

**CITY OF
WEST UNIVERSITY PLACE, TEXAS**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2003

CITY OF WEST UNIVERSITY PLACE, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended December 31, 2003

CITY OFFICIALS

Burt Ballanfant
Mayor

Members of the City Council

Teresa Fogler
Mike Farley
Steven Segal
Mike Woods

Officials Issuing Report

Michael Ross
City Manager

Walter Thomas
Finance Director

CITY OF WEST UNIVERSITY PLACE, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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INTRODUCTORY SECTION

June 7, 2004

To the Citizens of the City of West University Place:

The Comprehensive Annual Financial Report of the City of West University Place (the "City") for the fiscal year ended December 31, 2003, is hereby submitted. Responsibility for both the accuracy of the data, and completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position, results of operations and cash flows of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management. We believe that the City's current system of internal controls adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

As required by the City's charter, the financial statements have been audited by Pattillo, Brown & Hill, L.L.P., a firm of certified public accountants. The goal of the independent audit was to provide reasonable assurances that the financial statements of the City of West University Place for the fiscal year ended December 31, 2003, are free of material misstatement. The independent audit involved examining on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit that there was a reasonable basis for rendering an unqualified opinion that the City of West University Place's financial statements for fiscal year ended December 31, 2003, are presented in conformity with generally accepted accounting principles (GAAP).

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial and statistical. The introductory section includes this transmittal letter and the City's organizational chart. The financial section includes auditor's report on the financial statements, a narrative introduction, overview and analysis required by GAAP in the form of the Management's Discussion and Analysis, the basic financial statements and combining and individual financial statements. This letter of transmittal is designed to complement the 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 unaudited financial and demographic information generally presented on a multi-year basis.

PROFILE OF THE GOVERNMENT

The City was incorporated in 1924 and became a Texas Home-Rule City in 1940. West University Place operates under the Council-Manager form of municipal government. The mayor and council are responsible for passing ordinances, adopting the budget, appointing board and committee members, and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the mayor and council, overseeing the day-to-day operations of the City, and appointing department heads. The mayor and council are elected on an at large, non-partisan basis. The mayor and council members are elected for two-year terms.

The City provides a full range of municipal services. These services include police and fire protection, municipal court, streets, drainage, leisure services, water and sewer, solid waste collection and disposal, community development, and general administrative services. Based upon the criterion set forth in generally accepted accounting principles, the following organizations are includable within the City's reporting entity:

<u>Entity</u>	<u>Method of Inclusion</u>
Friends of West University Place Parks	Blended

ECONOMIC CONDITION AND OUTLOOK

The City of West University Place, Texas encompasses a 1.9 square mile area located a few blocks south of U.S. Highway 59 (the "Southwest Freeway") and approximately five miles from downtown Houston, Texas. The City is an integral part of the Houston metropolitan area and is completely surrounded by the Cities of Houston, Bellaire and Southside Place. The City is primarily a residential area whose approximately 13,000 inhabitants are employed throughout the Houston urban area. Rice University and the Texas Medical Center complex are located about one mile east of the city limits in the City of Houston.

There is almost no vacant and/or undeveloped land in West U so construction generally involves rebuilding and remodeling. In the mid-1980s building activity took off at a blistering pace. Property values soared as a result. Assessed value of property in the City rose from \$768 million in 1988 to over \$2.5 billion in 2003. Rebuilding activity hasn't slowed since the interest rate hikes in 1996. In 2003, the City gained almost two hundred million dollars in increased property values, a nine percent increase over 2002. The rate of growth is expected to slow in the coming years as property values reach levels consistent with other urban areas.

The economic condition of the entire Houston area has been steadily improving since the recession that halted growth in the late 1980s. The economy is much more diverse so it will be less likely to suffer wild swings that were the hallmark of the past. The collapse of Enron, the merger of Compaq with Hewlett Packard and Continental Airlines continued woes all have challenged the resiliency of the Houston area economy. These events slowed growth, but the economy has proved stable. The City of West University Place's stability and growth is the result of a trend for suburban families to move closer to work. The City's low crime rate and hometown appeal has attracted many of these families. These factors have contributed and continue to contribute to the growth in property values in West University Place.

For the Future. In August of 1995 City staff began meeting with a committee of citizens with the purpose of determining a means to finance replacement of the City's aging infrastructure. Based on the recommendations of this committee, the City asked the voters to approve a \$63 million bond issue. The issue won overwhelming approval in an election held in November 1995. The first installment of the new bonds was sold in September of 1997. Construction funded by the new bonds got underway in the early spring of 1997 and will continue until 2005. When complete the City will have replaced or substantially upgraded its entire inventory of streets, drainage, water and sewer infrastructure. In 2003, construction activity continued on schedule and another \$14.7 million was spent on new streets, drainage, water and sewer assets. In 2004, much of the \$20.3 million currently in progress will be completed. All projects associated with program are expected to be completed by December 31, 2006.

Long-term Financial Planning. As a part of the Fiscal Year 2004 budget process, the Mayor and Council and City Staff updated a multi-year capital improvements program. Several projects in this plan are moving from planning:

- A new fire engine will be needed.
- Drainage improvements made in connection with the Harris County Flood Control District may require the City to issue about \$4 million in new debt.

These projects are not expected to be implemented until after fiscal year 2005.

FINANCIAL INFORMATION

Budgeting Controls. The City Charter of the City of West University Place establishes the fiscal year as January 1 through December 31. The Charter requires the City Manager to submit a proposed budget and accompanying budget message to the City Council each year. The proposed budget is presented to the City Council at a series of budget work sessions. Department directors have an opportunity to make a budget presentation to the City Council and are available for questions. Copies of the proposed budget are made available to the public and the press and the public hearing schedule is confirmed. Before the public hearings are held, notices of the public hearings on the proposed budget are posted and published in the newspaper. After public hearings at two consecutive regular City Council meetings, the Council may adopt the proposed budget, with or without amendment. The budget ordinance is to be adopted no later than 60 days after receiving the Certified Tax Roll from the Harris County Central Appraisal District, which is usually received around August 12 each year. The Council adopts the tax rate ordinance at the same meeting as the budget. The City maintains budgetary control by adopting an annual operating budget for the General, Debt Service, Parks, Senior Activity, Court Technology, Water and Sewer, and Solid Waste funds.

Detail control is maintained at the line item level by encumbering available funds at the time a purchase order is written. Encumbrances do not lapse at fiscal year end. The City Manager is authorized to transfer budgeted amounts within departments within any fund. However, any revisions that alter the total expenditures of any fund or department must be approved by the City Council.

Cash Management. Cash temporarily idle during the year was invested in U.S. Treasury Bills and Notes, Agency Discount Notes and Medium Term Notes and a local government investment pool (TexPool). The average yield on investments for the year was approximately 1.83%. The primary objectives of the City's investment policy, in priority order, are safety (preservation of capital), liquidity (to provide adequate and timely working funds), and return on investment (obtaining a rate of return commensurate with investment risk constraints and cash flow needs). All deposits were either insured by federal deposit insurance or collateralized and the collateral was held by a trustee bank in the City's name, which is the lowest category of risk as defined by the Governmental Accounting Standards Board. The City currently holds the Certificate of Distinction from the Government Treasurer's Organization of Texas for its investment policy.

Risk Management. Insurance coverage for property, liability and workers' compensation is provided by the Texas Municipal League Intergovernmental Risk Pool, a State Insurance Pool. Contributions to the Risk Pool for workers' rates are based on the City's past claims history. The Risk Pool retains a limit of loss and reinsurance companies insure the risks beyond those limits. During the fiscal year, representatives from the Risk Pool physically reviewed City facilities to identify possible risks. City employees also participated in Risk Pool sponsored safety training classes.

AWARDS AND ACKNOWLEDGEMENTS

Awards. 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 West University Place for its comprehensive annual financial report for the fiscal year ended December 31, 2002. This was the fourteenth consecutive year the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. 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.

Acknowledgements. The preparation of this report could not be accomplished on a timely basis without the dedicated endeavors of the entire staff of the Finance Department. I would like to express my sincere appreciation to all employees who contributed to the preparation. Additionally, I would also like to thank the Mayor, City Council, and City Manager for their support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

Walter Thomas
Finance Director

Citizens of West University Place

Mayor and City Council

Appointed Boards and Commissions **City Secretary** **City Manager** **City Attorney** **City Judges**

Fire **Finance** **Police** **Human Resources**

- Fire Education
- Fire Prevention
- Fire Suppression
- EMS

- Accounting** **Municipal Court**
- Budgeting
 - Payroll
 - Accounts Payable
 - Utility & Tax Billing
 - Court Administration
 - Collect Fees & Fines

- Patrol Services** **Support Services**
- Jailing
 - Preventative Patrols
 - Crime Scene Investigation
 - Traffic Enforcement
 - Alarm Monitoring
 - Follow-Up Investigation
 - Public Safety Dispatch
 - Public Relations Programs

- Recruiting
- Employee Benefits
- Risk Management

Public Works

Parks and Recreation

Development Services **General Services** **Operations** **Planning**

- Building Inspection
- Code Enforcement
- Facilities Management
- Solid Waste
- Fleet Maintenance
- Recycling
- Street Signs
- Water
- Sewer Streets
- Drainage
- Forestry
- Planning
- GIS
- Zoning

Park Operations **Senior Services**

- Maintain & develop open space & parks
- Recreational, aquatic, & sports classes & activities
- Special events
- Transportation Recreation & Activities
- Social Services
- Health Fairs and Awareness

CITY OF WEST UNIVERSITY PLACE, TEXAS

CERTIFICATE OF ACHIEVEMENT

DECEMBER 31, 2003

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Member of the City of Council
City of West University Place, 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 West University Place, Texas, as of and for the year ended December 31, 2003, 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 of West University Place, Texas' 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 West University Place, Texas, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of December 31, 2003.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of West University Place, Texas' basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have 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. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

March 19, 2004

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

Management's Discussion and Analysis

The management of the City of West University Place offers readers of the City's financial statement the following narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2003. 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 i - iv of this report. The City implemented Governmental Accounting Standards Board Statement 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (GASB 34) for the first time this year.

FINANCIAL HIGHLIGHTS

- The assets of the City of West University Place exceeded its liabilities as of December 31, 2003, by \$38,857,154 (net assets). Of this amount, \$904,404 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets decreased by \$219,429.
- As of the close of the current fiscal year, the City West University Place's governmental funds reported combined ending fund balances of \$23,198,907. Of this amount, \$20,393,223 is unreserved fund balance available for use within the City's fund designation and fiscal policies.
- As of December 31, 2003, unreserved, undesignated fund balance for the General Fund was \$841,381 or 8.25% of the total General Fund budgeted expenditures and other financing uses.

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 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, which begin on page 18 of this report, 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).

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, Community Development, Fire and Rescue, Leisure Services, Maintenance, Municipal Court, Police, and Streets and Drainage. The business-type activities of the City include Water and Wastewater, and Solid Waste Utility.

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 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.

Beginning on page 14 of this report, 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, which is considered a major fund. Data from the 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.

