

CITY OF BEVIL OAKS, TEXAS
ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2011

R&A Charles E. Reed & Associates, P.C.
Certified Public Accountants & Consultants

CITY OF BEVIL OAKS, TEXAS
ANNUAL FINANCIAL REPORT

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TABLE OF CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet – Governmental Funds	13
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets for Governmental Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Assets – Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Notes to the Financial Statements	20
Required Supplementary Information	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	29
Statement of Revenues, Expenditures, and Changes in Net Assets – Budget and Actual – Proprietary Fund	30



Charles E. Reed & Associates, P.C.

Certified Public Accountants & Consultants

Member

American Institute of
Certified Public Accountants

Texas Society of
Certified Public Accountants

AICPA Private
Companies Practice Section

To Her Honor the Mayor, City Counsel, and
Citizens of the City of Bevil Oaks, 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 City of Bevil Oaks, Texas as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Bevil Oaks, Texas's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bevil Oaks, Texas as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 30 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Beaumont

6850 Phelan Boulevard
Beaumont, Texas 77706

(409) 833-8986 • Fax: (409) 833-4486

Port Arthur

3636 Professional Drive
Port Arthur, Texas 77642

(409) 983-3277 • Fax: (409) 983-3270

Silsbee

295 Hwy. 327 East
Silsbee, Texas 77656

(409) 385-2806 • Fax: (409) 385-4338

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bevil Oaks, Texas's financial statements as a whole. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Charles E. Reed & Associates, P.C.

Charles E. Reed and Associates, P.C.
Certified Public Accountants
Port Arthur, Texas

July 2, 2012

CITY OF BEVIL OAKS, TEXAS
Management's Discussion and Analysis
September 30, 2011

As management of the City of Bevil Oaks (the City) 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, 2011. We encourage readers to consider the information presented here in conjunction with the independent auditor's report and the City's financial statements, which follow this section.

Financial Highlights

- The assets of the City of Bevil Oaks, Texas exceeded its liabilities as of September 30, 2011, by \$4,631,344 (net assets). Of this amount, \$648,496 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$4,106,092 due to the City's take-over of the Bevil Oaks Municipal Utility District.
- Effective December 10, 2010 the City assumed the operations of the Bevil Oaks Municipal Utility District along with all the assets and liabilities of the District.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. These 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 decrease 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 government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the City include administration and emergency management. The business-type activities of the City include a water and sewer system.

The government-wide financial statements can be found on pages 11-13 of this report.

CITY OF BEVIL OAKS, TEXAS
Management's Discussion and Analysis (Continued)
September 30, 2011

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. The City has only one governmental fund and one proprietary fund.

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 near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains one governmental fund, the general fund, which is considered to be a major fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the fund.

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

Proprietary funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations. The Public Works Fund is considered a major enterprise fund of the City.

The basic proprietary fund financial statements can be found on pages 17-19 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 20-27.

CITY OF BEVIL OAKS, TEXAS
Management's Discussion and Analysis (Continued)
September 30, 2011

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Bevil Oaks, assets exceeded liabilities by \$4,631,344 at the close of the most recent fiscal year.

**City of Bevil Oaks -
Net Assets
September 30, 2011**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current assets	\$313,352	\$ 394,966	\$ 591,807	\$ -	\$ 905,159	\$ 394,966
Capital assets, net accumulated depreciation	218,984	136,850	3,567,986	-	3,786,970	136,850
Total Assets	\$532,336	\$ 531,816	\$ 4,159,793	\$ -	\$ 4,692,129	\$ 531,816
Current liabilities	\$ 12,052	\$ 6,564	\$ 48,733	\$ -	\$ 60,785	\$ 6,564
Total Liabilities	\$ 12,052	\$ 6,564	\$ 48,733	\$ -	\$ 12,052	\$ 6,564
Net assets:						
Invested in capital assets	\$218,984	\$ 136,850	\$ 3,567,986	\$ -	3,786,970	136,850
Restricted	175,928	169,395	-	-	175,928	169,395
Unrestricted	125,372	219,007	543,074	-	668,446	219,007
Total Net Assets	\$520,284	\$ 525,252	\$ 4,111,060	\$ -	\$ 4,631,344	\$ 525,252

