638	3,645,476
Public works	1,644,254	1,711,679	1,769,303	1,992,649	2,114,596
Culture and recreation	1,145,572	1,533,623	2,038,021	2,416,598	2,764,346
Capital outlay	5,736,190	6,456,942	7,821,975	5,549,145	3,523,620
Debt Service:					
Principal	710,000	1,070,000	1,480,000	1,550,000	1,625,000
Interest and fiscal charges	847,074	1,143,159	1,160,080	1,157,593	1,118,653
Total expenditures	<u>14,531,285</u>	<u>16,686,898</u>	<u>19,305,751</u>	<u>18,190,074</u>	<u>17,148,645</u>
Excess of revenues over (under) expenditures	<u>( 2,826,976)</u>	<u>( 3,534,775)</u>	<u>( 5,328,084)</u>	<u>( 3,553,801)</u>	<u>( 1,640,708)</u>
Other Financing Sources (Uses):					
Bonds issued		8,050,000	4,250,000		3,600,000
Discount on bonds issued					
Premium on bonds issued					
Sale of capital asset					
Payment to bond refunding escrow agent					
Transfers in	2,214,646	3,390,044	4,318,597	3,436,290	3,348,985
Transfers out	( 1,529,246)	( 2,605,051)	( 3,888,875)	( 2,818,889)	( 2,654,578)
Total other financing sources (uses)	<u>685,400</u>	<u>8,834,993</u>	<u>4,679,722</u>	<u>617,401</u>	<u>4,294,407</u>
Net change in fund balances	<u>\$( 2,141,576)</u>	<u>\$ 5,300,218</u>	<u>\$( 648,362)</u>	<u>\$( 2,936,400)</u>	<u>\$ 2,653,699</u>
Debt Service as a percentage of noncapital Expenditures	17.7%	21.6%	23.0%	21.4%	20.1%

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 13,742,689	\$ 13,991,874	\$ 14,341,593	\$ 14,808,784	\$ 16,102,183
272,471	326,496	103,345	221,208	724,144
994,180	958,594	889,460	900,630	877,552
353,082	325,470	304,200	327,720	306,426
208,169	211,309	315,555	187,044	213,750
4,098	3,736	3,597		
387,668	290,464	218,164	467,505	687,327
	550,000	23,065	600	1,025
<u>85,193</u>	<u>61,506</u>	<u>90,884</u>	<u>71,698</u>	<u>124,902</u>
<u>16,047,550</u>	<u>16,719,449</u>	<u>16,289,863</u>	<u>16,985,189</u>	<u>19,037,309</u>
1,978,733	2,111,361	2,047,348	2,181,307	2,404,638
4,190,707	4,113,458	4,135,938	4,323,056	4,585,013
2,159,844	2,237,529	2,184,224	2,267,855	2,640,909
3,418,071	3,577,880	3,502,390	3,728,855	3,900,092
3,867,639	8,904,603	6,380,274	2,817,025	5,478,274
1,580,000	1,855,000	2,110,000	2,285,000	2,285,000
<u>1,213,076</u>	<u>1,470,118</u>	<u>1,374,354</u>	<u>1,338,466</u>	<u>1,232,899</u>
<u>18,408,070</u>	<u>24,269,949</u>	<u>21,734,528</u>	<u>18,941,564</u>	<u>22,526,825</u>
( 2,360,520)	( 7,550,500)	( 5,444,665)	( 1,956,375)	( 3,489,516)
6,000,000	7,415,000	3,600,000		
( 8,398)	( 3,079)			
	27,166			
19,630	25,863	137,058	71,558	9,250
	( 2,549,996)			
3,662,513	3,423,562	3,492,943	4,659,251	3,815,160
<u>( 3,286,250)</u>	<u>( 2,964,424)</u>	<u>( 2,895,709)</u>	<u>( 4,717,233)</u>	<u>( 3,320,128)</u>
<u>6,387,495</u>	<u>5,374,092</u>	<u>4,334,292</u>	<u>13,576</u>	<u>504,282</u>
<u>\$ 4,026,975</u>	<u>\$( 2,176,408)</u>	<u>\$( 1,110,373)</u>	<u>\$( 1,942,799)</u>	<u>\$( 2,985,234)</u>
19.2%	21.6%	22.7%	22.5%	20.6%

# 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			
1997	\$ 863,509,630	\$ 90,146,569	\$ 124,960,680	\$ 828,695,519	\$ 0.34000
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

**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
1997	\$ 0.2210	\$ 0.1190	\$ 0.3400	\$ 0.3575	\$ 1.3728	\$ 0.0885	\$ 0.0763	\$ 0.1270
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

**Source:** Brazoria County Appraisal District

**CITY OF LAKE JACKSON**  
Lake Jackson, Texas

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

2006			1997		
Taxpayer	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxpayer	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Wal-Mart	\$ 16,156,040	1.27%	Southwest Shopping Centers	\$ 25,351,020	3.06%
Brazos Outlets Center LLC	14,169,230	1.11%	Wal-Mart Stores Inc.	18,105,750	2.18%
Fazio Peter & Shari (Lowe's)	11,829,620	0.93%	Dow Chemical Company	9,444,520	1.14%
Home Depot	10,777,980	0.85%	Houston Lighting & Power	8,356,600	1.01%
Centerpoint Energy Inc.	10,275,010	0.81%	Southwestern Bell Telephone	7,010,200	0.85%
Dow Chemical Company	9,106,650	0.71%	Dayton Hudson Corp (Target)	6,998,330	0.84%
Dayton Hudson Corp (Target)	8,383,390	0.66%	RCA Financing Two LP	5,729,040	0.69%
Dillard's	7,588,130	0.60%	McWhorter, Earlon C (Lowe's Bldg)	5,547,160	0.67%
Don Davis Buick/Pontiac/GMC	5,371,170	0.42%	Don Davis Buick Pontiac	4,727,030	0.57%
Leo Martin Chevrolet Inc.	<u>5,057,150</u>	<u>0.40%</u>	Raintree Apartments	<u>3,882,280</u>	<u>0.47%</u>
Total	<u>\$ 98,714,370</u>	<u>7.76%</u>	Total	<u>\$ 95,151,930</u>	<u>11.48%</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
1997	\$ 2,817,565	\$ 2,782,796	98.8%	\$ 11,813	\$ 2,794,609	99.2%
1998	2,954,427	2,915,616	98.7%	35,851	2,951,467	99.9%
1999	3,113,794	3,081,546	99.0%	41,457	3,123,003	100.3%
2000	3,276,484	3,240,879	98.9%	37,727	3,278,606	100.1%
2001	3,473,983	3,465,580	99.8%	61,245	3,526,825	101.5%
2002	3,745,540	3,720,173	99.3%	50,196	3,770,369	100.7%
2003	4,195,258	4,164,483	99.3%	53,863	4,218,346	100.6%
2004	4,386,442	4,368,949	99.6%	49,966	4,418,915	100.7%
2005	4,572,468	4,562,655	99.8%	34,523	4,598,178	100.6%
2006	4,840,949	4,818,745	99.5%	-0-	4,818,745	99.5%