Proprietary Funds – The City maintains two types of proprietary funds. 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 the Water and Sewer and Solid Waste Funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City’s various functions. The City uses its Internal Service Funds to account for its Equipment Replacement Services. This internal service function has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements which begin on page 19 of this report provide separate information for the Water and Sewer and Solid Waste Enterprise Funds since these are considered to be major funds of the City.

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 23 –47 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements and schedules that further support the information in the financial statements. The combining fund statements and schedules for nonmajor funds are presented immediately following the notes to the financial statements beginning on page 48 of this report.

GOVERNMENTAL-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 West University Place, assets exceeded liabilities by \$33,092,208 as of December 31, 2003.

The largest portion of the City’s net assets (\$29,952,528) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any outstanding debt used to acquire those assets. The City uses these 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.

With the first year implementation of GASB 34, the City is not presenting comparable columns in the various comparisons and analyses for the prior year.

CITY OF WEST UNIVERSITY PLACE'S NET ASSETS

	<u>Governmental Activities 2003</u>	<u>Business-type Activities 2003</u>	<u>Total</u>
Current and other assets	\$ 32,078,990	\$ 1,796,104	\$ 33,875,094
Capital assets	<u>66,404,491</u>	<u>37,595,957</u>	<u>104,000,448</u>
Total assets	<u>98,483,481</u>	<u>39,392,061</u>	<u>137,875,542</u>
Long-term liabilities	75,406,662	15,455,000	90,861,662
Other liabilities	<u>12,819,772</u>	<u>1,101,900</u>	<u>13,921,672</u>
Total liabilities	<u>88,226,434</u>	<u>16,556,900</u>	<u>104,783,334</u>
Net assets:			
Invested in capital assets, net of related debt	7,811,571	22,140,957	29,952,528
Restricted	1,055,022	1,180,254	2,235,276
Unrestricted	<u>1,390,454</u>	<u>(486,050)</u>	<u>904,404</u>
Total net assets	<u>\$ 10,257,047</u>	<u>\$ 22,835,161</u>	<u>\$ 33,092,208</u>

A portion of the City's net assets (\$2,235,276) represents resources that are subject to external restriction on how they may be used. The remaining balance (\$904,404) of unrestricted net assets may be used to meet the City's ongoing obligation to citizens and creditors in accordance with the City's fund designation and fiscal policies.

Analysis of the City's Operations – The following table provides a summary of the City's operations for the year ended December 31, 2003. The City first implemented GASB 34 in 2003; therefore, comparative data is not presented. Governmental activities decreased the City of West University Place's net assets by \$1,933,321, accounting for 96.7% of the total growth in net assets. Business-type activities increased the City's net assets by \$1,713,892, accounting for 3.3% of the total growth in net assets.

CITY OF WEST UNIVERSITY PLACE'S CHANGES IN NET ASSETS

	Governmental Activities 2003	Business-type Activities 2003	Total
Revenues:			
Program revenues:			
Charges for services	\$ 1,790,770	\$ 4,155,046	\$ 5,945,816
Operating grants and contributions	236,989	-	236,989
Capital grants and contributions	261,976	-	261,976
General revenues:			
Property taxes	10,776,867	-	10,776,867
Sales taxes	758,947	-	758,947
Franchise taxes	873,649	-	873,649
Other taxes	18,343	-	18,343
Investment earnings	515,414	10,280	525,694
Miscellaneous	159,582	-	159,582
Total revenues	<u>15,392,537</u>	<u>4,165,326</u>	<u>19,557,863</u>
Expenses:			
General administration	2,070,377	-	2,070,377
Public safety	4,816,966	-	4,816,966
Public works	2,554,406	-	2,554,406
Public services	1,148,718	-	1,148,718
Interest on long term debt	3,820,949	-	3,820,949
Water and sewer	-	4,567,117	4,567,117
Solid waste	-	798,759	798,759
Total expenses	<u>14,411,416</u>	<u>5,365,876</u>	<u>19,777,292</u>
Increase (decrease) in net assets before transfers	981,121	(1,200,550)	(219,429)
Transfers	<u>(2,914,442)</u>	<u>2,914,442</u>	<u>-</u>
Increase (decrease) in net assets	(1,933,321)	1,713,892	(219,429)
Net assets, October 1, 2002	10,987,527	21,121,269	32,108,796
Prior period adjustment	<u>1,202,841</u>	<u>-</u>	<u>1,202,841</u>
Net assets, September 30, 2003	<u>\$ 10,257,047</u>	<u>\$ 22,835,161</u>	<u>\$ 33,092,208</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds – The focus of the City of West University Place'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.

At the end of the current fiscal year, the City of West University Place's governmental funds reported combined ending fund balances of \$24,897,802. Approximately 88.7% of this total amount (\$22,092,118) constitutes unreserved fund balance. The remainder of the fund balance (\$2,805,684) is reserved to indicate that is not available for new spending because it has already been committed to pay for encumbrances or debt service or to provide for other items. Refer to pages 14 – 15 of this report for a more detailed presentation of governmental fund balances.

In the General Fund, the City originally budgeted for an increase in the fund balance of \$2,840. The actual decrease to fund balance for the General Fund was \$(157,873) for fiscal year 2003.

Proprietary funds – Unrestricted net assets of the respective major proprietary funds are Water and Sewer (deficit \$582,231), and Solid Waste Utility (\$96,181). The Water Sewer Fund experienced an increase in total net assets during 2003 of \$1,651,303. The Water and Sewer Fund revenues provide the debt service to fund several revenue bond issues. The Solid Waste experienced an increase in net assets of \$62,589. The City's Internal Service Fund's net assets increased by \$86,668.

Governmental Activities – The major increase in revenues comes from property taxes. The property tax base increased just under \$189 million due to construction and revaluation of property. The current year's tax collection rate was over 99% of the levy, consistent with prior years. There was an increase in license and permit revenues and engineering and inspection revenues due an increase in both residential and commercial building permits. Fines and forfeitures were down due to a decrease in citations issued. Investment income is down due to the continued low interest rates.

In 2003, work continued on the infrastructure replacement program. The 2003, Certificates of Obligation are intended to provide the funding for all of the projects originally planned in 1995 when the program began. During that time, the City has spent over \$65 million on its streets, drainage, water and sewer infrastructure. Another \$15 million is planned.

Business-type Activities – The City has two enterprise operations, the Water and Sewer Fund and the Solid Waste Fund. Total operating revenues of the Water and Sewer fund were \$3,106,875 for the year. Water and Sewer sales decreased \$108,181 or 3.3% due a wetter summer. Bond covenants require the Water and Sewer Fund's net revenues (revenues less cost of operations, excluding depreciation) to be 110% of the principal and interest requirements for that year. In 2003, the Water and Sewer Fund's net revenues were 60% of the principal and interest requirements for that year. A significant water and sewer rate increase that took effect in January of 2004 is expected to bring the City back into compliance.

The Solid Waste Fund's operating revenues increased \$87,993 due to a rate increase that took effect during 2002.

The Water and Sewer Fund expenses decreased \$112,153 or 4.5% because of the decrease in the purchase of surface water. The Solid Waste Fund's expenses increased \$168,169 due to higher personnel and operating costs.

General Fund Budgetary Highlights – The City did not adopt revisions to the original appropriations approved by the City Council.

The General Fund's overall revenues did not meet budget by \$89,287 due to lower interest rates and fewer citations. A one-time increase in Sales Tax Revenue added \$212,290 to partially offset the shortfalls.

Expenditures in the General Fund fell below budget by \$141,574 due to vacancies in the Police Department.

CAPITAL ASSETS

The City of West University Place's investment in capital assets for its governmental and business-type activities as of December 31, 2003, amounts to \$103,279,646 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements other than buildings, infrastructure and construction work in progress. Major capital asset events occurring during the current fiscal year included the following:

- Capitalized approximately \$9.6 million in street and drainage improvements; and
- Capitalized approximately \$3.1 million on various water and wastewater system projects.

CITY OF WEST UNIVERSITY PLACE'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities 2003	Business-type Activities 2003	Total
Land	\$ 5,864,089	\$ 193,875	\$ 6,057,964
Buildings and improvements	7,966,099	459,625	8,425,724
Equipment	4,722,698	1,130,848	5,853,546
Infrastructure/water distribution sewer collection	42,953,088	47,307,691	90,260,779
Construction in progress	16,406,285	4,603,120	21,009,405
Less: accumulated depreciation	<u>(11,507,768)</u>	<u>(16,099,202)</u>	<u>(27,606,970)</u>
Total assets	<u>\$ 66,404,491</u>	<u>\$ 37,595,957</u>	<u>\$ 104,000,448</u>

Additional information on the City's capital assets can be found in Note 4, pages 38 – 39 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of West University Place had total bonded debt of \$93,850,000. Of this amount, \$77,855,000 represents bonded debt backed by the full faith and credit of the government and \$15,995,000 represents bonds secured solely by water and sewer revenues.

OUTSTANDING BONDS AND CERTIFICATES OF OBLIGATION AT YEAR-END

	Governmental Activities 2003	Business-type Activities 2003	Total
General obligation bonds	\$ 64,715,000	\$ -	\$ 64,715,000
Certificates of obligation	13,140,000	-	13,140,000
Revenue bonds payable	<u>-</u>	<u>15,995,000</u>	<u>15,995,000</u>
Total	<u>\$ 77,855,000</u>	<u>\$ 15,995,000</u>	<u>\$ 93,850,000</u>

During the fiscal year, the City issued \$9,900,000 in Certificates of Obligations.

The City's General Obligation, Tax and Water Works and Sewer System Certificates of Obligation, and Water Works and Sewer System Revenue Bond ratings are listed below.

	<u>Moody's Investor Services</u>	<u>Standard and Poor's</u>
General Obligation Bonds	AA+	AA+
Water Revenue Bonds	AA+	AA-

Additional information on the City of West University Place's long term-debt can be found in Note 4 on pages 41 – 43 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The General Fund budget (including transfers in and planned utilization of surplus) for fiscal year 2004 is based on projected revenue growth of 2.74% compared to the fiscal year 2003 budget. Taxes account for the increase. Property taxes, which are about 53% of General Fund revenues, are budgeted at a 7.5% increase compared to the 2003 budget. This reflects the net effect of valuation increases and new construction, combined with a recently adopted increase in the over-65 and disabled exemption to \$110,000. Approximately 6% of General Fund revenues are sales taxes. Sales taxes have been budgeted to remain virtually even with the FY 2003 budget.

The 2004 budget includes for the General Fund and other funds a 2% increase in contributions to the Texas Municipal Retirement System and a 1% salary increase for all employees. The growth in personnel costs was partially offset by freezing and subsequently deleting two police office positions.

There was a major rate increase in the 2004 budget for the Water and Sewer Fund. The Water and Sewer Fund's debt service went from zero in 1995 to \$1.3 million in 2004. Funding this debt service is the primary force behind the rate increase. A rate study was undertaken by the engineering firm, Black and Veatch. The study recommended a 30% increase to take effect in 2004 and another 12% to be implemented in 2005. Council adopted the first increase in December 2003 and it took effect in January 2004.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact Walter Thomas, Finance Director, at 3800 University Boulevard, West University Place, Texas 77005, or call (713) 662-5816.