A portion of the City's net assets, \$3,786,970 (82%), reflects its investment in capital assets (e.g. land, buildings, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. The City has no debt related to its capital assets. Of the remaining balance of net assets (\$844,374), \$668,446 may be used to meet the government's ongoing obligations to citizens and creditors. \$175,928 is restricted for road maintenance and improvements, as well as water and sewer customer deposits.

By general election, the City assumed the assets and liabilities of the Bevil Oaks Municipal Utility District (BOMUD) on December 10, 2010. The capital assets transferred to the City include the City's current office building, the water treatment plant, as well as vehicles and equipment. Surplus assets were sold during the year.

CITY OF BEVIL OAKS, TEXAS
Management's Discussion and Analysis (Continued)
September 30, 2011

City of Bevil Oaks
Changes in Net Assets
For the year ending September 30, 2011

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues						
Charges for Services	\$ 101	\$ 389	\$ 290,830	\$ -	\$ 290,931	\$ 389
General revenues						
Investment Income	7,837	3,394	-	-	7,837	3,394
Other	180,317	172,568	17,812	-	198,129	172,568
Grants	-	4,546	-	-	-	4,546
Total Revenues	188,255	180,897	308,642	-	496,897	180,897
Expenses						
General and Administration	162,756	127,372	-	-	162,756	127,372
Public Safety	43,428	39,949	-	-	43,428	39,949
Road Maintenance	13,464	8,654	-	-	13,464	8,654
Water and Sewer	-	-	357,124	-	357,124	-
Total Expenses	219,648	175,975	357,124	-	576,772	175,975
Other Financing Sources (Uses)						
Gain (Loss) on Sale of Assets	(764)	-	(8,968)	-	(9,732)	-
Contributed Capital	27,189	-	4,168,510	-	4,195,699	-
Total Other Financing Sources (Uses)	26,425	-	4,159,542	-	4,185,967	-
Increase (Decrease) in net assets	(4,968)	4,922	4,111,060	-	4,106,092	4,922
Net assets - 10/1	525,252	520,330	-	-	525,252	520,330
Net assets - 9/30	\$ 520,284	\$ 525,252	\$ 4,111,060	\$ -	\$ 4,631,344	\$ 525,252

For the fiscal year ended September 30, 2011, the City's general revenues were \$188,255. A significant portion, 57% and 24%, comes from property taxes collected and franchise fees, respectively. The City's revenues from water and sewer services were \$290,830. Operating expenditures for the fiscal year totaled \$576,772, including \$357,124 expenses related to the Public Works department (water & sewer services).

CITY OF BEVIL OAKS, TEXAS
Management's Discussion and Analysis (Continued)
September 30, 2011

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City's governmental fund 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, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At September 30, 2011, unrestricted fund balance of the general fund was \$117,111 and assigned fund balance (reserved for road maintenance) was \$175,928.

Proprietary funds. The City's proprietary fund provides the same information found in the government-wide financial statements, but in more detail. Beginning December 10, 2010 the City took over the operations of the BOMUD and reports all transactions in the Public Works Fund. At September 30, 2011, unrestricted fund balance was \$523,124.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets as of September 30, 2011, amounts to \$3,786,970 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment as well as the water and sewer infrastructure transferred to the City from BOMUD. The City has chosen to record infrastructure prospectively.