**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  
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			
1997	\$ 5,200,000	\$ 7,300,000	\$ 3,345,000	\$ -0-	\$ 15,845,000	3.70%	\$ 696
1998	6,595,000	12,885,000	3,050,000	-0-	22,530,000	5.26%	989
1999	10,205,000	12,045,000	2,760,000	-0-	25,010,000	5.84%	1,098
2000	9,495,000	11,205,000	18,520,000	-0-	39,220,000	5.74%	1,486
2001	12,310,000	10,365,000	18,350,000	-0-	41,025,000	6.01%	1,555
2002	17,570,000	9,525,000	17,380,000	-0-	44,475,000	6.51%	1,686
2003	20,250,000	9,885,000	16,410,000	-0-	46,545,000	6.82%	1,764
2004	22,640,000	8,985,000	15,440,000	546,742	47,611,742	6.97%	1,804
2005	21,255,000	8,085,000	14,470,000	437,964	44,247,964	6.48%	1,677
2006	19,895,000	7,160,000	13,500,000	298,684	40,853,684	5.98%	1,492

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

\*See Table 13 for personal income and population data.

## CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 10  
Ratio of Net General Bonded Debt Outstanding  
Last Ten Fiscal Years

Fiscal Year	Gross Bonded Debt <sup>0</sup>	Less: Amounts Available in Debt Service Fund	Less: Amounts Payable from Half-Cent Optional Tax <sup>1</sup>	Less: Amounts Payable from Enterprise Revenues <sup>2</sup>	Net Bonded Debt	Percentage of Actual Taxable Value of Property <sup>3</sup>	Per Capita <sup>4</sup>
1997	\$ 12,500,000	\$ 809,673	\$ 7,300,000	\$ 65,459	\$ 4,324,868	1.51%	\$ 549
1998	19,480,000	885,214	12,885,000	54,043	5,655,743	2.30%	855
1999	22,250,000	992,710	12,045,000	44,940	9,167,350	2.51%	977
2000	20,700,000	1,013,592	11,205,000	35,981	8,445,427	2.21%	785
2001	22,675,000	897,419	10,365,000	31,356	11,381,225	2.27%	859
2002	27,095,000	784,047	9,525,000	26,733	16,759,220	2.54%	1,027
2003	30,135,000	795,592	9,885,000	-0-	19,454,408	2.70%	1,142
2004	31,625,000	768,321	14,790,000	-0-	16,066,679	2.66%	1,199
2005	29,340,000	603,990	13,690,000	-0-	15,046,010	2.38%	1,112
2006	27,055,000	550,663	12,555,000	-0-	13,949,337	2.12%	988

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

<sup>0</sup> Does not include Revenue Bonds

<sup>1</sup> 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.

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

<sup>3</sup> See Table 5 for property value data.

<sup>4</sup> See Table 13 for population data.

**CITY OF LAKE JACKSON**

Lake Jackson, Texas

Table 11  
Direct and Overlapping Governmental Activities Debt  
As of September 30, 2006

<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.	159,597,441	16.01%	25,551,550
Brazosport Jr. College	10,730,000	16.01%	1,717,873
Brazos River Harbor Navigation District	11,785,000	15.22%	1,793,677
Brazoria County	37,880,000	8.79%	3,329,652
Angleton Drainage District	-0-	3.44%	-0-
Angleton-Danbury Hospital District	20,750,795	1.22%	253,160
Columbia-Brazoria I.S.D.	41,595,532	0.84%	349,402
Angleton I.S.D.	33,511,250	0.78%	<u>261,388</u>
Subtotal, overlapping debt			33,256,702
City of Lake Jackson (direct debt)	27,055,000	100.00%	<u>27,055,000</u>
Total direct and overlapping debt			\$ <u><u>60,311,702</u></u>

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

**CITY OF LAKE JACKSON**  
Lake Jackson, Texas

Table 12  
Pledged Revenue Coverage  
Last Ten Fiscal Years

Fiscal Year	Water and Sewer System Revenue Bonds						
	Utility Revenue and Other <sup>0</sup>	Less: Operating Expenses <sup>1</sup>	Net Available Revenue	Average Annual Requirement	Average Coverage	Maximum Annual Requirements	Maximum Coverage
1997	\$ 4,330,725	\$ 3,051,287	\$ 1,279,438	\$ 259,813	4.92	\$ 367,633	3.48
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

**Source:** Lake Jackson Finance Department

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

<sup>1</sup> Excludes interest and depreciation expense.

# CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 13  
Demographic and Economic Statistics  
Last Ten Calendar Years

Year	Estimated Population	Estimated Personal Income	Per Capita Personal Income	Median Age <sup>1</sup>	School Enrollment	Unemploy- ment Rate	Labor Force
1997	22,776	\$ 428,143,248	\$ 18,798	--	6,383	4.6%	13,681
1998	22,776	428,143,248	18,798	--	6,409	4.0%	13,793
1999	22,776	428,143,248	18,798	--	6,458	4.5%	13,652
2000	26,386	682,790,522	25,877	34.5	6,431	4.1%	13,806
2001	26,386	682,790,522	25,877	--	6,424	4.0%	13,974
2002	26,386	682,790,522	25,877	--	6,445	5.1%	14,526
2003	26,950	697,385,150	25,877	--	6,536	5.0%	14,951
2004	26,950	697,385,150	25,877	--	6,476	5.3%	14,960
2005	27,386	708,667,522	25,877	--	6,409	4.7%	14,180
2006	27,386	708,667,522	25,877	--	6,472	3.6%	14,467

**Source:** Estimated Population, per capital income, and median age provided by 1990 and 2000 U.S. Census. 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.

<sup>1</sup> Median age only available in Census Years.

**CITY OF LAKE JACKSON**  
Lake Jackson, Texas

Table 14  
Principal Employers  
Current Year and Nine Years Ago

2006			1997		
Employer	Employees	Percentage of Total City Employment	Employer	Estimated Employees	Percentage of Total City Employment
Wal-Mart	550	3.94%	Wal Mart Stores Inc.	550	4.06%
Brazosport Memorial Hospital	486	3.48%	Brazosport Memorial Hospital	486	3.59%
Brazosport I.S.D.	403	2.89%	Brazosport I.S.D.	405	2.99%
City of Lake Jackson	205	1.47%	City of Lake Jackson	192	1.42%
Dow Credit Union	203	1.46%	Dow Credit Union	190	1.40%
Lowe's	165	1.18%	Lowe's	120	0.89%
Target	130	0.93%	Target	130	0.96%
Home Depot	89	0.64%	Home Depot	89	0.66%
Ryan's Steakhouse	60	0.43%	Ryan's Steakhouse	60	0.44%
Randall's	48	0.34%	Albertson's	48	0.35%
Jerry's Food King	48	0.34%	Stanley Supermarket	48	0.35%
<b>Total</b>	<b><u>2,387</u></b>	<b><u>17.10%</u></b>	<b>Total</b>	<b><u>2,318</u></b>	<b><u>17.11%</u></b>

Source: Principal Employers

# CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 15  
Full-time Equivalent City Government Employees by  
Function/Program  
Last Ten Fiscal Years

<u>Function/Program</u>	<u>1997</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>
General Government and Administration	24	24	25	29	30	31	31	32	31	31
Public Safety:										
Police	49	52	53	53	57	57	57	57	57	58
Fire	2	2	2	2	2	2	2	2	1	1
Humane	2	2	2	3	3	3	3	3	3	3
Culture and Recreation	21	25	26	26	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	37	39	40	41	41	40	38	38	37
Sanitation	<u>25</u>	<u>27</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>
	<u>197</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>

**Source:** City Budget

# CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 16  
Operating Indicators by Function/Program  
Last Ten Fiscal Years

Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Public Safety:</b>										
<b>Police:</b>										
Total arrests	1,224	1,256	1,173	1,308	1,339	1,285	1,540	1,453	1,561	1,600
Traffic contacts	12,650	14,296	11,674	10,238	12,586	15,955	15,822	17,119	16,406	20,000
<b>Fire:</b>										
Fire calls	228	239	356	406	422	455	455	469	486	586
EMS calls	1,007	1,085	1,292	1,452	1,367	1,488	1,488	1,514	1,629	1,912
Inspections	272	288	284	371	228	330	n/a	226	253	225
<b>Public Works:</b>										
<b>Streets:</b>										
Potholes repaired	3,207	2,372	2,256	16,25	671	598	559	486	481	300
Gutter sweeping (cu yd)	1,504	1,760	1,732	2,000	1,759	1,137	1,293	1,176	1,676	1,450
<b>Culture and Recreation:</b>										
Recreation Center members <sup>0</sup>	1,616	3,958	5,164	5,454	5,769	5,415	5,091	5,586	4,937	5,408
Recreation Center Attendance <sup>0</sup>	33,063	97,859	161,525	185,598	201,959	246,631	251,638	241,350	168,967	175,000
<b>Water and Sewer:</b>										
<b>Number of sewer leaks</b>										
Repaired	58	136	97	111	62	107	16	45	133	50
Linear feet of sewer mains cleaned <sup>1</sup>	20,000	183,230	206,230	99,525	8,900	60,150	11,100	39,085	122,216	50,000
<b>Sanitation:</b>										
<b>Refuse Collected:<sup>2</sup></b>										
Residential garbage (cu yd)	16,433	20,110	20,510	23,036	18,550	23,851	23,237	25,000	27,060	27,200
Commercial garbage (cu yd)	31,782	27,464	38,090	25,518	34,450	34,934	35,934	37,000	26,698	40,800

**Source:** City Departments

<sup>0</sup> 65,500 square foot Recreation Center opened June 1, 1998.

<sup>1</sup> Sewer main cleaning program improved in 1997 with the addition of two new employees.

<sup>2</sup> Does not include non-compacted refuse collection.

N/A - Data not available

# CITY OF LAKE JACKSON

Lake Jackson, Texas

Table 17  
Capital Asset Statistics by Function/Program  
Last Ten Fiscal Years

Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Public Safety:</b>										
Police Stations	1	1	1	1	1	1	1	1	1	1
Fire Stations	2	2	2	2	2	2	2	2	2	2
<b>Culture and Recreation:</b>										
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	1	2	2	2	2	2	2	2
Recreation Center	1	1	1	1	1	1	1	1	1	1
Parks Acreage	1,082	1,082	1,082	1,111	1,111	1,111	1,111	1,111	1,111	1,111
Parks	22	22	22	23	23	23	23	23	23	23
Baseball/softball fields <sup>1</sup>	15	15	15	23	23	23	23	23	23	23
Soccer fields <sup>1</sup>	17	17	17	24	24	24	24	24	24	24
<b>Water:</b>										
Water mains (miles)	130	130	130	130	130	130	130	130	130	130
Fire Hydrants	825	842	867	875	916	917	917	917	917	917
<b>Wastewater<sup>2</sup></b>										
Maximum daily treatment capacity (thousands of gallons)	2,150	2,150	2,150	2,150	2,150	2,150	2,150	2,150	6,150	6,150

**Source:** Various City departments

<sup>1</sup> In 2000 the Youth Sportsplex was completed. The Sportsplex provides 6 softball fields, 7 soccer fields and 2 baseball fields.