**BASIC
FINANCIAL STATEMENTS**

CITY OF WEST UNIVERSITY PLACE, TEXAS

STATEMENT OF NET ASSETS

DECEMBER 31, 2003

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 29,136,070	\$ 293,470	\$ 29,429,540
Receivables, net of allowances for uncollectibles:			
Taxes	349,208	-	349,208
Customer accounts	37,620	622,570	660,190
Other	151,392	-	151,392
Internal balances	2,178,130	(2,178,130)	-
Inventory	758	-	758
Prepaid expenses	70,651	-	70,651
Restricted cash and investments	-	3,058,194	3,058,194
Deferred charges	155,161	-	155,161
Capital assets:			
Land	5,864,089	193,875	6,057,964
Buildings and improvements	7,966,099	459,625	8,425,724
Furniture and equipment	4,722,698	1,130,848	5,853,546
Infrastructure	42,953,088	47,307,691	90,260,779
Construction in progress	16,406,285	4,603,120	21,009,405
Less: accumulated depreciation	(11,507,768)	(16,099,202)	(27,606,970)
Total capital assets	<u>66,404,491</u>	<u>37,595,957</u>	<u>104,000,448</u>
Total assets	<u>98,483,481</u>	<u>39,392,061</u>	<u>137,875,542</u>
LIABILITIES			
Accounts payable	2,240,661	205,823	2,446,484
Accrued liabilities	231,368	36,596	267,964
Unearned revenue	5,788,771	-	5,788,771
Accrued interest payable	1,759,423	-	1,759,423
Liabilities payable from restricted assets	-	859,481	859,481
Noncurrent liabilities:			
Due within one year	2,799,549	-	2,799,549
Due in more than one year	<u>75,406,662</u>	<u>15,455,000</u>	<u>90,861,662</u>
Total liabilities	<u>88,226,434</u>	<u>16,556,900</u>	<u>104,783,334</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,811,571	22,140,957	29,952,528
Restricted for:			
Capital projects	305,496	-	305,496
Debt service	749,526	1,180,254	1,929,780
Unrestricted	<u>1,390,454</u>	<u>(486,050)</u>	<u>904,404</u>
Total net assets	<u>\$ 10,257,047</u>	<u>\$ 22,835,161</u>	<u>\$ 33,092,208</u>

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

CITY OF WEST UNIVERSITY PLACE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2003

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General administration	\$ 2,070,377	\$ 428,859	\$ 10,660	\$ 2,976
Public safety	4,816,966	710,560	-	-
Public works	2,554,406	-	48,784	259,000
Public services	1,148,718	651,351	177,545	-
Interest on long-term debt	3,820,949	-	-	-
Total governmental activities	<u>14,411,416</u>	<u>1,790,770</u>	<u>236,989</u>	<u>261,976</u>
Business-type activities:				
Water and sewer	4,567,117	3,106,875	-	-
Solid waste	798,759	1,048,171	-	-
Total business-type activities	<u>5,365,876</u>	<u>4,155,046</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 19,777,292</u>	<u>\$ 5,945,816</u>	<u>\$ 236,989</u>	<u>\$ 261,976</u>

General revenues:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Sales taxes
- Franchise taxes
- Other taxes
- Investment earnings
- Miscellaneous
- Transfers
- Total general revenues and transfers
- Change in net assets
- Net assets, beginning
- Prior period adjustment
- Net assets, beginning, as restated
- Net assets, ending

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

Net (Expenses) Revenues and
Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$(1,627,882)	\$ -	\$(1,627,882)
(4,106,406)	-	(4,106,406)
(2,246,622)	-	(2,246,622)
(319,822)	-	(319,822)
(3,820,949)	-	(3,820,949)
<u>(12,121,681)</u>	<u>-</u>	<u>(12,121,681)</u>
-	(1,460,242)	(1,460,242)
<u>-</u>	<u>249,412</u>	<u>249,412</u>
<u>-</u>	<u>(1,210,830)</u>	<u>(1,210,830)</u>
<u>(12,121,681)</u>	<u>(1,210,830)</u>	<u>(13,332,511)</u>
4,765,758	-	4,765,758
6,011,109	-	6,011,109
758,947	-	758,947
873,649	-	873,649
18,343	-	18,343
515,414	10,280	525,694
159,582	-	159,582
<u>(2,914,442)</u>	<u>2,914,442</u>	<u>-</u>
<u>10,188,360</u>	<u>2,924,722</u>	<u>13,113,082</u>
(1,933,321)	1,713,892	(219,429)
10,987,527	21,121,269	32,108,796
1,202,841	-	1,202,841
<u>12,190,368</u>	<u>21,121,269</u>	<u>33,311,637</u>
<u>\$ 10,257,047</u>	<u>\$ 22,835,161</u>	<u>\$ 33,092,208</u>

CITY OF WEST UNIVERSITY PLACE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

DECEMBER 31, 2003

			Capital Projects	
	General	Debt Service	Infrastructure Replacement	Sidewalk Construction
ASSETS				
Cash and investments	\$ 3,524,799	\$ 3,896,120	\$ 16,148,629	\$ 4,809,448
Receivables, net of allowances for uncollectibles				
Property taxes	86,003	93,381	-	-
Other taxes	169,824	-	-	-
Customer accounts	37,620	-	-	-
Other	151,392	-	-	-
Due from other funds	100,000	-	-	-
Inventory	-	-	-	-
Prepaid expenditures	70,651	-	-	-
Advances to other funds	<u>2,078,130</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 6,218,419</u>	<u>\$ 3,989,501</u>	<u>\$ 16,148,629</u>	<u>\$ 4,809,448</u>
LIABILITIES				
Accounts payable	\$ 356,494	\$ -	\$ 1,851,118	\$ -
Accrued liabilities	231,328	-	-	40
Deferred revenue	<u>2,640,435</u>	<u>3,333,356</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>3,228,257</u>	<u>3,333,356</u>	<u>1,851,118</u>	<u>40</u>
FUND BALANCES				
Reserved for:				
Advances	2,078,130	-	-	-
Prepays	70,651	-	-	-
Inventory	-	-	-	-
Debt service	-	656,145	-	-
Unreserved, reported in:				
General fund	841,381	-	-	-
Special revenue funds	-	-	-	-
Capital projects fund	<u>-</u>	<u>-</u>	<u>14,297,511</u>	<u>4,809,408</u>
Total fund balances	<u>2,990,162</u>	<u>656,145</u>	<u>14,297,511</u>	<u>4,809,408</u>
Total liabilities and fund balances	<u>\$ 6,218,419</u>	<u>\$ 3,989,501</u>	<u>\$ 16,148,629</u>	<u>\$ 4,809,448</u>

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

An Internal Service Fund is used by management to charge the costs of certain capital assets to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the statement of net assets.

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Net assets of governmental activities

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

Other Governmental Funds	Total Governmental Funds
\$ 477,972	\$ 28,856,968
-	179,384
-	169,824
-	37,620
-	151,392
-	100,000
758	758
-	70,651
-	<u>2,078,130</u>
<u>\$ 478,730</u>	<u>\$ 31,644,727</u>
\$ 33,049	\$ 2,240,661
-	231,368
-	<u>5,973,791</u>
<u>33,049</u>	<u>8,445,820</u>
-	2,078,130
-	70,651
758	758
-	656,145
-	841,381
139,427	139,427
<u>305,496</u>	<u>19,412,415</u>
<u>445,681</u>	23,198,907
<u>\$ 478,730</u>	
	65,715,202
	185,020
	968,391
	<u>(79,810,473)</u>
	<u>\$ 10,257,047</u>

CITY OF WEST UNIVERSITY PLACE, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES**

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>General</u>	<u>Debt Service</u>
REVENUES		
Taxes	\$ 6,413,588	\$ 6,002,628
Permits, licenses and fees	432,144	-
Fines	243,931	-
Charges for services	1,086,952	-
Intergovernmental	-	-
Investment earnings	75,620	34,181
Other	<u>173,148</u>	<u>-</u>
Total revenues	<u>8,425,383</u>	<u>6,036,809</u>
EXPENDITURES		
Current:		
General government	1,952,308	-
Public safety	4,701,684	-
Public works	1,631,434	-
Public services	928,830	-
Capital outlay	-	-
Debt service:		
Principal	-	2,295,000
Interest and fiscal charges	<u>-</u>	<u>3,653,489</u>
Total expenditures	<u>9,214,256</u>	<u>5,948,489</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(788,873)</u>	<u>88,320</u>
OTHER FINANCING SOURCES		
Capital-related debt issued	-	-
Transfers in	<u>631,000</u>	<u>-</u>
Total other financing sources	<u>631,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(157,873)</u>	<u>88,320</u>
FUND BALANCES, BEGINNING AS PREVIOUSLY STATED	2,925,536	567,825
PRIOR PERIOD ADJUSTMENT	<u>222,499</u>	<u>-</u>
FUND BALANCES, BEGINNING AS RESTATED	<u>3,148,035</u>	<u>567,825</u>
FUND BALANCES, ENDING	<u>\$ 2,990,162</u>	<u>\$ 656,145</u>

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

Capital Projects		Other Governmental Funds	Total Governmental Funds
Infrastructure Replacement	Sidewalk Construction		
\$ -	\$ -	\$ -	\$ 12,416,216
-	-	12,742	444,886
-	-	-	243,931
-	-	-	1,086,952
259,000	-	48,784	307,784
320,633	74,085	6,748	511,267
26,107	2,976	185,666	387,897
<u>605,740</u>	<u>77,061</u>	<u>253,940</u>	<u>15,398,933</u>
-	-	-	1,952,308
-	-	-	4,701,684
-	-	-	1,631,434
-	-	86,196	1,015,026
12,741,723	152,269	213,816	13,107,808
-	-	-	2,295,000
155,161	-	-	3,808,650
<u>12,896,884</u>	<u>152,269</u>	<u>300,012</u>	<u>28,511,910</u>
(12,291,144)	(75,208)	(46,072)	(13,112,977)
9,918,331	-	-	9,918,331
-	-	-	631,000
<u>9,918,331</u>	<u>-</u>	<u>-</u>	<u>10,549,331</u>
(2,372,813)	(75,208)	(46,072)	(2,563,646)
15,467,483	4,884,616	491,753	24,337,213
1,202,841	-	-	1,425,340
<u>16,670,324</u>	<u>4,884,616</u>	<u>491,753</u>	<u>25,762,553</u>
<u>\$ 14,297,511</u>	<u>\$ 4,809,408</u>	<u>\$ 445,681</u>	<u>\$ 23,198,907</u>

CITY OF WEST UNIVERSITY PLACE, TEXAS

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

FOR THE YEAR ENDED DECEMBER 31, 2003

Amounts reported for governmental activities in the Statement of Activities (pages 12 - 13) are different because:

Net change in fund balances - total governmental funds (pages 16 - 17)	\$(2,563,646)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	8,218,954
The net effect of various miscellaneous transactions involving capital assets (i.e. , sales, trade-ins, and donations) is to increase net assets.	(22,133)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	11,590
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(7,449,839)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(214,915)
Internal Service Funds are used by management to charge the costs of certain capital assets to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>86,668</u>
Change in net assets of governmental activities (pages 16 - 17)	<u>\$(1,933,321)</u>