(City of Bevil Oaks)
Capital Assets
(Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total Activities	
	2011	2010	2011	2010	2011	2010
Land	\$ 10,000	0	\$ 99,156	\$ 10,000	\$ 109,156	\$ 20,000
Buildings & Improvements	145,016	50,563	-	50,563	145,016	101,126
Software	-	-	3,065	-	3,065	-
Machinery and Equipment	92,741	142,758	-	142,758	92,741	285,516
Infrastructure	108,320	92,243	4,311,615	92,243	4,419,935	184,486
Total Fixed Assets	\$ 356,077	\$ 295,564	\$ 4,413,836	\$ 295,564	\$ 4,769,913	\$ 591,128
Less Accumulated Depreciation	137,093	158,714	845,850	138,484	982,943	297,198
Total Fixed Assets, net	\$ 218,984	\$ 136,850	\$ 3,567,986	\$ 157,080	\$ 3,786,970	\$ 293,930

Additional information on the City's capital assets can be found in Note 5.

CITY OF BEVIL OAKS, TEXAS
Management's Discussion and Analysis (Continued)
September 30, 2011

Long-term debt. At September 30, 2011, the City of Bevil Oaks had no debt.

Other information. In addition to the basic financial statements and accompanying notes, required supplementary information presents budgetary comparison schedules for the General Fund and the Public Works Fund to demonstrate compliance with the budgets. The required supplemental information begins on page 29.

In the General Fund, budgeted revenue and expenses exceeded actual total revenue and expenses by \$736,376 and \$748,575 respectively due to a delay in the start of grant funded (\$760,000) capital projects.

The City made amendments to the budget BOMUD approved for the fiscal year ended September 30, 2011 based on operational changes the Mayor and City Council implemented to facilitate the transition of the water and sewer services to the City's newly established Public Works Fund.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Bevil Oaks, 7390 Sweetgum Road, Beaumont, TX, 77713.

BASIC FINANCIAL STATEMENTS

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**CITY OF BEVIL OAKS, TEXAS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Activities</u>
Cash and Cash Equivalents	\$ 71,562	\$ 512,671	\$ 584,233
Investments	38,713	-	38,713
Receivables, Net:			
Taxes Receivable	8,261	-	8,261
Accounts Receivable	-	53,601	53,601
Other	18,888	8,001	26,889
Restricted assets:			
Investments	175,928	-	175,928
Customer Deposits	-	17,534	17,534
Capital Assets:			
Land	10,000	99,156	109,156
Depreciable Fixed Assets, Net of Accumulated Depreciation	208,984	3,468,830	3,677,814
TOTAL ASSETS	<u><u>\$ 532,336</u></u>	<u><u>\$ 4,159,793</u></u>	<u><u>\$ 4,692,129</u></u>
 <u>LIABILITIES</u>			
Accounts Payable	\$ 7,420	\$ 28,783	\$ 36,203
Accrued Expenses	4,632	-	4,632
Customer Deposits	-	19,950	19,950
TOTAL LIABILITIES	<u><u>12,052</u></u>	<u><u>48,733</u></u>	<u><u>60,785</u></u>
 <u>NET ASSETS</u>			
Invested in Capital Assets, net	218,984	3,567,986	3,786,970
Unrestricted	125,372	523,124	648,496
Restricted	175,928	19,950	195,878
TOTAL NET ASSETS	<u><u>\$ 520,284</u></u>	<u><u>\$ 4,111,060</u></u>	<u><u>\$ 4,631,344</u></u>

The accountants' report and accompanying notes are an integral part of these financial statements.

**CITY OF BEVIL OAKS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

The accountants' report and accompanying notes are an integral part of these financial statements.

CITY OF BEVIL OAKS, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	<u>General Fund</u>
<u>ASSETS</u>	
Current Assets	
Cash and Cash Equivalents	\$ 110,275
Investments	175,928
Taxes Receivable	8,261
Due From Public Works	15,592
Other Receivables	3,296
Total Current Assets	<u>313,352</u>
TOTAL ASSETS	<u><u>\$ 313,352</u></u>
 <u>LIABILITIES AND FUND BALANCES</u>	
<u>LIABILITIES</u>	
Accounts Payable	\$ 7,420
Accrued Expenses	4,632
Deferred Revenue	8,261
TOTAL LIABILITIES	<u>20,313</u>
 <u>FUND BALANCES</u>	
Assigned	175,928
Unassigned	117,111
TOTAL FUND EQUITY	<u>293,039</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 313,352</u></u>

The accountants' report and accompanying notes are an integral part of these financial statements.