<sup>2</sup> The expansion and upgrade of the Wastewater treatment plant was completed in 2005.

***FEDERAL AWARDS SECTION***

***THIS PAGE LEFT BLANK INTENTIONALLY.***

# KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS  
Limited Liability Company

Lake Jackson Office:  
8 West Way Court  
Lake Jackson, Texas 77566  
(979) 297-4075 Fax: (979) 297-6648  
(800) 399-4075

Houston Office:  
10850 Richmond Avenue, Suite 250  
Houston, Texas 77042  
(713) 974-3030 Fax: (713) 974-3513

## Independent Auditor's Report

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

December 13, 2006

To the Honorable Mayor and  
Members of Council  
City of Lake Jackson  
Lake Jackson, TX 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 as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 13, 2006.

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 of Lake Jackson's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated December 13, 2006.

[www.kmkwllc.com](http://www.kmkwllc.com) – Email: [kmkw@kmkwllc.com](mailto:kmkw@kmkwllc.com)

To the Honorable Mayor and  
Members of Council  
City of Lake Jackson  
December 13, 2006  
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lake Jackson'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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the City dated December 13, 2006.

This report is intended solely for the information and use of management and others within the organization, 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 & Hunford, LLC*

# KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS  
Limited Liability Company

Lake Jackson Office:  
8 West Way Court  
Lake Jackson, Texas 77566  
(979) 297-4075 Fax: (979) 297-6648  
(800) 399-4075

Houston Office:  
10850 Richmond Avenue, Suite 250  
Houston, Texas 77042  
(713) 974-3030 Fax: (713) 974-3513

## 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 13, 2006

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, 2006. The City's major federal programs are identified in the summary of auditor's results sections 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 of 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, 2006.

[www.kmkwllc.com](http://www.kmkwllc.com) – Email: [kmkw@kmkwllc.com](mailto: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 13, 2006  
Page 2

Internal Control Over Compliance

The management of City of Lake Jackson 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of management and others within the organization, 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 & Huntington, LLC*

**CITY OF LAKE JACKSON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2006**

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.  
14.239 Community Development Block Grant.
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, 2006*

*Page 1 of 1*

There were no prior findings.

**CITY OF LAKE JACKSON**  
*CORRECTIVE ACTION PLAN*  
*YEAR ENDED SEPTEMBER 30, 2006*

None required.

**CITY OF LAKE JACKSON**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2006**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Project/Grant Number</u>	<u>Expenditures Indirect Costs or Award Amount</u>
<u>U.S. Department of Transportation</u>			
Passed Through Texas Department of Transportation: Congestion Mitigation/Air Quality Improvement Fund – Clean Vehicle Program	20.205	TXDOT CSJ091231143	\$ <u>361,303</u>
TOTAL DEPARTMENT OF TRANSPORTATION			<u>361,303</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed Through Brazoria County: Community Development Block Grant	14.239	---	<u>154,848</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>154,848</u>
<u>U.S. Department of Homeland Security</u>			
Passed Through the Division of Emergency Management - Office of the Governor:			
Public Assistance Grant - Hurricane Rita	97.036	Various	124,639
Emergency Preparedness and Response Directorate	97.044	EMW-2005-FP-03306	<u>65,000</u>
TOTAL DEPARTMENT OF HOMELAND SECURITY			<u>189,639</u>
<u>U.S. Department of Justice</u>			
Direct:			
COPS Universal Hiring Award	16.710	2005UMWX0020	<u>35,000</u>
TOTAL DEPARTMENT OF JUSTICE			<u>35,000</u>
TOTAL FEDERAL ASSISTANCE			\$ <u><u>740,790</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, 2006*

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.

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.

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.

#### Proprietary Fund Types:

Enterprise Fund - used to account for activities similar to those found in the private business enterprises, where the intent of the governing body is that costs (expenses, including depreciation) of providing services be financed primarily through user charges, or where periodic determination of net income is appropriate. Federal financial assistance for the benefiting enterprise operations generally is accounted for in the Enterprise Fund. Generally, unused balances are returned to the grantor at the close of specified project periods. The Enterprise Fund is considered a non-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. Federal grant funds were accounted for in the General Fund, a component of the Governmental Fund types.

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (net total assets) is segregated into invested in capital assets, net of related debt, and restricted or unrestricted net assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. Federal grant and loan funds were accounted for in the Enterprise Fund, a component of the Proprietary Fund types.

**CITY OF LAKE JACKSON**

*NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS - Continued*  
*YEAR ENDED SEPTEMBER 30, 2006*

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.

The accrual basis of accounting is used for the Proprietary Fund Types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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.

### ***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”).

***THIS PAGE LEFT BLANK INTENTIONALLY.***

# 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	\$ 4,015,000
1997 General Obligation Bonds	1,300,000
1997 Combination Tax and Revenue Certificates of Obligation	2,125,000
1999 General Obligation Bonds	2,700,000
2001 General Obligation Bonds	2,700,000
2002A Limited Tax General Obligation Bonds	2,880,000
2002 Limited Tax General Obligation Bonds	5,395,000
2003 Limited Tax Refunding Bonds	1,650,000
2003 Combination Tax and Revenue Certificates of Obligations	1,020,000
2004 Limited Tax Bonds	<u>3,270,000</u>
Total Ad Valorem Tax Secured Debt Outstanding	\$ <u>27,055,000</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	\$ 500,000
1996 Waterworks and Sewer System Bonds	1,000,000
2000 Waterworks and Sewer System Bonds	<u>12,000,000</u>
Total Waterworks and Sewer System Debt Outstanding	\$ <u>13,500,000</u>

### General Obligation Bonds Authorized but not Issued

In May 2005, voters approved an additional \$ 7.7 million in infrastructure and facility bonds. The bonds will be sold as follows: \$ 5.3 million in April, 2007, and \$ 2.4 million in March, 2008.