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

CITY OF WEST UNIVERSITY PLACE, TEXAS

GENERAL FUND

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

FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property taxes	\$ 4,770,270	\$ 4,770,270	\$ 4,762,649	\$(7,621)
Franchise	915,000	915,000	873,649	(41,351)
Sales	565,000	565,000	777,290	212,290
Licenses and permits	453,000	453,000	432,144	(20,856)
Fines	325,000	325,000	243,931	(81,069)
Charges for services	956,000	956,000	1,086,952	130,952
Investment earnings	280,000	280,000	75,620	(204,380)
Other revenues	250,400	250,400	173,148	(77,252)
Total revenues	<u>8,514,670</u>	<u>8,514,670</u>	<u>8,425,383</u>	<u>(89,287)</u>
EXPENDITURES				
General government:				
Administration	564,110	564,110	587,280	(23,170)
Finance	1,432,730	1,432,730	1,365,028	67,702
Public safety:				
Police	2,933,260	2,933,260	2,732,486	200,774
Fire	1,906,400	1,906,400	1,969,198	(62,798)
Public works	1,663,200	1,663,200	1,631,434	31,766
Public service	856,130	856,130	928,830	(72,700)
Total expenditures	<u>9,355,830</u>	<u>9,355,830</u>	<u>9,214,256</u>	<u>141,574</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	844,000	844,000	631,000	(213,000)
Total other financing sources and uses	<u>844,000</u>	<u>844,000</u>	<u>631,000</u>	<u>(213,000)</u>
NET CHANGE IN FUND BALANCES	2,840	2,840	(157,873)	(160,713)
FUND BALANCES, BEGINNING AS PREVIOUSLY STATED	2,925,536	2,925,536	2,925,536	-
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>222,499</u>	<u>222,499</u>
FUND BALANCES, BEGINNING AS RESTATED	<u>2,925,536</u>	<u>2,925,536</u>	<u>3,148,035</u>	<u>222,499</u>
FUND BALANCES, ENDING	<u>\$ 2,928,376</u>	<u>\$ 2,928,376</u>	<u>\$ 2,990,162</u>	<u>\$ 61,786</u>

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

CITY OF WEST UNIVERSITY PLACE, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

DECEMBER 31, 2003

ASSETS	Business-type Activities - Enterprise Funds			Governmental Activities- Internal Service Fund
	Water and Sewer	Solid Waste	Total	
ASSETS				
Current assets:				
Cash and investments	\$ 150,722	\$ 142,748	\$ 293,470	\$ 279,102
Accounts receivable, net of allowances	502,441	120,129	622,570	-
Restricted cash and investments	<u>3,058,194</u>	<u>-</u>	<u>3,058,194</u>	<u>-</u>
Total current assets	<u>3,711,357</u>	<u>262,877</u>	<u>3,974,234</u>	<u>279,102</u>
Noncurrent assets:				
Capital assets:				
Land	193,875	-	193,875	-
Buildings and improvements	459,625	-	459,625	-
Furniture and equipment	1,130,848	-	1,130,848	1,224,862
Water and sewer system	47,307,691	-	47,307,691	-
Construction in progress	4,603,120	-	4,603,120	-
Less: accumulated depreciation	<u>(16,099,202)</u>	<u>-</u>	<u>(16,099,202)</u>	<u>(535,573)</u>
Total capital assets	<u>37,595,957</u>	<u>-</u>	<u>37,595,957</u>	<u>689,289</u>
Total noncurrent assets	<u>37,595,957</u>	<u>-</u>	<u>37,595,957</u>	<u>689,289</u>
Total assets	<u>41,307,314</u>	<u>262,877</u>	<u>41,570,191</u>	<u>968,391</u>
LIABILITIES				
Current liabilities:				
Accounts payable	152,364	53,459	205,823	-
Accrued liabilities	23,359	13,237	36,596	-
Due to other funds	<u>-</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total current liabilities	<u>175,723</u>	<u>166,696</u>	<u>342,419</u>	<u>-</u>
Current liabilities payable from restricted assets:				
Accrued interest payable	319,481	-	319,481	-
Revenue bonds	<u>540,000</u>	<u>-</u>	<u>540,000</u>	<u>-</u>
Total current liabilities payable from restricted assets	<u>859,481</u>	<u>-</u>	<u>859,481</u>	<u>-</u>
Noncurrent liabilities:				
Advances from other funds	2,078,130	-	2,078,130	-
Revenue bonds	<u>15,455,000</u>	<u>-</u>	<u>15,455,000</u>	<u>-</u>
Total noncurrent liabilities	<u>17,533,130</u>	<u>-</u>	<u>17,533,130</u>	<u>-</u>
Total liabilities	<u>18,568,334</u>	<u>166,696</u>	<u>18,735,030</u>	<u>-</u>
NET ASSETS				
Invested in capital assets, net of related debt	22,140,957	-	22,140,957	-
Restricted for debt service	1,180,254	-	1,180,254	-
Unrestricted	<u>(582,231)</u>	<u>96,181</u>	<u>(486,050)</u>	<u>968,391</u>
Total net assets	<u>\$ 22,738,980</u>	<u>\$ 96,181</u>	<u>\$ 22,835,161</u>	<u>\$ 968,391</u>

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

CITY OF WEST UNIVERSITY PLACE, TEXAS

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

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2003

	Business-type Activities - Enterprise Funds			Governmental Activities- Internal Service Fund
	Water and Sewer	Solid Waste	Total	
OPERATING REVENUES				
Charges for services	\$ 3,106,875	\$ 941,585	\$ 4,048,460	\$ 303,840
Other	-	106,586	106,586	-
Total operating revenues	3,106,875	1,048,171	4,155,046	303,840
OPERATING EXPENSES				
Cost of goods and services	1,540,842	372,503	1,913,345	74,304
Personnel	816,353	426,256	1,242,609	-
Depreciation	1,442,212	-	1,442,212	147,015
Total operating expenses	3,799,407	798,759	4,598,166	221,319
OPERATING INCOME (LOSS)	(692,532)	249,412	(443,120)	82,521
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	7,103	3,177	10,280	4,147
Interest and fiscal charges	(767,710)	-	(767,710)	-
Total nonoperating revenues (expenses)	(760,607)	3,177	(757,430)	4,147
INCOME (LOSS) BEFORE TRANSFERS	(1,453,139)	252,589	(1,200,550)	86,668
TRANSFERS IN	3,545,442	-	3,545,442	-
TRANSFERS OUT	(441,000)	(190,000)	(631,000)	-
CHANGES IN NET ASSETS	1,651,303	62,589	1,713,892	86,668
NET ASSETS, BEGINNING	21,087,677	33,592	21,121,269	881,723
NET ASSETS, ENDING	\$ 22,738,980	\$ 96,181	\$ 22,835,161	\$ 968,391

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

CITY OF WEST UNIVERSITY PLACE, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2003

	Business-type Activities - Enterprise Funds			Governmental Activities- Internal Service Fund
	Water and Sewer	Solid Waste	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 3,154,090	\$ 1,040,515	\$ 4,194,605	\$ 303,840
Cash paid to suppliers for goods and services	(1,534,454)	(344,477)	(1,878,931)	(74,304)
Cash paid to employees for services	(816,353)	(421,925)	(1,238,278)	-
Net cash provided by operating activities	<u>803,283</u>	<u>274,113</u>	<u>1,077,396</u>	<u>229,536</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances from other funds	937,130	-	937,130	-
Payments to other funds	-	(90,000)	(90,000)	-
Transfers from other funds	3,545,442	-	3,545,442	-
Transfers to other funds	(441,000)	(190,000)	(631,000)	-
Net cash provided (used) by noncapital financing activities	<u>4,041,572</u>	<u>(280,000)</u>	<u>3,761,572</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(3,858,275)	-	(3,858,275)	(206,761)
Principal repayment on debt	(510,000)	-	(510,000)	-
Interest paid on debt	(767,713)	-	(767,713)	-
Net cash used by capital and related financing activities	<u>(5,135,988)</u>	<u>-</u>	<u>(5,135,988)</u>	<u>(206,761)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	<u>7,103</u>	<u>3,177</u>	<u>10,280</u>	<u>4,147</u>
Net cash provided by investing activities	<u>7,103</u>	<u>3,177</u>	<u>10,280</u>	<u>4,147</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(284,030)	(2,710)	(286,740)	26,922
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,492,946</u>	<u>145,458</u>	<u>3,638,404</u>	<u>252,180</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,208,916</u>	<u>\$ 142,748</u>	<u>\$ 3,351,664</u>	<u>\$ 279,102</u>
(Including \$3,058,194 for the water and sewer fund reported in restricted cash and investments)				
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$(692,532)	\$ 249,412	\$(443,120)	\$ 82,521
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,442,212	-	1,442,212	147,015
Changes in assets and liabilities:				
Decrease (increase) in assets:				
Accounts receivable	47,215	(7,656)	39,559	-
Other assets	-	20	20	-
Increase (decrease) in liabilities:				
Accounts payable	3,935	28,006	31,941	-
Accrued liabilities	<u>2,453</u>	<u>4,331</u>	<u>6,784</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 803,283</u>	<u>\$ 274,113</u>	<u>\$ 1,077,396</u>	<u>\$ 229,536</u>

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

CITY OF WEST UNIVERSITY PLACE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of West University Place, Texas (the "City") have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles for municipal governments. The following is a summary of the significant accounting policies and principles used by the City to prepare this financial report.

A. Reporting Entity

The City is a "Council-Manager" government. An elected council composed of a Mayor and four council members governs it. As required by generally accepted accounting principles, these financials have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity.

The decision to include or exclude a potential component unit in the reporting entity was made by applying criteria set forth by the GASB. The basic criteria for inclusion of a potential component unit in the reporting entity are as follows:

1. Legal status of the potential component unit including the right to incur its own debt, levy its own taxes and charges, expropriate property in its own name, sue and be sued, and the right to buy, sell and lease property in its own name.
2. Whether the City Council appoints a majority of Board members of the potential component unit.
3. Fiscal interdependency between the City and the potential component unit.
4. Imposition of will by the City on the potential component unit.
5. Financial benefit/burden relationship between the City and the potential component unit.

Based upon these criteria, City management has determined that the Friends of West University Parks Fund, Inc. qualifies for inclusion as a part of the reporting entity.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

The Friends of West University Parks Fund, Inc. (the “Corporation”) is a not-for-profit corporation created to solicit private contributions for the beautification, improvement, and maintenance of the City’s parkland. Following, are reasons that the Corporation was included in the City’s reporting entity:

- The Corporation’s Board of Directors is appointed by, and serves at the discretion of, City Council.
- City Council approval is required for Corporation projects exceeding \$1,000.
- In the event the Corporation is dissolved, any assets remaining will become the City’s property.

The financial activity of the Corporation is included in this report as a Special Revenue Fund (Blended Component Unit). Complete financial statements for the component unit may be obtained at the City’s Finance Department.