**CITY OF BEVIL OAKS, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

Governmental fund balance as reported on the balance sheet for governmental funds \$ 293,039

When capital assets that are to be used in governmental funds are purchased, the costs of those assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets, net of accumulated depreciation 218,984

Deferred property tax revenue is recorded as a liability in the governmental funds. However, that revenue should have been recognized when reported using full accrual.

Deferred property tax revenues 8,261

Total net assets as reported on the Statement of Net Assets for governmental activities. \$ 520,284

The accountants' report and accompanying notes are an integral part of these financial statements.

CITY OF BEVIL OAKS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>General Fund</u>
<u>REVENUES</u>	
Property Tax, Penalty & Interest	\$ 104,394
Sales Tax Receipts	21,696
Franchise Fees	45,306
Fines & Forfeitures	101
Permits & Fees	3,550
Miscellaneous	4,068
Investment Income	7,837
TOTAL REVENUES	<u>186,952</u>
<u>EXPENDITURES</u>	
General Government	123,133
Public Safety	49,181
Road Maintenance	28,237
Municipal Court	1,635
Community Development	9,041
Capital Outlay	76,638
TOTAL EXPENDITURES	<u>287,865</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES /	(100,913)
<u>OTHER FINANCING SOURCES (USES)</u>	
Proceeds from sale of assets	12,508
NET CHANGE IN FUND BALANCES	(88,405)
FUND BALANCES - OCTOBER 1	<u>381,444</u>
FUND BALANCES - SEPTEMBER 30	<u><u>\$ 293,039</u></u>

The accountants' report and accompanying notes are an integral part of these financial statements.

**CITY OF BEVIL OAKS, TEXAS
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE S –
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Net change in fund balances for total governmental funds. \$ (88,405)

When capital assets that are to be used in governmental funds are purchased, those costs are reported as expenditures in the governmental funds. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital assets purchased	89,094
Capital assets contributed	27,189
Current year depreciation expense	(20,877)

The loss on sale of capital assets during the year. (13,272)

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

Collections on prior year taxes	(6,958)
Collections due from current year taxes	8,261

Change in net assets of governmental activities \$ (4,968)

The accountants' report and accompanying notes are an integral part of these financial statements.

CITY OF BEVIL OAKS, TEXAS
STATEMENT OF NET ASSETS – PROPRIETARY FUND
SEPTEMBER 30, 2011

	Business-type Activities
	Public Works
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equivalents	\$ 512,671
Accounts receivable, net:	
Accounts	53,601
Other	8,001
TOTAL CURRENT ASSETS	574,273
NONCURRENT ASSETS	
Restricted assets:	
Cash and cash equivalents	17,534
Capital assets:	
Land	99,156
Other capital assets, net of accumulated depreciation	3,468,830
TOTAL NONCURRENT ASSETS	3,585,520
TOTAL ASSETS	\$ 4,159,793
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts payable	\$ 13,191
Interfund payable	15,592
Payables from restricted assets:	
Customer deposits	19,950
TOTAL CURRENT LIABILITIES	48,733
TOTAL LIABILITIES	\$ 48,733
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	\$ 3,567,986
Restricted for:	
Customer Deposits	19,950
Unrestricted	523,124
TOTAL NET ASSETS	\$ 4,111,060

The accountants' report and accompanying notes are an integral part of these financial statements.