### Waterworks and Sewer System Bonds Authorized but not Issued

The City is preparing to issue \$ 2.0 million in Revenue bonds to repair lift stations and sewer lines. The bonds are scheduled to be sold in April, 2007.

# CITY OF LAKE JACKSON

Lake Jackson, Texas

## Table CD-2

### Financial Information

(As of 2/02/07, adjusted to include \$ 5,300,000 General Obligation, Series 2007)

2006 Assessed Valuation (100% of Actual) <sup>1</sup>	\$ <u>1,354,217,330</u>
<b><u>General Obligation Bonds Outstanding</u><sup>2</sup></b>	
Presently outstanding	\$ 27,055,000
Series 20007, General Obligations	<u>5,300,000</u>
Gross debt	32,355,000
Less: Debt Service Fund Balance	<u>1,981,361</u>
Net Debt	\$ <u>30,373,639</u>
Ratio of Net Debt to 2006 Assessed Valuation	2.24%
2007 Estimated Population	27,000
2006 Assessed Valuation per Capita	\$ 50,156.20
Net Debt per Capita	\$ 1,124.95
Area of the City	18 square miles

<sup>1</sup> Net of exemptions in the amount of \$ 263,523,870.

<sup>2</sup> Excludes the Waterworks and Sewer System Revenue Bonds outstanding and \$ 2,000,000 proposed Bonds, Series 2007.

# 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.	\$ 33,511,250	08/31/06	0.78%	\$ 261,388
Angleton-Danbury Hospital District	20,750,795	09/30/06	1.22%	253,160
Angleton Drainage District	-0-	09/30/06	3.44%	-0-
Brazoria County	37,880,000	09/30/06	8.79%	3,329,652
Brazosport I.S.D.	159,597,441	08/31/06	16.01%	25,551,550
Brazos River Harbor Navigation District	11,785,000	09/30/06	15.22%	1,793,677
Brazosport Jr. College	10,730,000	08/31/06	16.01%	1,717,873
Columbia-Brazoria I.S.D.	41,595,532	08/31/06	0.84%	349,402
Velasco Drainage District	-0-	09/30/06	16.86%	-0-
 Total Overlapping Debt				 33,256,702
 City of Lake Jackson				 <u>30,373,639</u>
 Total Direct and Overlapping Debt				 \$ <u>63,630,341</u>
 Ratio of Total Direct and Overlapping Debt to 2006 Assessed Valuation				 4.70%
 Per Capital Total Direct and Overlapping Debt				 \$ <u>2,357</u>
 Assessed Valuation per Capita				 \$ <u>50,156</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	\$ 5,300,000 General Obligation Series 2007 <sup>1</sup>		Total Debt Service Requirements
		Principal	Interest	
2007	\$ 3,469,430	\$	\$ 132,500	\$ 3,601,930
2008	3,341,451	265,000	265,000	3,871,451
2009	2,982,166	265,000	251,750	3,498,916
2010	2,891,876	265,000	238,500	3,395,376
2011	2,706,478	265,000	225,250	3,196,728
2012	2,628,305	265,000	212,000	3,105,305
2013	2,551,053	265,000	198,750	3,014,803
2014	2,105,320	265,000	185,500	2,555,820
2015	2,051,056	265,000	172,250	2,488,306
2016	1,995,643	265,000	159,000	2,419,643
2017	1,938,791	265,000	145,750	2,349,541
2018	1,524,655	265,000	132,500	1,922,155
2019	1,267,270	265,000	119,250	1,651,520
2020	1,139,595	265,000	106,000	1,510,595
2021	1,112,985	265,000	92,750	1,470,735
2022	909,875	265,000	79,500	1,254,375
2023	713,910	265,000	66,250	1,045,160
2024	183,780	265,000	53,000	501,780
2025		265,000	39,750	304,750
2026		265,000	26,500	291,500
2027		265,000	13,250	278,250
	<u>\$ 35,513,639</u>	<u>\$ 5,300,000</u>	<u>\$ 2,915,000</u>	<u>\$ 43,728,639</u>

<sup>1</sup> 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

Fiscal Year Ending 09/30	Existing Debt Service	\$ 2,000,000 Revenue Bonds Series 2007 <sup>1</sup>		Total Debt Service Requirements
		Principal	Interest	
2007	\$ 1,535,195	\$	\$	\$ 1,535,195
2008	1,495,355	100,000	100,000	1,695,355
2009	1,456,680	100,000	95,000	1,651,680
2010	1,417,720	100,000	90,000	1,607,720
2011	1,378,610	100,000	85,000	1,563,610
2012	1,339,065	100,000	80,000	1,519,065
2013	1,308,720	100,000	75,000	1,483,720
2014	1,187,400	100,000	70,000	1,357,400
2015	1,150,000	100,000	65,000	1,315,000
2016	1,111,800	100,000	60,000	1,271,800
2017	973,200	100,000	55,000	1,128,200
2018	939,200	100,000	50,000	1,089,200
2019	904,800	100,000	45,000	1,049,800
2020	870,000	100,000	40,000	1,010,000
2021	835,200	100,000	35,000	970,200
2022		100,000	30,000	130,000
2023		100,000	25,000	125,000
2024		100,000	20,000	120,000
2025		100,000	15,000	115,000
2026		100,000	10,000	110,000
2027		100,000	5,000	105,000
	<u>\$ 17,902,945</u>	<u>\$ 2,000,000</u>	<u>\$ 1,050,000</u>	<u>\$ 20,952,945</u>

<sup>1</sup> Estimated 2007 Debt Issuance (5% interest rate)

# CITY OF LAKE JACKSON

Lake Jackson, Texas

## Table CD-6 Tax Adequacy

The following calculation does not include the estimated fund balance as of 9/30/07, 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 (2007-2024)</u>	<u>Maximum Requirement 2007</u>
General Obligation Debt Service Requirements	\$ 1,617,234	\$ 1,898,151
Debt Service Fund tax rate required on 2006 Assessed Taxable Valuation of \$ 1,354,217,330 @ 98% collection	\$ 0.122	\$ 0.143