B. Implementation of New Accounting Pronouncement

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time, the financial statements include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations.
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The City implemented the general provisions of the Statement in the current year and retroactively reported infrastructure.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental 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 support.

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 Enterprise Funds are reported as separate columns in the fund financial statements.

D. 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 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 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 government considers revenue to be available if 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.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)

Property taxes, franchise taxes, sales 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.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Debt Service Fund** was established to accumulate resources devoted to servicing the City's long-term general obligation debt.

The **Infrastructure Improvement Fund** accounts for bond proceeds and capital grants used to fund the City's Infrastructure Replacement Program.

The **Sidewalk Construction Fund** accounts for bond proceeds used to fund sidewalk replacement throughout the City.

The City reports the following major proprietary funds:

The **Water and Sewer Fund** is used to account for the activities of the City's water and wastewater operations.

The **Solid Waste Fund** accounts for the collection and disposal of solid waste.

Additionally, the City reports the following fund type:

The **Internal Service Fund** is used to account for equipment replacement and maintenance services to other departments or agencies of the City on a cost reimbursement basis.

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.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenue includes 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 Enterprise Funds and of the City's Internal Service Fund are charges to customers for sales and services. Operating expenses for the Enterprise Funds and Internal Service Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Cash and investments include amounts in demand deposits as well as investments in obligations of the U. S. Treasury or Agencies of the U. S. Government.

Statutes of the State of Texas and policies mandated by City Council authorize the City to invest in:

- Direct obligations of the U. S. Treasury (with maturities no greater than 36 months from the date of purchase).

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Cash and Investments (Continued)

- The Texas Local Government Pool (TexPool). The Texas State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board reviews the investment policy and management fee structure. Finally, Standard and Poor's rates TexPool AAAm. As a requirement to maintain the rating, Standard and Poor's requires weekly portfolio information.

TexPool operates in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

- Obligations of agencies of the U. S. Government (with maturities no greater than 24 months from the date of purchase).
- Money Market Mutual Funds that meet certain criteria.

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

The City maintains a pooled cash and investments account for all funds of the City. Each fund's positive equity in the pooled cash account is presented as "cash and investments" in the financial statements. Negative equity balances have been reclassified and are reflected as interfund accounts payable. Interest income and interest expense are allocated to each respective individual fund monthly based on their representative fund balances.

The City's cash and cash equivalents are considered to be all highly liquid investments with original maturities of three months or less from the date of acquisition.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Receivables and Payables

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 noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 10 percent of outstanding property taxes at December 31, 2003.

Appraisal of property within the City is the responsibility of the Harris County Appraisal District (HCAD). HCAD is required under state law to appraise all property within its boundaries on the basis of 100% of its market value. The value of real property within HCAD must be reviewed every three years.

The City establishes the tax rate, assesses, and levies the tax based on appraised values provided by HCAD. If the City raises the tax rate more than 8% above last year’s effective tax rate (after certain adjustments), the City’s voters may petition for an election to determine whether to limit the tax rate to no more than 8% above the effective tax rate.

The City’s property taxes may be levied annually in October on the basis of HCAD’s assessed values as of January 1 of that calendar year. Taxes become delinquent, with an enforceable lien on property, on February 1 of the subsequent calendar year.

Taxes are applicable to the fiscal year subsequent to the one in which they are levied. Property tax amounts collected prior to the beginning of the fiscal year that they apply to, are recorded as deferred revenue. Property taxes that are measurable and available (receivable within the current period and collected within the current period or within 60 days thereafter) are recognized as revenue. Property taxes that are measurable, but not available, are recorded as deferred revenues.

Inventories and Prepaid Items

Inventories are recorded in the Friends of the Park Special Revenue Fund and are stated at cost, using the first-in, first-out method. Inventories consist of expendable supplies held for consumption, and the cost thereof is recorded as an expense/expenditure at the time the inventory items are issued (consumption method).

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Assets, Liabilities, and Net Assets or Equity** (Continued)

Inventories and Prepaid Items (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Bond covenants of the City’s Water and Sewer Fund require portions of the debt proceeds as well as other resources to be set aside for various purposes. These amounts are reported as restricted assets. The “Revenue Bond Construction Account” segregates investments that are restricted for use in reconstructing the City’s water and sewer system. The investments restricted for debt service payments over the next 12 months are segregated in the “Current debt service account.” The Revenue Bond Debt Service Account records investments set aside for debt service payments beyond one year.

Capital Assets

Capital assets, which include property, plant, equipment, improvements, and water and sewer system are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Property, improvements, equipment, and water and sewer system are depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Improvements	5-50
Equipment	5-10
Infrastructure	40-50

Compensated Absences

The City’s employees earn vacation and sick leave which may either be taken or accumulated, up to certain amounts, until paid upon resignation or retirement. All vacation and sick leave pay are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Net Assets or Equity (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 which approximates the effective interest 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 debt issued is reported as other financing sources. 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 not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$79,810,473 difference are as follows:

Certificates of obligation	\$ 13,140,000
General obligation bonds	64,715,000
Deferred charges for issuance costs (to be amortized over life of debt)	(155,161)
Accrued interest payable	1,759,423
Compensated absences	<u>351,211</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ <u>79,810,473</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$8,218,954 difference are as follows:

Capital outlay	\$ 9,675,349
Depreciation expense	(<u>1,456,395</u>)
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>8,218,954</u>

(continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation states, “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.” The details of the \$22,133 difference are as follows:

In the statement of activities, only the loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.	\$ <u>22,133</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u><u>22,133</u></u>

Another element of that reconciliation states, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$11,590 difference are as follows:

Property taxes	\$ <u>11,590</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u><u>11,590</u></u>

Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$7,449,839 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	\$(9,900,000)
Deferred charge on issuance costs	155,161
Principal repayments:	
General obligation bonds	2,210,000
Certificates of obligation	<u>85,000</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$(<u><u>7,449,839</u></u>)

(continued)

2. **RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**
(Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation states, “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$214,915 difference are as follows:

Compensated absences	\$ 29,124
Accrued interest	<u>185,791</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>214,915</u>

3. **STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Information

The City uses the following procedures for establishing the budget:

1. At least 45 days prior to the close of the fiscal year, City Council is presented with a proposed budget for the next fiscal year. The City’s fiscal year is January 1 to December 31.
2. Public hearings are held to obtain citizen comment.
3. The budget is legally enacted by the passage of an ordinance no later than December 31.
4. Budgets are approved for each fund. The City Manager may transfer budgeted amounts between departments (the legal level of control) within any fund; however, transfers between funds must be approved by the City Council.
5. Budgets are considered a management control and planning tool and, as such, are incorporated into the City’s accounting system.
6. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all funds except for the following:
 - The Infrastructure Replacement, Sidewalk Construction and Capital Project Funds which use project length budgets.
 - The Friends of the Parks Fund, which is not budgeted by the City because as a component unit, its day-to-day operations are not under the direct control of the City.

(continued)

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Budgetary Information (Continued)

- 7. All appropriations lapse at year-end.
- 8. Final budgeted amounts shown in the financial statements reflect the original budget together with all amendments approved by the City Council. During the year ended December 31, 2003, the City Council did not amend the original budget.

Excess of Actual Expenditures Over Budget

During the 2003 fiscal year, expenditures exceeded appropriations at the department level (the legal level of compliance) in the following departments:

General Fund:	
Administration	\$ 23,170
Public safety - fire	62,798
Public service	72,700

Available fund balances provided financing for these budget overruns.

Violations of Finance-Related Legal/Contractual Provisions

The City's revenue bond covenants require that net revenues (revenues less cost of operations excluding depreciation) be at least equal to 110% of the principal and interest requirements for that year. In 2003, the Water and Sewer Fund's net revenues were 60% of the principal and interest requirements for that year. A Water and Sewer rate increase that was effective in January 2004 is expected to bring the City back into compliance.

4. DETAILED NOTES ON ALL FUNDS

Cash and Investments

At year-end, the City's carrying amount of deposits was \$2,171,762 and the bank balance was \$3,223,706. Of the bank balance, \$200,000 was covered by federal depository insurance or collateral held by the City's agent in the City's name. Of the remaining balance, \$3,023,706 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

(continued)

4. **DETAILED NOTES ON ALL FUNDS** (Continued)

Cash and Investments (Continued)

The carrying amounts and fair values of the City’s investments can be categorized according to three levels of risk. These credit risk categories are as follows:

- Category 1* – Insured or registered, or securities held by the entity or its agent in the City’s name.
- Category 2* – Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the City’s name.
- Category 3* – Uninsured and unregistered, with securities held by counterparty or by its trust department or agent, but not in the City’s name.

At year-end, the City’s investment balances were as follows:

	Category			Reported Amount/ Fair Value
	(1)	(2)	(3)	
U. S. Government Securities	\$ 18,787,713	\$ -	\$ -	\$ 18,787,713
Investments not subject to categorization:				
TexPool				<u>11,528,259</u>
Total investments				<u>\$ 30,315,972</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Receivables

Receivables as of year-end for the City’s individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds		Enterprise Funds		Total
	General	Debt Service	Water and Sewer	Solid Waste	
Receivables:					
Property taxes	\$ 86,003	\$ 93,381	\$ -	\$ -	\$ 179,384
Sales taxes	135,539	-	-	-	135,539
Franchise taxes	34,285	-	-	-	34,285
Customer accounts	112,859	-	702,441	120,129	935,429
Other	<u>151,392</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>151,392</u>
Gross receivables	520,078	93,381	702,441	120,129	1,436,029
Less: allowance for uncollectibles	<u>75,239</u>	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>275,239</u>
Net total receivables	<u>\$ 444,839</u>	<u>\$ 93,381</u>	<u>\$ 502,441</u>	<u>\$ 120,129</u>	<u>\$ 1,160,790</u>

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not 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. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund		
Delinquent property taxes receivable	\$ 86,003	\$ -
Court fines receivable	5,636	-
Property taxes	<u>-</u>	<u>2,548,796</u>
Total General Fund	<u>91,639</u>	<u>2,548,796</u>
Debt Service Fund		
Delinquent property taxes receivable	93,381	-
Property taxes	<u>-</u>	<u>3,239,975</u>
Total Debt Service Fund	<u>93,381</u>	<u>3,239,975</u>
Total Governmental Funds	<u>\$ 185,020</u>	<u>\$ 5,788,771</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the year ended December 31, 2003, was as follows:

Primary Government

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 6,339,089	\$ -	\$(475,000)	\$ 5,864,089
Construction in progress	7,428,920	9,562,366	(585,001)	16,406,285
Total capital assets not being depreciated	<u>13,768,009</u>	<u>9,562,366</u>	<u>(1,060,001)</u>	<u>22,270,374</u>
Capital assets, being depreciated:				
Buildings and improvements	6,930,398	-	1,035,701	7,966,099
Machinery and equipment	4,391,205	368,081	(36,588)	4,722,698
Infrastructure	42,953,088	-	-	42,953,088
Total capital assets being depreciated	<u>54,274,691</u>	<u>368,081</u>	<u>999,113</u>	<u>55,641,885</u>
Less accumulated depreciation:				
Infrastructure	4,436,349	859,062	-	5,295,411
Buildings and improvements	2,973,617	318,102	-	3,291,719
Machinery and equipment	2,533,148	426,245	(38,755)	2,920,638
Total accumulated depreciation	<u>9,943,114</u>	<u>1,603,409</u>	<u>(38,755)</u>	<u>11,507,768</u>
Total capital assets being depreciated, net	<u>44,331,577</u>	<u>(1,235,328)</u>	<u>1,037,868</u>	<u>44,134,117</u>
Governmental activities capital assets, net	<u>\$ 58,099,586</u>	<u>\$ 8,327,038</u>	<u>\$(22,133)</u>	<u>\$ 66,404,491</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 193,875	\$ -	\$ -	\$ 193,875
Construction in progress	7,182,435	3,858,275	(6,437,590)	4,603,120
Total capital assets not being depreciated	<u>7,376,310</u>	<u>3,858,275</u>	<u>(6,437,590)</u>	<u>4,796,995</u>
Capital assets, being depreciated:				
Buildings	459,625	-	-	459,625
Water and sewer systems	40,861,097	-	6,446,594	47,307,691
Machinery and equipment	1,159,062	-	(28,214)	1,130,848
Total capital assets being depreciated	<u>42,479,784</u>	<u>-</u>	<u>6,418,380</u>	<u>48,898,164</u>
Less accumulated depreciation:				
Buildings	179,785	18,385	-	198,170
Water and sewer systems	13,587,528	1,332,242	-	14,919,770
Machinery and equipment	917,891	91,585	(28,214)	981,262
Total accumulated depreciation	<u>14,685,204</u>	<u>1,442,212</u>	<u>(28,214)</u>	<u>16,099,202</u>
Total capital assets being depreciated, net	<u>27,794,580</u>	<u>(1,442,212)</u>	<u>6,446,594</u>	<u>32,798,962</u>
Business-type activities capital assets, net	<u>\$ 35,170,890</u>	<u>\$ 2,416,063</u>	<u>\$ 9,004</u>	<u>\$ 37,595,957</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Capital Assets (Continued)

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

Governmental Activities:		
General government		\$ 213,690
Public safety		222,770
Public works		1,002,283
Public services		<u>164,666</u>
Total Depreciation Expense - Governmental Activities		<u>\$ 1,603,409</u>
Business-type Activities:		
Water and sewer		<u>\$ 1,442,212</u>
Total Depreciation Expense - Business-type Activities		<u>\$ 1,442,212</u>

Commitments

The City has several outstanding or planned construction projects as of December 31, 2003. These projects are evidenced by contractual commitments with contractors and include:

	<u>Total Contract</u>	<u>Incurred</u>	<u>Balance</u>
Bearden Contracting Company	\$ 7,742,085	\$ 7,153,842	\$ 588,243
Contractor Technology - Area 9	7,145,809	6,495,443	650,366
Contractor Technology - Area 11B	<u>6,092,765</u>	<u>963,926</u>	<u>5,128,839</u>
	<u>\$ 20,980,659</u>	<u>\$ 14,613,211</u>	<u>\$ 6,367,448</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of December 31, 2003, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Solid Waste	\$ 100,000

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Interfund Receivables, Payables and Transfers (Continued)

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water and Sewer	\$ 2,078,130

The interfund balances due to the General Fund from the Water and Sewer and Solid Waste Funds resulted from loans made to cover operating cash deficits.

Interfund transfers:

	<u>Transfers in</u> <u>General</u>	<u>Total</u>
Transfers out:		
Water and Sewer	\$ 441,000	\$ 441,000
Solid Waste	<u>190,000</u>	<u>190,000</u>
Total transfers out	<u>\$ 631,000</u>	631,000
Transfer of General Capital Assets:		
To the Water and Sewer Fund from General Capital Assets		<u>3,545,442</u>
Total Transfers		<u>\$ 4,176,442</u>

In the fund financial statements, total transfers in, of \$4,176,442, are greater than total transfers out, of \$631,000, because of the treatment of transfers of capital assets to the Water and Sewer Fund. During the year, capital assets constructed in a governmental fund in the amount of \$3,545,442 were transferred to the Water and Sewer Fund. No amounts were reported in the governmental funds as the amount did not involve the transfer of financial resources. However, the Water and Sewer Fund did report a transfer in for the capital resources received.

Transfers to the General Fund were subsidies for administrative expenditures.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt

The City issues a variety of long-term debt instruments in order to construct major capital facilities for governmental and business-type activities. These instruments include general obligation bonds, certificates of obligation, and revenue bonds. These debt obligations are secured by either future tax revenue or water and sewer system revenue. Debt obligations that are intended to be repaid from water and sewer system revenue have been recorded as business-type activities. All other long-term obligations of the City are considered to be governmental type activities.

Bonds Payable and Certificates of Obligation

A summary of the terms of general obligation bonds, combination tax and revenue bonds, and certificates of obligation outstanding and their corresponding allocations to the governmental and business-type activities at December 31, 2003, follows:

Series and Original Issue Amount	Final Maturity	Interest Rate	Outstanding
<u>Governmental Activities</u>			
General Obligation Bonds:			
1996 Permanent Improvement	2019	5.20% - 7.20%	\$ 2,780,000
1998 Permanent Improvement and Refunding	2018	4.88%	13,285,000
2000 Permanent Improvement	2020	5.25% - 6.75%	20,550,000
2002 Permanent Improvement and Refunding	2020	4.00% - 5.00%	<u>28,100,000</u>
			<u>64,715,000</u>
Certificates of Obligation:			
2001 Series - YMCA	2018	5.34%	3,240,000
2003 Series	2020	3.85% - 4.00%	<u>9,900,000</u>
			<u>13,140,000</u>
Total governmental activities			<u>\$ 77,855,000</u>
<u>Business-type Activities</u>			
Revenue Bonds:			
1996A Water and Sewer	2016	2.65% - 4.55%	3,835,000
1996B Water and Sewer	2016	5.35% - 7.00%	1,210,000
1998 Water and Sewer	2022	5.00% - 5.75%	4,440,000
2001A Water and Sewer	2022	4.70% - 6.50%	3,555,000
2001B Water and Sewer	2021	2.55% - 4.30%	<u>2,955,000</u>
Total business-type activities			<u>\$ 15,995,000</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

Annual debt service requirements for bonds and certificates of obligation are as follows:

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 2,685,000	\$ 3,906,895	\$ 540,000	\$ 773,777
2005	2,900,000	3,721,340	565,000	744,171
2006	3,350,000	3,584,999	595,000	714,196
2007	3,500,000	3,264,572	620,000	684,104
2008	3,665,000	3,103,082	645,000	653,239
2009-2013	21,245,000	12,611,087	3,750,000	2,743,741
2014-2018	27,415,000	6,574,323	5,125,000	1,713,887
2019-2022	13,095,000	617,664	4,155,000	443,725
Total	\$ <u>77,855,000</u>	\$ <u>37,383,962</u>	\$ <u>15,995,000</u>	\$ <u>8,470,840</u>

Prior Year Defeasance of Bonds

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On December 31, 2003, \$3,150,000 of bonds considered defeased is still outstanding.

Federal Arbitrage

General obligation bonds, combination tax and revenue bonds and certificates of obligation are subject to the provisions of the Internal Revenue Code of 1986 related to arbitrage and interest income tax regulations under those provisions.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General obligation bonds	\$ 66,925,000	\$ -	\$ 2,210,000	\$ 64,715,000	\$ 2,595,000
Certificates of obligation	3,325,000	9,900,000	85,000	13,140,000	90,000
Compensated absences	<u>322,087</u>	<u>29,124</u>	<u>-</u>	<u>351,211</u>	<u>114,549</u>
Governmental activities long-term liabilities	\$ <u>70,572,087</u>	\$ <u>9,929,124</u>	\$ <u>2,295,000</u>	\$ <u>78,206,211</u>	\$ <u>2,799,549</u>
Business-type activities					
Revenue bonds	<u>16,505,000</u>	<u>-</u>	<u>510,000</u>	<u>15,995,000</u>	<u>540,000</u>
Business-type activities long-term liabilities	\$ <u>16,505,000</u>	\$ <u>-</u>	\$ <u>510,000</u>	\$ <u>15,995,000</u>	\$ <u>540,000</u>

The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund.

The government-wide statement of activities includes \$540,000 of the long-term liabilities due within one year for business-type activities in "Liabilities Payable from Restricted Assets."

During the year, \$9.9 million of certificates of obligation bonds were issued to finance construction projects of street, drainage, and water and sewer improvements.

Restricted Assets

The balances of the restricted asset accounts in the Enterprise Fund are as follows:

Revenue bond construction	\$ 644,514
Current debt service	1,269,140
Revenue bond debt service reserve	<u>1,144,540</u>
Total restricted assets	\$ <u>3,058,194</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement System

Plan Description

The City provides pension benefits for all of its fulltime employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS). The City is one of 794 municipalities having the benefit plan administered by TMRS, an agent multiple employer public employee retirement system. Each of the 794 municipalities has an annual individual actuarial valuation performed. All assumptions for the December 31, 2003, valuations are contained the 2003 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing P. O. Box 149153, Austin, Texas 78714-9153.

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 200% of the employee's 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 the 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 age 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.

(continued)

4. **DETAILED NOTES ON ALL FUNDS** (Continued)

Employee Retirement System (Continued)

Contributions

The contribution rate for the employee is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. 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. When the City periodically adopts updated service credits and increases its annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. 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 is the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2003, valuation is effective for rates beginning in January 2005).

Schedule of Actuarial Liabilities and Funding Progress

Actual Valuation Date	12/31/01	12/31/02	12/31/03
Actuarial value of assets	\$ 10,748,722	\$ 12,006,849	\$ 13,522,221
Actuarial accrued liability	14,372,452	16,350,545	19,648,251
Percent funded	74.8%	73.4%	68.8%
Unfunded (overfunded) actuarial accrued liability (UAAL)	3,623,730	4,343,696	6,126,030
Annual covered payroll	4,902,792	5,546,572	5,708,418
UAAL as a percentage of covered payroll	73.9%	78.3%	107.3%
Net pension obligation (NPO at the beginning of period)	-	-	-
Annual Pension Cost:			
Annual required contribution (ARC)	670,077	701,509	730,622
Contributions made	<u>670,077</u>	<u>701,509</u>	<u>730,622</u>
NPO at the end of the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Employee Retirement System (Continued)

Actuarial Assumptions

Actuarial Cost Method	-	Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	25 Years - Open Period
Asset Valuation Method	-	Amortized Cost (to accurately reflect the requirements of GASB Statement No. 25, paragraphs 36e and 138)
Investment Rate of Return	-	8%
Projected Salary Increases	-	None
Includes Inflation at	-	None
Cost-of-living Adjustments	-	None

Risk Management

The City incurs risks associated with torts and other statutory causes of action; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The City manages these risks through participation in the Texas Municipal League Intergovernmental Risk Pool (Pool). The Pool was established by the various political subdivisions of the State of Texas to share the cost of risk management. Losses incurred by members of the Pool that are under \$1,000,000 for workers' compensation and liability and under \$250,000 for property are paid with Pool funds. Claims in excess of the limits are paid under the terms of insurance policies obtained by the Pool. Pool members make an annual contribution to the Pool based on rates determined by the Pool Board or the State Board of Insurance. The contribution includes all claims expected to occur during the period covered by the contribution.

