

CITY OF BEVIL OAKS
BEVIL OAKS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED
September 30, 2004, 2005, 2006



Charles E. Reed & Associates, P.C.

Certified Public Accountants & Consultants

3636 Professional Drive
Port Arthur, Texas 77642

3302 McFaddin, Suite One
Beaumont, Texas 77706

CITY OF BEVIL OAKS
BEVIL OAKS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED
September 30, 2004, 2005, 2006

**CITY OF BEVIL OAKS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004, 2005, 2006**

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditor's Report	1	
Management's Discussion and Analysis	2-6	
Basic Financial Statements	Exhibit	Page
Government-wide Financial Statements		
Statement of Net Assets	A	8
Statement of Activities – 2004	B-1	9
Statement of Activities – 2005	B-2	10
Statement of Activities – 2006	B-3	11
Fund Financial Statements		
Balance Sheet – Governmental Funds	C	12
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	C-1	13
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	D	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds	D-1	15
Statements of Revenues, Expenditures, and Changes in Fund Balances –		
Budget and Actual – General Fund – 2004	E-1	16
Budget and Actual – General Fund – 2005	E-2	17
Budget and Actual – General Fund – 2006	E-3	18
Notes to the Financial Statements	F	19-25

FINANCIAL
SECTION



December 15, 2006

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Bevil Oaks, Texas

We have audited the accompanying financial statements of the governmental activities of the City of Bevil Oaks, Texas, as of and for the years ended September 30, 2004, 2005, 2006 as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City of Bevil Oaks, Texas as of September 30, 2004, 2005, 2006 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. 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.

Yours very truly,

Charles E. Reed & Associates, P.C.

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

Port Arthur

3636 Professional Drive
Port Arthur, Texas 77642

(409) 983-3277 • Fax: (409) 983-3270

Beaumont

3302 McFaddin, Suite One
Beaumont, Texas 77706

(409) 833-8986 • Fax: (409) 833-4486

CITY OF BEVIL OAKS, TEXAS

Management's Discussion and Analysis

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, 2006, 2005, and 2004. Primary emphasis, however, will be for the most current fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

Financial Highlights

	2004	2005	2006
Increase (Decrease) assets over liabilities	\$ 749	\$ 851	\$ 3,152
Increase (Decrease) in total net assets	\$ 5,556	\$ 12,600	\$ 56,284
Fund Balance			
Invested in Capital Assets	85,829	72,720	72,174
Unrestricted	182,758	207,467	265,297
Total	268,587	280,187	337,471
% Unrestricted to Total Fund Balance	68%	73.80%	78.60%
% Unrestricted to Total Movement Expenditures	122.40%	144.30%	191.60%
Debt	\$ -	\$ -	\$ -

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise 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 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 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 the cash flows. Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by 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 general government, public works, public safety, and community enrichment. The business-type activities of the City include one activity: a leased building.

The government-wide financial statements can be found as Exhibits A and B 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 are governmental funds. The City has no proprietary or fiduciary 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 the near-term inflows 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 statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two 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 fund, and special revenue funds. Data from other governmental 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.

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

The basic governmental fund financial statements can be found as Exhibits C and D 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 as Exhibit F of this report.

Government-wide Financial Analysis

Financial Analysis of the city as a whole

Governmental Activities:

	<u>2006</u>
Cash	\$ 266,038
Receivables	<u>2,411</u>
Total Current	\$ 268,449
Capital Assets	\$ 148,073
Less: Accumulated Depreciation	<u>(75,899)</u>
	\$ 72,174
Total Assets	<u>\$ 340,623</u>
Current Liabilities	
Accounts Payable	<u>\$ 3,152</u>
Net Assets	
Invested in Capital Assets	72,174
Unrestricted	<u>265,297</u>
Total Net Assets	<u>\$ 337,471</u>

Changes in Net Assets: For 2006, the City's total revenues were \$183,284. A significant portion, 60% comes from property taxes. Comparative information will be shown net year.