CITY OF BEVIL OAKS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN NET ASSETS – PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-type Activities
	Public Works Fund
<u>OPERATING REVENUES</u>	
Service fees	\$ 283,541
Tap connection fees	750
Miscellaneous	6,539
	290,830
<u>OPERATING EXPENSES</u>	
Personnel	28,031
Professional services	35,269
Purchased and contract services	91,859
Consumables supplies and materials	35,381
Recurring expenses and repairs	51,968
Depreciation	114,616
	357,124
TOTAL OPERATING REVENUES	
TOTAL OPERATING EXPENSES	(66,294)
OPERATING INCOME	(66,294)
<u>NON-OPERATING REVENUES (EXPENSES)</u>	
Interest revenue	445
Loss on sale of assets	(8,968)
Other revenue	17,367
	8,844
TOTAL NON-OPERATING REVENUES (EXPENSES)	8,844
NET INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	(57,450)
<u>CAPITAL CONTRIBUTIONS, GRANTS AND TRANSFERS</u>	
Capital Contributions	4,168,510
CHANGE IN NET ASSETS	4,111,060
NET ASSETS - OCTOBER 1	-
NET ASSETS - SEPTEMBER 30	\$ 4,111,060

The accountants' report and accompanying notes are an integral part of these financial statements.

CITY OF BEVIL OAKS, TEXAS
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	2011
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income/(loss) for the year	\$ (57,450)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	114,616
Loss on sale of assets	8,968
Decrease in service receivables	4,938
(Increase in other receivables)	(8,001)
Increase in accounts payable	27,830
Increase (decrease) in customer overpayments	-
Increase (decrease) in customer deposits	4,850
Total Adjustments	153,201
Net Cash Provided by Operating Activities	95,751
 CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of assets	35,035
Purchase of capital assets	(61,874)
Net Cash Used in Investing Activities	(26,839)
 NET INCREASE IN CASH	68,912
 CASH AT BEGINNING OF YEAR	461,293
 CASH AT END OF YEAR	\$ 530,205

The accountants' report and accompanying notes are an integral part of these financial statements.

**CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Bevil Oaks, Texas operates under a mayor-council-manager form of government as per the Home Rule Charter which was approved and became effective as of October 1963. The City provides the following services as authorized by this charter: Public Safety (Police), Highways and Streets, Parks and Recreation, Public Works, and General Administration Services. As of December 10, 2010, the City assumed operations of the Bevil Oaks Municipal Utility District continuing the provision of water and sewer services to its citizenry.

The basic financial statements of the City of Bevil Oaks, Texas (the “City”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below:

A. Reporting Entity

The City Council, a 5-member group, has governance responsibilities over all activities related to city services within the jurisdiction of the City. The Council is elected by the public and has the exclusive power and duty to govern and oversee the management of the City. However, the City is not included in any other governmental “reporting entity” as defined by the GASB in its Statement No. 14, “The Financial Reporting Entity” and there are no component units included within the reporting entity.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by GASB. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Government activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-like activities*, which rely to a significant extent on fees and charges for funding.

CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2011

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

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

C. Management 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 and fiduciary fund financial statements. Revenue is 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 revenue 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 resource, measurement focus*, and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is 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.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City and available. Expenditures are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

The City has the following major governmental funds:

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those received to be accounted for in another fund.

The City has the following major proprietary funds:

Enterprise Funds – Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises when the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be

CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2011

financed primarily through user charges. The predominant function of the City's operations is maintained within the Public Works operating fund. The Public Works operating fund is accounted for as an enterprise activity.

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-like activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Cash and Cash Equivalents

Highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

E. Investments

The City's Investment Policy limits investment of City funds to certificate of deposits or treasury bills with maximum maturities of 12 months for both types of available securities.

F. Receivables

Receivables and related allowances for uncollectable accounts were as follows as of September 30, 2011 for the governmental funds of the City.

	<u>General</u>	<u>Total</u>
Property Taxes	\$ 8,261	\$ 8,261
Other	18,888	18,888
	<u>27,149</u>	<u>27,149</u>
Allowance for Uncollectibles	-	-
	<u>\$ 27,149</u>	<u>\$ 27,149</u>

Receivables for the Business Type - Enterprise Funds:

	<u>Water/Sewer</u>	<u>Total</u>
Property Taxes	\$ 1,036	\$ 1,036
Accounts	53,601	53,601
Other	8,001	8,001
	<u>62,638</u>	<u>62,638</u>
Allowance for Uncollectibles	1,036	1,036
	<u>\$ 61,602</u>	<u>\$ 61,602</u>

G. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2011

H. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used. The City has elected to record infrastructure assets prospectively.