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

	<u>Average Requirements (2007-2024)</u>	<u>Maximum Requirement 2007</u>
General Obligation Debt Service Requirements	\$ 1,838,768	\$ 3,601,930
Debt Service Fund tax rate required on 2006 Assessed Taxable Valuation of \$ 1,354,217,330 @ 98% collection	\$ 0.139	\$ 0.271

# 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	
1995	\$ 789,761,000	0.3450	98.7%	99.8%	09/30/96
1996	829,035,849	0.3400	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	76.6%	77.0%	thru 2/02/07

## 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	2006	2005	2004	2003	2002
General Fund	\$ 0.2390	\$ 0.2493	\$ 0.2359	\$ 0.2351	\$ 0.2292
Debt Service Fund	<u>0.1310</u>	<u>0.1307</u>	<u>0.1341</u>	<u>0.1352</u>	<u>0.1458</u>
Total Tax Rate	<u>\$ 0.3700</u>	<u>\$ 0.3800</u>	<u>\$ 0.3700</u>	<u>\$ 0.3703</u>	<u>\$ 0.3750</u>

**CITY OF LAKE JACKSON**  
Lake Jackson, Texas

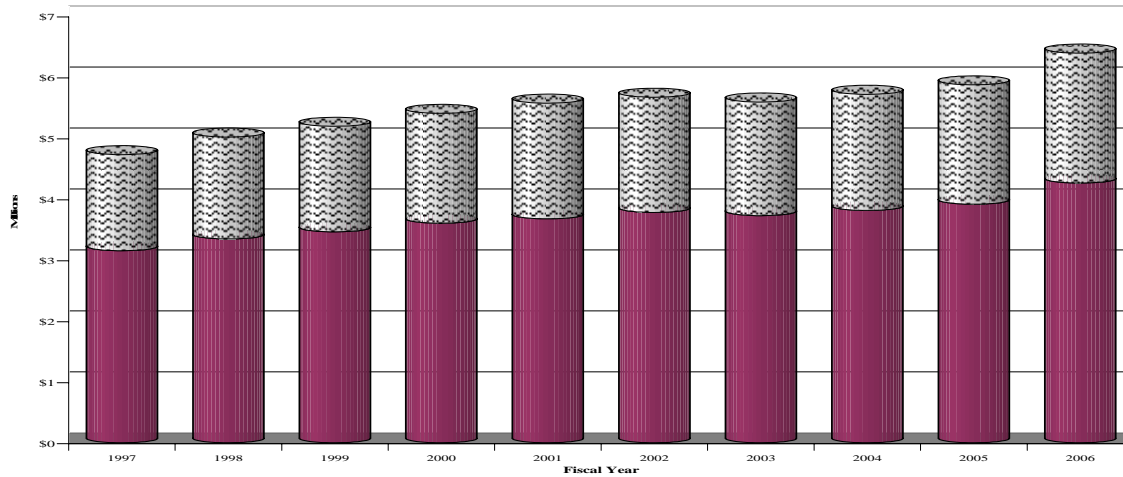
Table CD-8  
Sales Tax Collection History

**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**

Fiscal Year	One Cent Sales Tax	Optional Half Cent Sales Tax <sup>1</sup>
1997	\$ 3,150,492	\$ 1,575,246
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	2,914,130	1,957,065
2006	4,261,667	2,130,834



<sup>1</sup> 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 2004-05</u>	<u>BUDGET 2005-06</u>	<u>ACTUAL 2005-06</u>	<u>ADOPTED 2006-07</u>
Fund Balance	\$ <u>1,322,380</u>	\$ <u>1,202,804</u>	\$ <u>1,202,804</u>	\$ <u>1,197,762</u>
Revenues:				
Half Cent Sales Tax	1,957,065	1,968,210	2,130,834	2,137,500
Interest income	<u>32,167</u>	<u>25,000</u>	<u>52,218</u>	<u>28,500</u>
	<u>1,989,232</u>	<u>1,993,210</u>	<u>2,183,052</u>	<u>2,166,000</u>
 Total Resources	 \$ <u>3,311,612</u>	 \$ <u>3,196,014</u>	 \$ <u>3,385,856</u>	 \$ <u>3,363,762</u>
<u>Expenditures</u>	<u>ACTUAL 2004-05</u>	<u>BUDGET 2005-06</u>	<u>ACTUAL 2005-06</u>	<u>ADOPTED 2006-07</u>
Transfer to Economic Development Debt Service	\$ 1,209,708	\$ 1,189,339	\$ 1,039,050	\$ 1,145,274
Transfer to Golf Course Debt Service	549,100	550,000	699,044	550,000
Golf Course Operating Contingency		100,000	100,000	100,000
Transfer to General Fund	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>
 Total Expenditures	 \$ <u>2,108,808</u>	 \$ <u>2,189,339</u>	 \$ <u>2,188,094</u>	 \$ <u>2,145,274</u>
 Ending Fund Balance	 \$ <u>1,202,804</u>	 \$ <u>1,006,675</u>	 \$ <u>1,197,762</u>	 \$ <u>1,218,488</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 9/30/06	\$	550,663
Debt Service Tax Levy of \$ .1310 per \$ 100 of Assessed Valuation on 2006 Assessed Valuation of \$ 1,354,217,330 at 98% collection		1,738,544
Interest Earnings on Debt Service Fund		<u>15,850</u>
Total Available for 2007 Debt Service		2,305,057
Less: 2007 Debt Service Requirements		<u>1,904,152</u>
Projected Debt Service Fund Balance at 9/30/07	\$	<u><u>400,905</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 9/30/06	\$ -0-	\$ -0-
Transfer from Golf Course Operations	12,380	
Transfer from Economic Development Fund (Sales Tax Revenue)	<u>550,000</u>	<u>1,145,274</u>
Total Available for 2007 Debt Service	562,380	1,145,274
Less: 2007 Debt Service Requirements	<u>562,380</u>	<u>1,145,274</u>
Projected Debt Service Fund Balance at 9/30/07	\$ <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 9/30/06	\$ 954,730
Transfer from Utility Operating Fund (as budgeted)	1,370,000
Transfer from Wastewater Treatment Construction Fund (as budgeted)	-0-
2007 Projected Interest Earnings	<u>66,000</u>
Total Available for 2007 Debt Service	2,390,730
Less: 2007 Debt Service Requirements (including agent fees)	<u>1,539,195</u>
Projected Debt Service Fund Balance at 9/30/07	<u>\$ 851,535</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 9/30/06	\$ 1,314,800
Transfers as budgeted:	
from Wastewater Treatment Construction Fund	-0-
from Utility Contingency	-0-
Less: 2007 Transfer to Debt Service	<u>58,000</u>
Projected Reserve Fund Balance at 9/30/07	<u>\$ 1,256,800</u>