Program Revenues	
Fines	\$ 1,883
Road Maintenance	9,579
General Revenues	
Property Tax	109,730
Sales Tax	11,575
Franchise Fees	42,956
Other Fees	5,689
Interest	1,872
	<u>\$ 183,284</u>
Expenses	
General Government	\$ 66,240
Public Safety	39,005
Road Maintenance	19,855
Parks and Recreation	1,900
	<u>\$ 127,000</u>
Increase in Net Assets	<u>\$ 56,284</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$3,152 at the close of the most recent fiscal year.

A portion of the City's net assets \$72,174, (21.4%) reflects its investment in capital assets (e.g. land, buildings, improvements other than 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.

The remaining balance of unrestricted net assets of \$265,297 may be used to meet the government's on-going obligations to citizens and creditors.

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At September 30, 2006, unreserved fund balance of the general fund was \$265,297, and total fund balance was \$337,471. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures (including transfers out). Unreserved fund balance represents 191.6% of total general fund expenditures.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for governmental and business-type activities as of September 30, 2006, amounts to \$72,174 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and equipment. The City has chosen to record infrastructure prospectively.

CAPITAL ASSETS	
(Net of depreciation)	
	Governmental Activities
Land	\$ 10,000
Buildings and Improvements	33,563
	<u>28,611</u>
Total	72,174

Additional information on the City's Capital assets can be found in Note 5 and Exhibit G.

Long-term Debt. At September 30, 2006, the City of Bevil Oaks had no debt.

Request for Information

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

BASIC
FINANCIAL
STATEMENTS

CITY OF BEVIL OAKS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2004, 2005, 2006

	Governmental Activities		
	2004	2005	2006
ASSETS			
Cash and Cash Equivalents	\$ 183,507	\$ 208,318	\$ 266,038
Accounts Receivable	-	-	2,411
Land	10,000	10,000	10,000
Depreciable Fixed Assets, Net of Accumulated Depreciation	75,829	63,720	62,174
TOTAL ASSETS	\$ 269,336	\$ 282,038	\$ 340,623
LIABILITIES			
Accounts Payable	\$ 749	\$ 851	\$ 3,152
TOTAL LIABILITIES	\$ 749	\$ 851	\$ 3,152
NET ASSETS			
Invested in Capital Assets	\$ 85,829	\$ 73,720	\$ 72,174
Unrestricted	182,758	207,467	265,297
TOTAL NET ASSETS	\$ 268,587	\$ 281,187	\$ 337,471

CITY OF BEVIL OAKS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Functions/Programs	Program Revenues			Government Activities
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General Government	\$ 48,452	\$ -	\$ -	\$ (48,452)
Public Safety	30,205	1,551	-	(28,654)
Road Maintenance	16,302	42,035	-	25,733
Parks and Recreation	10,801	-	-	(10,801)
	<u>\$ 105,760</u>	<u>\$ 43,586</u>	<u>\$ -</u>	<u>\$ (62,174)</u>

General Revenues:

Sales Tax		\$ 12,260
Franchise Fees		50,035
Other Fees & Rentals		5,222
Interest		213
Total General Revenues		<u>67,730</u>
Change in Net Assets		5,556
Net Assets - Beginning		224,180
Prior Period Adjustment		38,851
Net Assets - Ending		<u>\$ 268,587</u>

CITY OF BEVIL OAKS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Functions/Programs	Program Revenues			Government Activities
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General Government	\$ 34,320	\$ -	\$ -	\$ (34,320)
Public Safety	30,849	252	-	(30,597)
Road Maintenance	30,894	47,149	-	16,255
Parks and Recreation	293	-	-	(293)
	<u>\$ 96,356</u>	<u>\$ 47,401</u>	<u>\$ -</u>	<u>\$ (48,955)</u>

General Revenues:

Sales Tax	\$ 12,259
Franchise Fees	46,327
Other Fees & Rentals	2,269
Interest	700
Total General Revenues	<u>61,555</u>
Change in Net Assets	12,600
Net Assets - Beginning	268,587
Net Assets - Ending	<u>\$ 281,187</u>

CITY OF BEVIL OAKS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Functions/Programs	Program Revenues			Government Activities
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General Government	\$ 66,240	\$ -	\$ -	\$ (66,240)
Public Safety	39,005	1,883	-	(37,122)
Road Maintenance	19,855	9,579	-	(10,276)
Parks and Recreation	1,900	-	-	(1,900)
	<u>\$ 127,000</u>	<u>\$ 11,462</u>	<u>\$ -</u>	<u>\$ (115,538)</u>