Assets are depreciated using straight line method over the following useful lives.

Buildings & Improvements	40 Years
Vehicles & Equipment	5 – 10 Years
Infrastructure	10 - 40 Years

The City has elected to record infrastructure assets prospectively.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assumptions that affect certain reported amounts and disclosures, accordingly, actual results could differ from those estimates.

J. Government-Wide Net Assets / Fund Balances – Governmental Funds

As of these financial statements, the City has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Committed - The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

Assigned Fund Balance – The portion of fund balance that the City intends to use for specific purposes.

Unassigned Fund Balance – The portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance. Additionally, the District restricts enough cash to refund customer deposits received.

CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2011

NOTE 2 – DEPOSITS, SECURITIES AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract pursuant to the laws of the State of Texas. The depository bank deposits for safekeeping and trust with the City's agent bank, approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The City's cash deposits at September 30, 2011 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank. The deposits were collateralized in accord with Texas Law. During the year, no instances of cash deposit balances in excess of collateral occurred. At September 30, 2011, the bank balance of the City's deposits with Wells Fargo was \$293,339 and the carrying amount was \$282,432. The carrying amounts in aggregate at Community Bank of Texas and Capital One Bank was \$48,330.48.

Cash deposits and temporary investments held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

- Category 1: Deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2: Deposits which are collateralized with the securities held by financial institutions, trust departments, or agents in the entity's name.
- Category 3: Deposits that are not collateralized.

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

A portion of the City's investments, \$212,641 are in certificates of deposits with Mobiloil and Gulf Credit Unions. Investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

- Category 1: Investments that are insured, registered, or held by the entity or by its agent in the entity's name.
- Category 2: Investments that are uninsured and unregistered held by the counter party's trust department or agent in the entity's name.
- Category 3: Uninsured and unregistered investments held by the counter party, its trust department, or its agent, but not in the entity's name.

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

As a result of the City's assumption of the BOMUD assets, liabilities, and operations, the City has two Texas Local Government Investment Pool (TexPool) accounts. As of year-end the City was aware of the need to revise the current Investment Policy to include the investment pool as an authorized type of investment.

CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2011

TexPool has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments.

The primary objectives of TexPool are preservation and safety of principal, liquidity, and yield. Investments include only those authorized by both the Public Funds Investment Act and the TexPool Investment Policy, which is available through its website. TexPool seeks to maintain a net asset value of \$1.00 and is designed to be used for investment of funds which may be needed at any time. The investment pool must maintain an AAA or equivalent rating from at least one nationally recognized statistical rating organization. It is currently rated as AAAM by Standard & Poor's.

The carrying value of the City's accounts was \$250,199 (carried at amortized cost, which approximates fair value). Investments by the City in investment pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

NOTE 3 – PROPERTY TAX

Property taxes are attached as an enforceable lien on the property as of January 1. Taxes are levied on October 1, and payable by January 31. Taxes paid after January 31st are subject to a penalty and interest. Taxes are considered delinquent after September 30th and are subject to attorney fees in addition to penalty and interest. The City's taxes are billed and collected by the county. The City's property tax revenues are recognized as collected.