# CITY OF LAKE JACKSON

Lake Jackson, Texas

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

	Fiscal Year	
	2006	2005
Revenues:		
Taxes	\$ 16,102,183	\$ 14,808,784
Intergovernmental	724,144	221,208
Charges for services	877,552	900,630
Fines and fees	306,426	327,720
Licenses and permits	213,750	187,044
Investment earnings	687,327	467,505
Contributions	1,025	600
Miscellaneous	<u>124,902</u>	<u>71,698</u>
Total revenues	<u>19,037,309</u>	<u>16,985,189</u>
Expenditures:		
General government and administration	2,404,638	2,181,307
Public safety	4,585,013	4,323,056
Public works	2,640,909	2,267,855
Culture and recreation	3,900,092	3,728,855
Capital Outlay	5,478,274	2,817,025
Debt Service:		
Principal	2,285,000	2,285,000
Interest and fiscal charges	<u>1,232,899</u>	<u>1,338,466</u>
Total expenditures	<u>22,526,825</u>	<u>18,941,564</u>
Excess of revenues over (under) expenditures	<u>( 3,489,516)</u>	<u>( 1,956,375)</u>
Other Financing Sources (Uses):		
Sale of capital assets	9,250	71,558
Transfers in	3,815,160	4,659,251
Transfer out	<u>( 3,320,128)</u>	<u>( 4,717,233)</u>
Total other financing sources (uses)	<u>504,282</u>	<u>13,576</u>
Net change in fund balances	<u>\$( 2,985,234)</u>	<u>\$( 1,942,799)</u>

# 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, 2006 and 2005.

	2006	2005
<b>Revenues:</b>		
Water and sewer services	\$ 5,561,964	\$ 5,554,603
Sanitation service	2,668,684	2,611,266
Tapping and connection fees	252,556	232,658
Golf course fees and charges	1,553,214	1,305,045
Other	116,919	37,834
	<u>10,153,337</u>	<u>9,741,406</u>
<b>Operating Expenses:</b>		
Utility administration	338,121	378,148
Reimbursed administrative	438,389	438,389
Water and sewer	3,812,062	3,530,455
Golf course	1,481,503	1,308,146
Sanitation	2,125,857	2,063,709
	<u>8,195,932</u>	<u>7,718,847</u>
Net revenues as described by Bond ordinance	<u>1,957,405</u>	<u>2,022,559</u>
<b>Nonoperating Revenues (Expenses):</b>		
Depreciation <sup>1</sup>	( 2,021,519)	( 1,647,037)
Interest earnings	395,581	243,037
Gain (loss) on disposition of capital assets	( 4,074)	( 2,641)
Interest expense and fiscal charges	( 630,714)	( 674,134)
Capital contributions		21,931
<b>Transfers:</b>		
for franchise fee	( 102,000)	( 102,000)
for equipment replacement	( 392,897)	( 324,472)
for Golf Course debt service	( 12,380)	( 12,380)
Assets purchased by general fund	450,634	935,224
	<u>( 2,317,369)</u>	<u>( 1,562,472)</u>
Net income	<u>\$ ( 359,964)</u>	<u>\$ 460,087</u>
Coverage of average annual debt service requirements	1.75X	1.77X
Customer count (residential & commercial)	8,820	8,685

<sup>1</sup> 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, 2006.

Water:	First 2000 gallons	\$ 7.50 Minimum
	Over 2000 gallons	\$ 2.60 per 1,000 gallons
Sewer:	First 2000 gallons	\$ 8.50 Minimum
	Over 2000 gallons	\$ 2.95 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 (4.0 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 four “master” lift stations that pump directly to the treatment plant, and 37 lift stations that serve various subdivisions and convey wastewater to a “master” lift station.

**Water and Sewer Customers**

Currently, the City has 20 apartment complexes (2,655 units); 470 Commercial businesses and 8,350 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 2006 Consumption in 1000's</u>	<u>Total Percent of Water Consumed</u>
Brazosport Hospital	Hospital	19,337	1.99%
Star Bright Market	Gas Station/Car Wash	16,762	1.72%
Oyster Creek Apartments	Apartment	15,152	1.56%
Woodhollow Apartments	Apartment	12,702	1.31%
Jackson Square #1	Apartment	11,585	1.19%
TAJ Properties	Apartment	10,116	1.04%
Veard-Lake Jackson Ltd.	Apartment	8,176	0.84%
Raamco Raintree LP	Apartment	7,768	0.80%
Hearthstone at Lake Jackson	Apartment	6,166	0.63%
Gateway at Lake Jackson	Apartment	6,135	0.63%
		<u>113,899</u>	<u>11.71%</u>

Total consumption for the period October 1, 2006 to September 30, 2006 in thousands of gallons was 973,169.