General Revenues:

Property Taxes, Penalty, and Interest	\$ 109,730
Sales Tax	11,575
Franchise Fees	42,956
Other Fees & Rentals	5,689
Interest	1,872
Total General Revenues	<u>171,822</u>
Change in Net Assets	56,284
Net Assets - Beginning	281,187
Net Assets - Ending	<u>\$ 337,471</u>

CITY OF BEVIL OAKS
BALANCE SHEET - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004, 2005, 2006

<u>ASSETS:</u>	Governmental Fund Types		
	General Fund		
	2004	2005	2006
Cash on Hand and in Banks	\$ 67,528	\$ 69,692	\$ 120,038
Accounts Receivable-Tax	-	-	-
Inventory	-	-	2,411
Restricted Cash	115,979	138,627	146,000
TOTAL ASSETS	\$ 183,507	\$ 208,319	\$ 268,449
<u>LIABILITIES:</u>			
Accounts Payable	\$ 749	\$ -	\$ 851
TOTAL LIABILITIES	\$ 749	\$ -	\$ 851
<u>FUND BALANCE:</u>			
Unreserved Fund Balances	\$ 182,758	\$ 207,467	\$ 265,297
Total Fund Equity	182,758	207,467	265,297
TOTAL LIABILITIES AND FUND EQUITY	\$ 183,507	\$ 207,467	\$ 266,148

CITY OF BEVIL OAKS
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2004, 2005, 2006

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total government fund balances in the Balance Sheet (Exhibit C)	\$ 182,758	\$ 207,467	\$ 265,297
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>85,829</u>	<u>73,720</u>	<u>72,174</u>
Total net assets of governmental activities (see Exhibit A)	\$ <u>268,587</u>	\$ <u>281,187</u>	\$ <u>337,471</u>

CITY OF BEVIL OAKS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED SEPTEMBER 30, 2004, 2005, 2006

REVENUES:	<u>2004</u>	<u>2005</u>	<u>2006</u>
Property Tax, Penalty & Interest	\$ -	\$ -	\$ 109,730
Sales Tax Receipts	12,260	12,259	11,575
Franchise Fees	50,035	46,327	42,956
Road Use	42,035	47,149	9,579
Fines & Forfeitures	1,551	252	1,883
Permits & Fees	5,222	2,269	5,689
Investment Income	213	700	1,872
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ <u>111,316</u>	\$ <u>108,956</u>	\$ <u>183,284</u>
 EXPENDITURES:			
Current:			
General Government	47,452	33,320	65,240
Public Safety	25,489	26,133	34,289
Road Maintenance	9,909	24,501	13,462
Parks & Recreation	10,801	293	1,900
Capital Outlay	-	-	10,563
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ <u>93,651</u>	\$ <u>84,247</u>	\$ <u>125,454</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	\$ 17,665	\$ 24,709	\$ 57,830
 FUND BALANCE AT BEGINNING OF YEAR AS PREVIOUSLY STATED			
	\$ 126,242	\$ 182,758	\$ 207,467
PRIOR PERIOD ADJUSTMENT	38,851	-	-
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE-BEGINNING AS RESTATED	\$ <u>165,093</u>	\$ <u>182,758</u>	\$ <u>207,467</u>
 FUND BALANCE AT END OF YEAR			
	\$ <u>182,758</u>	\$ <u>207,467</u>	\$ <u>265,297</u>

CITY OF BEVIL OAKS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2004, 2005, 2006

	2004	2005	2006
Net change in fund balances - total government funds (Exhibit D)	\$ 17,665	24,709	57,830
<p>Government funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>	(12,109)	(12,109)	(1,546)
Change in net assets of governmental activities(Exhibit B)	\$ 5,556	\$ 12,600	\$ 56,284