NOTE 4 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2008 the city obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for the risk of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2011

NOTE 5 – CAPITAL ASSETS

Governmental Activities

	Land	Building & Improvements	Infra-structure	Furniture, Fixtures & Equipment	Total
Capital Assets					
October 1, 2010	\$ 10,000	\$ 50,563	\$ 92,243	\$ 142,758	\$ 295,564
FY 2011 Additions	-	94,453	16,077	5,753	116,283
FY 2011 Deletions	-	-	-	(55,770)	(55,770)
September 30, 2011	<u>10,000</u>	<u>145,016</u>	<u>108,320</u>	<u>92,741</u>	<u>356,077</u>
Accumulated Depreciation					
October 1, 2010	-	23,816	20,201	114,697	158,714
FY 2011 Additions	-	2,783	8,403	9,691	20,877
FY 2011 Deletions	-	-	-	(42,498)	(42,498)
September 30, 2011	<u>-</u>	<u>26,599</u>	<u>28,604</u>	<u>81,890</u>	<u>137,093</u>
Governmental Activities Capital Assets, net	<u>\$ 10,000</u>	<u>\$ 118,417</u>	<u>\$ 79,716</u>	<u>\$ 10,851</u>	<u>\$ 218,984</u>

Business-type Activities

	Land	Building & Improvements	Infra-structure	Furniture, Fixtures & Equipment	Total
Capital Assets					
October 1, 2010	\$ -	\$ -	\$ -	\$ -	\$ -
FY 2011 Additions	99,156	-	3,554,597	72,852	3,726,605
FY 2011 Deletions	-	-	-	(69,787)	(69,787)
September 30, 2011	<u>99,156</u>	<u>-</u>	<u>3,554,597</u>	<u>3,065</u>	<u>3,656,818</u>
Accumulated Depreciation					
October 1, 2010	-	-	-	-	-
FY 2011 Additions	-	-	88,662	25,954	114,616
FY 2011 Deletions	-	-	-	(25,784)	(25,784)
September 30, 2011	<u>-</u>	<u>-</u>	<u>88,662</u>	<u>170</u>	<u>88,832</u>
Business-type Activities Capital Assets, net	<u>\$ 99,156</u>	<u>\$ -</u>	<u>\$ 3,465,935</u>	<u>\$ 2,895</u>	<u>\$ 3,567,986</u>

Fiscal year additions include improvements to the former office building of BOMUD. The City moved City operations to this building including the continuing operations of the water and sewer system assumed by the City on December 10, 2010. Additionally, the newly created Public Works department was created to maintain and provide for the continued operations of the water and sewer facilities acquired from BOMUD per the citizens' election held on November 2, 2010 effective December 10, 2010.

CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2011

Depreciation expense for the year ended September 30, 2011:

Governmental Activities:

General Government	\$ 3,732
Public Safety	8,742
Road Maintenance	<u>8,403</u>
Total	\$ 20,877

Business-type Activities: \$ 114,616

NOTE 6 – INTERFUND RECEIVABLE AND PAYABLE

Interfund transfers are reported in the governmental activities and the business-type activities fund financial statements. In the entity wide statements, interfund transfers are eliminated within the governmental activities column, as appropriate. There were no transfers between funds this year.

Transfers are used to:

Move revenues collected in the special revenue funds to finance various programs in accordance with budgetary authorizations.

Move receipts for debt service from the funds to the debt service fund as debt service payments become due, and

Reimburse one fund for services provided to another fund.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Certain claims, suits and complaints arising in the ordinary course of operations have been filed on are pending against the City. In the opinion of legal counsel, all such matters are without merit or of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the City if disposed of unfavorably.

The City is a party to a lawsuit arising in the normal course of operations which is being handled internally. Hani Tohme d/b/a Golden Triangle Consulting Engineers vs. Bevil Oaks Municipal Utility District and the City of Bevil Oaks, Cause No. D-190010 pending in the District Court of Jefferson County, Texas. In the opinion of legal counsel, the City is adequately protected against an adverse financial impact, especially considering that the case lacks merit and the likelihood of an adverse judgment is no greater than probable.

NOTE 8 – SUBSEQUENT EVENTS

Events subsequent to September 30, 2011 were evaluated by management and reviewed through July 2, 2012, the date of the report issuance. Subsequent to year-end, Louis Merendino was elected to the City Council of Bevil Oaks, Texas. Mr. Merendino appears to have a substantial interest in a business entity, Lindy's Lawn Care, LLC, which has a contract to provide lawn services to the City. This related party transaction represents a possible conflict of interest within the scope of Texas Local Government Code Chapter 171 "Conflict of Interest Statute".