The Pool maintains reserves for each category of covered risk. Pool members are not contingently liable for claims against the Pool beyond the amount of the annual contribution. If losses are significantly higher than anticipated, the Pool adjusts the contribution rate for subsequent years. If losses are significantly lower than anticipated, members are entitled to a refund of the unused portion of their contribution. The City's losses have not exceeded coverages for each of the past three fiscal years.

For the year ended December 31, 2003, the City contributed \$125,569 for its property and liability coverage and \$137,634 for workers' compensation coverage. There were no significant increases or decreases in coverage from 2002. The table below provides additional details about the City's risk coverage by the Pool:

	Limits of Coverage			Deductible Per Claim
	Each Occurrence	Claim	Aggregate	
General liability	\$ 5,000,000	\$ -	\$ 10,000,000	None
Law enforcement liability	5,000,000	-	10,000,000	\$ 1,000
Errors and omissions	-	2,000,000	4,000,000	5,000
Automobile liability	5,000,000	-	-	None
Auto physical damage	Actual Value	-	-	1,000

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Prior Period Adjustments

In prior years, the City has recorded an expenditure and a liability in the General Fund for compensated absences as they were earned. In accordance with generally accepted accounting principles, expenditure recognition should be strictly limited to the amount due and payable as of the end of the fiscal period. An adjustment has been made to the beginning fund balance in the General Fund to reflect this change. The effect of this transaction was an increase of \$29,867 to the beginning fund balance in the General Fund.

In previous years, the City did not recognize sales tax when the underlying exchange took place and the revenues were measurable and available. Accordingly, the City restated its financial statements for the year ended December 31, 2002. This restatement increased the General Fund beginning fund balance for the year ended December 31, 2003, in the amount of \$192,632.

During the year ended December 31, 2003, the City determined that total assets in the Infrastructure Replacement Capital Projects Fund were understated in the amount of \$1,202,841. This restatement increased the Infrastructure Replacement Capital Projects beginning fund balance from \$15,467,483 to \$16,670,324.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

DEBT SERVICE FUND

The *Debt Service Fund* is used to account for property taxes levied for payment of principal and interest on all governmental debt of the City.

CITY OF WEST UNIVERSITY PLACE, TEXAS

DEBT SERVICE FUND

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

FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
Property taxes	\$ 5,970,000	\$ 5,970,000	\$ 6,002,628	\$ 32,628
Investment earnings	50,000	50,000	34,181	(15,819)
Total revenues	<u>6,020,000</u>	<u>6,020,000</u>	<u>6,036,809</u>	<u>16,809</u>
EXPENDITURES				
Debt service:				
Principal	2,295,000	2,295,000	2,295,000	-
Interest and fiscal charges	3,656,103	3,656,103	3,653,489	2,614
Total expenditures	<u>5,951,103</u>	<u>5,951,103</u>	<u>5,948,489</u>	<u>2,614</u>
NET CHANGE IN FUND BALANCES	68,897	68,897	88,320	19,423
FUND BALANCES, BEGINNING	<u>567,825</u>	<u>567,825</u>	<u>567,825</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 636,722</u>	<u>\$ 636,722</u>	<u>\$ 656,145</u>	<u>\$ 19,423</u>

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Parks Fund – This fund is used to account for donations made by citizens for the specific purpose of improving the City’s parks.

Friends of the Park Fund – This fund accounts for the financial activity of the Friends of West University Parks Fund, Inc. The Friends of the parks Fund’s revenues are restricted to use in improving the City’s parks.

Senior Activity Fund – This fund is used to account for donations made to provide activities for the City’s senior citizens.

Court Technology Fund – This fund is used to account for a portion of traffic fine revenue set aside to acquire technology for the municipal court.

CAPITAL PROJECTS FUNDS

The *Capital Projects Funds* are used to account for resources used for the acquisition or construction of major general fixed assets.

Capital Projects – This fund is used to account for a wide range of construction projects and the acquisition of very costly capital equipment.

CITY OF WEST UNIVERSITY PLACE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2003

	Special Revenue			
	Parks	Friends of the Park	Senior Activity	Court Technology
ASSETS				
Cash and investments	\$ 12,153	\$ 120,846	\$ 3,492	\$ 2,996
Inventory	<u>-</u>	<u>758</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 12,153</u>	<u>\$ 121,604</u>	<u>\$ 3,492</u>	<u>\$ 2,996</u>
LIABILITIES				
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>60</u>
FUND BALANCES				
Reserved for inventory	-	758	-	-
Unreserved:				
Designated for park projects	-	120,846	-	-
Undesignated	<u>12,153</u>	<u>-</u>	<u>3,492</u>	<u>2,936</u>
Total fund balances	<u>12,153</u>	<u>121,604</u>	<u>3,492</u>	<u>2,936</u>
Total liabilities and fund balances	<u>\$ 12,153</u>	<u>\$ 121,604</u>	<u>\$ 3,492</u>	<u>\$ 2,996</u>

<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 338,485	\$ 477,972
<u>-</u>	<u>758</u>
<u>\$ 338,485</u>	<u>\$ 478,730</u>
\$ <u>32,989</u>	\$ <u>33,049</u>
<u>32,989</u>	<u>33,049</u>
-	758
-	120,846
<u>305,496</u>	<u>324,077</u>
<u>305,496</u>	<u>445,681</u>
<u>\$ 338,485</u>	<u>\$ 478,730</u>

CITY OF WEST UNIVERSITY PLACE, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Special Revenue			
	Parks	Friends of the Park	Senior Activity	Court Technology
REVENUES				
Permits, licenses and fees	\$ -	\$ -	\$ 599	\$ 12,143
Intergovernmental	-	-	-	-
Contributions	2,573	177,545	5,548	-
Investment earnings	<u>164</u>	<u>3,282</u>	<u>34</u>	<u>43</u>
Total revenues	<u>2,737</u>	<u>180,827</u>	<u>6,181</u>	<u>12,186</u>
EXPENDITURES				
Current:				
Public services	-	83,253	2,943	-
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,854</u>
Total expenditures	<u>-</u>	<u>83,253</u>	<u>2,943</u>	<u>10,854</u>
NET CHANGE IN FUND BALANCES	2,737	97,574	3,238	1,332
FUND BALANCES, BEGINNING	<u>9,416</u>	<u>24,030</u>	<u>254</u>	<u>1,604</u>
FUND BALANCES, ENDING	<u>\$ 12,153</u>	<u>\$ 121,604</u>	<u>\$ 3,492</u>	<u>\$ 2,936</u>

<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 12,742
48,784	48,784
-	185,666
<u>3,225</u>	<u>6,748</u>
<u>52,009</u>	<u>253,940</u>
-	86,196
<u>202,962</u>	<u>213,816</u>
<u>202,962</u>	<u>300,012</u>
(150,953)	(46,072)
<u>456,449</u>	<u>491,753</u>
<u>\$ 305,496</u>	<u>\$ 445,681</u>

CITY OF WEST UNIVERSITY PLACE, TEXAS

PARKS

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Contributions	\$ 2,000	\$ 2,000	\$ 2,573	\$ 573
Investment earnings	<u>200</u>	<u>200</u>	<u>164</u>	<u>(36)</u>
Total revenues	<u>2,200</u>	<u>2,200</u>	<u>2,737</u>	<u>537</u>
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	2,200	2,200	2,737	537
FUND BALANCES, BEGINNING	<u>9,416</u>	<u>9,416</u>	<u>9,416</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 11,616</u>	<u>\$ 11,616</u>	<u>\$ 12,153</u>	<u>\$ 537</u>

CITY OF WEST UNIVERSITY PLACE, TEXAS

SENIOR ACTIVITY

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

FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Permits, licenses and fees	\$ 2,500	\$ 2,500	\$ 599	\$(1,901)
Contributions	-	-	5,548	5,548
Investment earnings	<u>100</u>	<u>100</u>	<u>34</u>	<u>(66)</u>
Total revenues	<u>2,600</u>	<u>2,600</u>	<u>6,181</u>	<u>3,581</u>
EXPENDITURES				
Public services	<u>2,500</u>	<u>2,500</u>	<u>2,943</u>	<u>(443)</u>
Total expenditures	<u>2,500</u>	<u>2,500</u>	<u>2,943</u>	<u>(443)</u>
NET CHANGE IN FUND BALANCES	100	100	3,238	3,138
FUND BALANCES, BEGINNING	<u>254</u>	<u>254</u>	<u>254</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 354</u>	<u>\$ 354</u>	<u>\$ 3,492</u>	<u>\$ 3,138</u>

CITY OF WEST UNIVERSITY PLACE, TEXAS

COURT TECHNOLOGY

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

FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Permits, licenses and fees	\$ 15,000	\$ 15,000	\$ 12,143	\$ (2,857)
Investment earnings	<u>-</u>	<u>-</u>	<u>43</u>	<u>43</u>
Total revenues	<u>15,000</u>	<u>15,000</u>	<u>12,186</u>	<u>(2,814)</u>
EXPENDITURES				
Capital outlay	<u>12,000</u>	<u>12,000</u>	<u>10,854</u>	<u>1,146</u>
Total expenditures	<u>12,000</u>	<u>12,000</u>	<u>10,854</u>	<u>1,146</u>
NET CHANGE IN FUND BALANCES	3,000	3,000	1,332	(1,668)
FUND BALANCES, BEGINNING	<u>1,604</u>	<u>1,604</u>	<u>1,604</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 4,604</u>	<u>\$ 4,604</u>	<u>\$ 2,936</u>	<u>\$ (1,668)</u>

**STATISTICAL SECTION
(UNAUDITED)**

CITY OF WEST UNIVERSITY PLACE TEXAS

GENERAL GOVERNMENTAL REVENUES BY SOURCE

**LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Fiscal Year</u>	<u>Property Taxes</u>	<u>City Sales Tax</u>	<u>Franchise Fees</u>	<u>Licenses and Permits</u>	<u>Fines and Forfeitures</u>	<u>Charges for Services</u>
1994	\$ 4,991,208	\$ 364,206	\$ 665,005	\$ 530,510	\$ 271,937	\$ 1,383,291
1995	5,070,608	832,743	652,893	409,527	289,457	1,310,356
1996	5,437,391	454,906	686,500	336,588	324,502	1,887,703
1997	5,650,077	543,755	716,279	421,159	367,165	1,488,771
1998	6,054,801	637,106	804,005	558,469	184,813	702,131
1999	6,610,664	543,556	818,326	396,484	307,058	796,763
2000	7,376,687	824,614	786,672	496,677	274,001	914,686
2001	8,532,873	896,958	533,646	472,081	276,815	901,544
2002	9,717,905	877,185	939,577	386,124	319,388	1,074,335
2003	11,481,442	777,290	873,649	432,144	256,074	1,102,552

This schedule reflects general governmental revenues of all governmental fund types of the City.