CITY OF BEVIL OAKS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL-GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>REVENUES</u>			
Sales Tax Receipts	\$ 12,000	\$ 12,260	\$ 260
Franchise Fees	46,407	50,035	3,628
Road Use Fees	50,300	42,035	(8,265)
Fines & Forfeitures	6,000	1,551	(4,449)
Permits & Fees	10,210	5,222	(4,988)
Investment Income	1,350	213	(1,137)
	<u>126,267</u>	<u>111,316</u>	<u>(14,951)</u>
Total Revenue	\$ 126,267	\$ 111,316	\$ (14,951)
<u>EXPENDITURES</u>			
Current:			
General Government	\$ 34,275	\$ 47,452	\$ (13,177)
Public Safety	31,342	25,489	5,853
Road Maintenance	50,050	9,909	40,141
Parks & Recreation	10,600	10,801	(201)
	<u>126,267</u>	<u>93,651</u>	<u>32,616</u>
Total Expenditures	\$ 126,267	\$ 93,651	\$ 32,616
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ 17,665	\$ 17,665
FUND BALANCE AT BEGINNING OF YEAR	\$ -	\$ -	\$ -
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ 17,665</u>	<u>\$ 17,665</u>

CITY OF BEVIL OAKS
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL-GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Original & Final Budget	Actual	Variance Positive (Negative)
<u>REVENUES</u>			
Sales Tax Receipts	\$ 13,000	\$ 12,259	\$ (741)
Franchise Fees	41,908	46,327	4,419
Road Use Fees	48,150	47,149	(1,001)
Fines & Forfeitures	2,400	252	(2,148)
Permits & Fees	810	2,269	1,459
Investment Income	50	700	650
Total Revenue	\$ 106,318	\$ 108,956	\$ 2,638
<u>EXPENDITURES</u>			
Current:			
General Government	\$ 38,493	\$ 33,320	\$ 5,173
Public Safety	29,445	26,133	3,312
Road Maintenance	34,794	24,501	10,293
Parks & Recreation	5,000	293	4,707
Total Expenditures	\$ 107,732	\$ 84,247	\$ 23,485
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (1,414)	\$ 24,709	\$ 26,123
FUND BALANCE AT BEGINNING OF YEAR	\$ -	\$ -	\$ -
FUND BALANCE AT END OF YEAR	\$ (1,414)	\$ 24,709	\$ 26,123

CITY OF BEVIL OAKS
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL-GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>REVENUES</u>			
Property Tax, Penalty & Interest	\$ 111,702	\$ 109,730	\$ (1,972)
Sales Tax Receipts	13,000	11,575	(1,425)
Franchise Fees	47,271	42,956	(4,315)
Road Use Fees	-	9,579	9,579
Fines & Forfeitures	-	1,883	1,883
Permits & Fees	2,150	5,689	3,539
Investment Income	3,500	1,872	(1,628)
	<u>177,623</u>	<u>183,284</u>	<u>5,661</u>
Total Revenue	\$ 177,623	\$ 183,284	\$ 5,661
<u>EXPENDITURES</u>			
Current:			
General Government	\$ 78,190	\$ 65,240	\$ 12,950
Public Safety	38,433	34,289	4,144
Road Maintenance	59,000	13,462	45,538
Parks & Recreation	2,000	1,900	100
Capital Outlay	-	10,563	(10,563)
	<u>177,623</u>	<u>125,454</u>	<u>52,169</u>
Total Expenditures	\$ 177,623	\$ 125,454	\$ 52,169
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ 57,830	\$ 57,830
FUND BALANCE AT BEGINNING OF YEAR	\$ -	\$ -	\$ -
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ 57,830</u>	<u>\$ 57,830</u>

CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2004, 2005, 2006

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.

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 fourth 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 following is a brief review of each potential component unit addressed in defining the government's reporting entity.

CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2004, 2005, 2006

NOTE 1- Summary of Significant Accounting Policies (continued)

Excluded from the reporting entity:

Bevil Oaks Municipal Utility District, (BOMUD). This potential component unit has separate elected and/or appointed board and provide services to residents, generally within the geographic boundaries of the government. This is excluded from the reporting entity because the government does not have the ability to exercise influence or control over their daily operations, approve budgets or provide funding.