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF BEVIL OAKS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS – BUDGET TO ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original Budget	Final Budget	Actual	Final Budget Variance Positive (Negative)
REVENUES				
Property Tax, Penalty & Interest	\$ 106,576	\$ 106,576	\$ 104,394	\$ (2,182)
Sales Tax Receipts	15,000	15,000	21,696	6,696
Franchise Fees	42,400	42,400	45,306	2,906
Fines & Forfeitures	6,000	6,000	101	(5,899)
Permits & Fees	2,900	2,900	3,550	650
Miscellaneous	150	150	4,068	3,918
Investment Income	2,810	2,810	7,837	5,027
Grants	760,000	760,000	12,508	(747,492)
TOTAL REVENUES	<u>\$ 935,836</u>	<u>\$ 935,836</u>	<u>\$ 199,460</u>	<u>\$ (736,376)</u>
EXPENDITURES				
General Government	\$ 129,380	\$ 129,380	\$ 123,133	\$ 6,247
Public Safety	46,660	46,660	49,181	(2,521)
Road Maintenance	19,200	19,200	28,237	(9,037)
Municipal Court	4,200	4,200	1,635	2,565
Community Development	7,000	7,000	9,041	(2,041)
Capital Outlay	830,000	830,000	76,638	753,362
TOTAL EXPENDITURES	<u>\$1,036,440</u>	<u>\$1,036,440</u>	<u>\$ 287,865</u>	<u>\$ 748,575</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES / NET CHANGE IN FUND BALANCES	<u>\$ (100,604)</u>	<u>\$ (100,604)</u>	(88,405)	<u>\$ 12,199</u>
FUND BALANCE - OCTOBER 1			<u>381,444</u>	
FUND BALANCE - SEPTEMBER 30			<u>\$ 293,039</u>	

CITY OF BEVIL OAKS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND – BUDGET TO ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original*	Final		Final Budget
	Budget	Budget	Actual	Variance
				Positive
				(Negative)
<u>OPERATING REVENUES</u>				
Service fees	\$317,000	\$317,000	\$ 283,541	\$ 33,459
Tap connection fees	-	-	750	(750)
Miscellaneous	10,499	10,499	6,539	3,960
TOTAL OPERATING REVENUES	<u>327,499</u>	<u>327,499</u>	<u>290,830</u>	<u>36,669</u>
<u>OPERATING EXPENSES</u>				
Personnel	137,499	50,499	28,031	22,468
Professional services	19,500	41,500	35,269	6,231
Purchased and contract services	14,000	55,950	91,859	(35,909)
Consumables supplies and materials	40,000	40,000	35,381	4,619
Recurring expenses and repairs	90,500	69,550	51,968	17,582
Capital outlay	26,000	70,000	-	70,000
Depreciation	-	-	114,616	(114,616)
TOTAL OPERATING EXPENSES	<u>327,499</u>	<u>327,499</u>	<u>357,124</u>	<u>(29,625)</u>
OPERATING INCOME	<u>-</u>	<u>-</u>	<u>(66,294)</u>	<u>66,294</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>				
Interest revenue			445	
Loss on sale of assets			(8,968)	
Other revenue			17,367	
TOTAL NON-OPERATING REVENUES			<u>8,844</u>	
(EXPENSES)				
<u>CONTRIBUTIONS AND TRANSFERS</u>				
Capital Contributions			4,168,510	
CHANGE IN NET ASSETS			4,111,060	
NET ASSETS - OCTOBER 1			<u>-</u>	
NET ASSETS - SEPTEMBER 30			<u>\$4,111,060</u>	

* The original budget represents the budget approved by the Bevil Oaks Municipal Utility District's Board for the fiscal year ended September 30, 2011 prior to the City's takeover on December 10, 2010. The City Council subsequently amended the budget to align with changes the City Council implemented pertaining to the daily operations of the water and sewer services.