# 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 2006 Assessed Taxable Valuation</u>	<u>Percent of Assessed Valuation</u>
Brazos Outlets Center LLC	Retail	\$ 25,367,650	1.87%
Wal-Mart Stores Inc.	Retail	17,643,790	1.30%
Fazio Peter & Shari (Lowe's)	Home Improvement	13,117,320	0.97%
HD Develop Properties (Home Depot)	Home Improvement	11,673,130	0.86%
Edgewater Associates LTD	Apartments	11,240,910	0.83%
Centerpoint Energy Inc.	Utility	9,967,900	0.74%
Dow Chemical Company	Various property	9,496,430	0.70%
Lake Jackson Apartments Assoc LP	Apartments	7,394,030	0.55%
Don Davis Buick/Pontiac/GMC	Dealership	5,557,820	0.41%
Dayton Hudson Corp (Target)	Retail	5,250,980	0.39%
Texas Dow Employees Credit Union	Financial Institution	5,181,460	0.38%
Windcrest/Lake Jackson LTD	Apartments	5,126,520	0.38%
Carriage Inn - Lake Jackson LTD	Assisted living	5,016,640	0.37%
Southwestern Bell Telephone Co.	Utility	5,011,560	0.37%
Leo Martin Chevrolet Inc.	Dealership	4,967,060	0.37%
Red Palm 8B LTD Prtnshp	Various property	4,740,590	0.35%
Raamco Raintree LP	Apartments	4,538,330	0.34%
Rush Reliance Investments LTD (Honda)	Dealership	4,242,880	0.31%
Dillard Texas Operating LTD	Retail	4,232,660	0.31%
Flagridge/Lake Jackson LP	Apartments	<u>4,229,600</u>	<u>0.31%</u>
		<u>\$ 163,997,260</u>	<u>12.11%</u>

## Assessed Valuation by Classification

<u>Classification</u>	<u>2006 Assessed Taxable Valuation</u>	<u>Percent of Total</u>
Residential	\$ 1,010,534,030	74.62%
Real, Vacant Platted Lots/Tracts	13,036,560	0.96%
Commercial & Industrial	286,219,120	21.14%
Real, Acreage (Land Only)	12,439,260	0.92%
Utilities and Pipelines	20,466,310	1.51%
Special Inventory and Other	<u>11,522,050</u>	<u>0.85%</u>
	<u>\$ 1,354,217,330</u>	<u>100.00%</u>

# CITY OF LAKE JACKSON

Lake Jackson, Texas

Table CD-17  
General Fund - Budget Summary

On September 7, 2006 the 2006-07 budget was adopted by the City Council. The following General Fund Operating Budget is presented on a budget basis presentation.

	<u>2004-05</u> Actual	<u>2005-06</u> Actual	<u>2006-07</u> Adopted Budget
<b>Revenues:</b>			
Property tax	\$ 2,955,475	\$ 3,181,611	\$ 3,267,435
Sales tax	3,914,130	4,261,667	4,275,000
Franchise fees	1,493,392	1,785,612	1,627,000
Industrial district	2,672,510	2,881,045	2,947,200
Licenses and permits	187,044	213,750	177,150
Fines and fees	327,719	306,426	297,409
Civic Center fees	245,250	258,901	233,750
Recreation Center fees	655,383	618,651	617,150
Intergovernmental	68,726	197,427	98,300
Interest and other	172,413	232,784	178,037
Utility Administrative fee	438,389	438,389	438,389
Transfer from Economic Development	350,000	350,000	350,000
Transfer from General Contingency	<u>140,000</u>	<u>267,189</u>	<u>140,000</u>
Total revenues	<u>\$ 13,620,431</u>	<u>\$ 14,993,452</u>	<u>\$ 14,646,820</u>
<b>Expenditures:</b>			
General government services	\$ 2,297,721	\$ 2,728,431	\$ 1,820,885
Financial services	901,432	930,230	953,371
Legal services	84,043	98,944	118,560
Public safety services	4,677,079	4,932,163	5,219,672
Engineering services	319,781	336,051	337,405
Public works services	2,366,555	2,745,765	2,894,969
Parks & recreation services	2,684,519	2,761,385	3,010,838
Miscellaneous services	<u>240,330</u>	<u>262,413</u>	<u>291,120</u>
Total expenditures	<u>\$ 13,571,460</u>	<u>\$ 14,795,382</u>	<u>\$ 14,646,820</u>

**CITY OF LAKE JACKSON**  
Lake Jackson, Texas

Table CD-18  
Utility Fund - Budget Summary

On September 7, 2006 the 2006-07 budget was adopted by the City Council. The following Utility Fund Operating Budget is presented on a budget basis presentation.

	<u>2004-05</u> Actual	<u>2005-06</u> Actual	<u>2006-07</u> Adopted Budget
<b>Revenues:</b>			
Plumbing fees	\$ 14,849	\$ 13,215	\$ 13,000
FEMA Hurricane reimbursement		62,298	
Tap fees	41,665	42,836	38,000
Administrative fees	176,144	196,505	171,500
Water sales	2,886,786	2,849,867	3,035,568
Sewer sales	2,762,690	2,814,770	3,132,724
Senior discount	( 85,620)	( 87,457)	( 90,000)
Sanitation sales	2,613,916	2,653,468	2,808,945
Other revenues	25,684	37,568	55,100
Interest	63,844	122,527	87,726
Transfer from General Contingency	40,000		
Transfer from Utility Contingency		40,000	40,000
	<u>8,539,958</u>	<u>8,745,597</u>	<u>9,292,563</u>
Total revenues	<u>\$ 8,539,958</u>	<u>\$ 8,745,597</u>	<u>\$ 9,292,563</u>
<b>Expenditures:</b>			
Utility administration	\$ 402,599	\$ 362,279	\$ 364,781
Water production	1,718,789	1,746,602	1,883,386
Water distribution	459,305	497,781	571,733
Wastewater collection	569,119	657,505	846,526
Wastewater treatment	908,561	1,013,042	1,115,730
Sanitation	2,236,952	2,355,600	2,531,218
Non-departmental	<u>2,082,389</u>	<u>2,077,389</u>	<u>1,979,189</u>
	<u>8,377,714</u>	<u>8,710,198</u>	<u>9,292,563</u>
Total expenditures	<u>\$ 8,377,714</u>	<u>\$ 8,710,198</u>	<u>\$ 9,292,563</u>