NOTE 2- BASIS OF PRESENTATION, BASIS OF ACCOUNTING

A. Basis of Presentation

Government-wide Financial Statements: These are the statement of net assets and the statement of activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through sales taxes, intergovernmental revenues, and other non-exchange transactions. The City began collecting property tax in the fiscal year 2006

The statement of activities presents a comparison between direct expense and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include fees, fines, and charges paid by the recipients of goods and services offered by the City. Revenues that are classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's General Fund, the only fund of the City.

CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2004, 2005, 2006

NOTE 2- BASIS OF PRESENTATION, BASIS OF ACCOUNTING

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the City.

B. 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*. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales taxes, grants, and donations. On an accrual basis, revenue from rental and other income is recognized in the fiscal year for which the amounts are earned. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenue is recognized when measurable and available. Revenues are recognized as available if collected within sixty days of the year end. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of sales tax, franchise tax, road user fees, and in 2006 the City began collecting property taxes and is no longer charging road use fees. Sales Tax revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

When the City incurs an expenditure for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS
 September 30, 2004, 2005, 2006

NOTE 3- FINANCIAL STATEMENT AMOUNTS

A. 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.

B. Inventories and Prepaid Items

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

C. 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.

D. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

E. Compliance and Accountability

1. Finance-related Legal Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None Reported	Not Applicable

CITY OF BEVIL OAKS, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2004, 2005, 2006

NOTE 3- FINANCIAL STATEMENT AMOUNTS

E. Compliance and Accountability (continued)

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at yearend, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None Reported	Not Applicable	Not Applicable

NOTE 4 - 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 the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Interest income on time deposits is not recorded in the accounts until received, since time deposits are subject to withdrawal before maturity with a resulting forfeiture of accrued interest. This failure to accrue interest does not materially affect either the financial position or results of operations of funds having such deposits.

The City's cash deposits at September 30, 2005 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.

		<u>Carrying Amount</u>	<u>Bank Balances</u>
The City's deposits as of September 30	2004	\$ 149,907	\$ 150,596
	2005	173,981	174,370
	2006	83,787	88,583
City's Certificates of Deposit and Savings at Merrill Lynch	2004	33,551	33,551
	2005	34,185	34,185
	2006	181,901	181,555

CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 4 - DEPOSITS, SECURITIES, AND INVESTMENTS

All of the District's investments are in Merrill Lynch in Certificates of Deposits.

NOTE 5- GOVERNMENT ACTIVITIES

Government Activities		Land	Building & Improvements	Infrastructure	Furniture, Fixtures & Equipment	Total
Beginning Balance						
	1-Oct-03	10,000	40,000	-	87,510	137,510
FY 2004 Additions		-	-	-	-	-
FY 2005 Additions		-	-	-	-	-
FY 2006 Additions		-	10,563	-	-	10,563
Balance September 30, 2006		10,000	50,563	-	87,510	148,073
Accumulated Depreciation						
	1-Oct-03	-	14,000	-	25,572	39,572
FY 2004 Additions		-	1,000	-	11,109	12,109
FY 2005 Additions		-	1,000	-	11,109	12,109
FY 2006 Additions		-	1,000	-	11,109	12,109
			17,000		58,899	75,899

Depreciation Expense was charges as follows:

	2004	2005	2006
General Government	1,000	1,000	1,000
Public Safety	4,716	4,716	4,716
Road Maintenance	6,393	6,393	6,393
Parks and Recreation	-	-	-

The City has elected to record infrastructure assets prospectively.

CITY OF BEVIL OAKS, TEXAS
NOTES TO FINANCIAL STATEMENTS
 September 30, 2004, 2005, 2006

NOTE 5- GOVERNMENT ACTIVITIES

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

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

NOTE 6- OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Generally accepted accounting principles require disclosure, as part of the Combined Statements – Overview, of certain information concerning individual funds including:

- A. Segment information for certain individual Enterprise Funds. The City maintains no Enterprise Funds.
- B. Deficit fund balances or retained earnings balances of individual funds. No funds reflected such balances at September 30, 2005.
- C. Individual fund interfund receivable and payable balances. The City has no interfund receivables or payables at September 30, 2005.

NOTE 7- 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 2004, 2005, and 2006 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.

NOTE 8-PRIOR PERIOD ADJUSTMENT

An adjustment was made to properly reflect Entergy Franchise Fee collected in fiscal year 2003, and to correct certain beginning balances.