TABLE 1

<u>Inter- governmental</u>	<u>Interest on Investments</u>	<u>Other Revenue</u>	<u>Total</u>
\$ 1,478,154	\$ 955,231	\$ 534,366	\$ 11,173,908
322,844	1,197,769	295,827	10,382,024
44,236	762,240	294,059	10,228,125
565,919	1,100,372	281,251	11,134,748
125,318	1,120,750	317,661	10,505,054
650,459	1,288,324	343,348	11,754,982
1,055,425	1,015,579	478,268	13,222,609
259,000	1,720,839	389,693	13,983,449
277,769	655,918	603,217	14,851,418
498,965	515,414	159,582	16,097,112

CITY OF WEST UNIVERSITY PLACE, TEXAS

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION

LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	General Government	Public Safety	Public Works	Public Services	Capital Outlay	Debt Service	Total
1994	\$ 1,020,448	\$ 2,829,649	\$ 1,836,629	\$ 902,497	\$ 3,791,322	\$ 2,399,693	\$ 12,780,238
1995	1,311,020	2,624,252	1,946,011	979,469	8,137,964	2,362,111	17,360,827
1996	1,396,276	2,763,358	1,965,714	716,775	7,261,742	2,581,122	16,684,987
1997	1,462,013	2,900,458	2,007,833	747,746	2,993,082	2,941,475	13,052,607
1998	1,685,246	2,892,950	1,288,618	709,674	5,890,116	3,360,122	15,826,726
1999	1,803,017	2,952,688	1,435,693	866,489	5,560,612	3,630,071	16,248,570
2000	1,777,263	3,525,192	1,490,417	987,209	6,473,002	3,838,343	18,091,426
2001	1,981,486	4,019,282	1,515,164	896,309	12,886,880	4,692,336	25,991,457
2002	2,061,227	4,336,152	1,500,129	941,302	13,583,834	4,693,336	27,115,980
2003	1,952,308	4,701,684	1,631,434	1,075,026	13,107,808	5,315,630	27,783,890

This schedule reflects general governmental expenditures of all governmental fund types of the City.

CITY OF WEST UNIVERSITY PLACE, TEXAS

PROPERTY TAX LEVIES AND COLLECTIONS

**LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Fiscal Year Ended December 31,</u>	<u>Tax Rate</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>
1994	0.375	\$ 4,953,405	\$ 4,907,961	99.08%	\$ 36,796
1995	0.370	5,078,454	5,035,575	99.16%	38,073
1996	0.370	5,373,916	5,340,911	99.39%	48,338
1997	0.380	5,628,421	5,386,852	95.71%	27,207
1998	0.400	6,022,837	5,980,947	99.30%	36,741
1999	0.420	6,564,512	6,524,907	99.40%	36,001
2000	0.410	7,305,615	7,255,353	99.31%	34,893
2001	0.120	8,703,604	8,655,130	99.44%	47,026
2002	0.420	9,630,400	9,582,032	99.50%	67,610
2003	0.430	10,680,077	10,629,260	99.52%	68,530

Tax Rate - The Constitution of the State of Texas limits the City to a maximum tax rate of \$2.50 per \$100 assessed valuation.

TABLE 3

<u>Total Tax Collections</u>	<u>Total Collections as Percent of Current Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Outstanding Delinquent Taxes as Percent of Levy</u>
\$ 4,944,757	99.83%	\$ 119,166	2.41%
5,073,648	99.91%	123,972	2.44%
5,389,249	100.29%	108,639	2.02%
5,414,059	96.19%	123,001	2.19%
6,017,688	99.91%	128,150	2.13%
6,560,908	99.95%	131,754	2.02%
7,290,246	99.79%	147,123	2.01%
8,702,156	99.98%	148,571	1.71%
9,649,642	100.20%	129,329	1.34%
10,697,790	100.17%	111,616	1.05%

CITY OF WEST UNIVERSITY PLACE, TEXAS
ASSESSED AND ESTIMATED ACTUAL VALUE OF PROPERTY
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Assessed Value	Estimated Actual Value	Ratio of Assessed Value to Estimated Actual Value
1994	\$ 1,320,905,420	\$ 1,370,059,200	96.41%
1995	1,373,046,390	1,442,829,000	95.16%
1996	1,450,131,620	1,523,127,780	95.21%
1997	1,481,163,540	1,550,719,970	95.51%
1998	1,505,694,530	1,571,971,890	95.78%
1999	1,567,240,600	1,627,495,940	96.30%
2000	1,781,467,580	1,838,907,070	96.88%
2001	2,022,417,900	2,080,933,850	97.19%
2002	2,300,012,640	2,356,304,920	97.61%
2003	2,488,973,270	2,546,978,920	97.72%

Source: Tax Assessor/Collector's records.

CITY OF WEST UNIVERSITY PLACE, TEXAS

**PROPERTY TAX RATES AND TAX LEVIES
DIRECT AND OVERLAPPING**

**LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Fiscal Year</u>	<u>City of West University Place</u>	<u>Houston Independent School District</u>	<u>Harris County</u>	<u>Port of Houston Authority</u>
<u>Tax Levies</u>				
1994	\$ 4,953,405	\$ 639,080,736	\$ 382,535,958	\$ 13,808,086
1995	5,078,454	629,631,389	412,730,085	14,970,723
1996	5,373,916	635,634,870	473,298,801	14,949,462
1997	5,645,068	606,762,175	518,002,988	19,379,087
1998	5,946,578	595,465,312	488,378,944	22,852,299
1999	7,151,372	726,800,405	550,894,685	22,192,690
2000	7,305,615	780,930,320	556,170,038	28,736,086
2001	8,703,604	900,286,176	551,523,017	28,112,281
2002	10,402,046	1,056,875,468	665,078,411	31,631,630
2003	11,052,839	1,101,665,951	707,273,841	36,243,821
<u>Tax Rates*</u>				
1994	0.3750	1.3840	0.3385	0.0122
1995	0.3700	1.3840	0.3628	0.0132
1996	0.3700	1.3840	0.4068	0.0185
1997	0.3800	1.3840	0.4277	0.0160
1998	0.4000	1.3840	0.4187	0.0196
1999	0.4200	1.4590	0.3948	0.0213
2000	0.4100	1.5190	0.3948	0.0204
2001	0.4200	1.5190	0.3590	0.0183
2002	0.4200	1.5800	0.3839	0.0183
2003	0.4300	1.5800	0.3881	0.0199

Source: Tax Department records of the various taxing authorities

* Per \$100 valuation

TABLE 5

Harris County Flood Control	Harris County Hospital District	Total
\$ 62,882,159	\$ 214,409,517	\$ 1,317,669,861
71,122,309	208,748,300	1,342,281,260
88,417,051	144,038,356	1,361,712,456
89,918,962	149,957,796	1,389,666,076
92,937,349	144,427,930	1,350,008,412
105,788,706	163,721,246	1,576,549,104
112,690,533	206,364,538	1,692,197,130
94,829,023	311,355,036	1,894,809,137
82,422,397	329,499,035	2,175,908,987
76,059,180	346,603,177	2,278,898,809
0.0557	0.1898	2.3552
0.0625	0.1835	2.3760
0.0760	0.1238	2.3791
0.0742	0.1238	2.4057
0.0742	0.1238	2.4203
0.0800	0.1465	2.5216
0.0800	0.1465	2.5707
0.0617	0.2027	2.5807
0.0476	0.1902	2.6400
0.0417	0.1902	2.6499

TABLE 6

CITY OF WEST UNIVERSITY PLACE, TEXAS

TAX RATE DISTRIBUTION

LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year Ended December 31,	General Fund	Debt Service Fund	Total Tax Rate
1994	0.2160	0.1590	0.3750
1995	0.2214	0.1486	0.3700
1996	0.2100	0.1600	0.3700
1997	0.2100	0.1700	0.3800
1998	0.2100	0.1900	0.4000
1999	0.2100	0.2100	0.4200
2000	0.2000	0.2100	0.4100
2001	0.2050	0.2150	0.4200
2002	0.1950	0.2250	0.4200
2003	0.1900	0.2400	0.4300

Source: City's tax ordinance.

TABLE 7

COMPUTATION OF LEGAL DEBT MARGIN

DECEMBER 31, 2003

Assessed Value - 2002 Tax Roll	\$ <u>2,488,973,270</u>
Approximate debt limit	124,448,664
Total bonded debt	76,705,000
Less: amount available in Debt Service Fund	<u>656,144</u>
Total amount of debt applicable to debt limit	<u>76,048,856</u>
Legal Debt Margin	<u>\$ 48,399,808</u>

The City's Home Rule Charter (1983), Section 7.07 limits all bonded debt to more than 5% of the assessed valuation.

CITY OF WEST UNIVERSITY PLACE, TEXAS

PRINCIPAL TAXPAYERS

DECEMBER 31, 2003
(UNAUDITED)

Taxpayer	Type of Property	2002 Assessed Valuation	Percentage of Total Assessed Valuation
Southwestern Bell	Utility	\$ 21,606,830	0.87%
Houston Lighting & Power	Utility	4,487,230	0.18%
Bellaire Shopping Center	Shopping Center	3,943,040	0.16%
5650 Kirby Partnership	Shopping Center	3,775,690	0.15%
Frank & Lillian W. Orson	Homeowner	2,460,100	0.10%
James L. Salners	Homeowner	2,435,900	0.10%
Brian & Carol Kirshon	Homeowner	2,348,700	0.09%
Craig & Patricia Biggio	Homeowner	2,331,900	0.09%
James & Karen Gerstern	Homeowner	2,262,700	0.09%
SBC Advanced Solutions	Utility	<u>2,099,369</u>	0.08%
		47,751,459	
Remaining properties		<u>2,441,221,811</u>	
Total Assessed Valuation		<u>\$ 2,488,973,270</u>	

Source: Tax Assessor/Collector's records.

CITY OF WEST UNIVERSITY PLACE, TEXAS
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
VALUE AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA

LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Population</u>	<u>Assessed Value</u>	<u>Gross Bonded Debt*</u>	<u>Less Debt Service Funds</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
1994	12,920	\$ 1,320,905,420	\$ 27,895,000	\$ 781,733	\$ 27,113,267	2.05	\$ 2,099
1995	12,920	1,373,046,390	27,160,000	914,817	26,245,183	1.91	2,031
1996	12,920	1,450,131,620	33,930,000	1,102,160	32,827,840	2.26	2,541
1997	12,920	1,481,163,540	32,760,000	938,753	31,821,247	2.15	2,463
1998	12,920	1,505,694,530	41,020,000	636,948	40,383,052	2.68	3,126
1999	12,920	1,567,240,600	39,045,000	811,335	38,233,665	2.44	2,959
2000	14,211	1,781,467,580	58,475,000	838,547	57,636,453	3.24	4,056
2001	14,211	2,022,417,900	60,050,000	633,071	59,416,929	2.94	4,181
2002	14,211	2,300,012,640	70,250,000	567,825	69,682,175	3.03	4,903
2003	14,211	2,488,973,270	76,705,000	656,144	76,048,856	3.06	5,351

Source: Tax Assessor/Collector and accounting records of the City.

* Tax supported

CITY OF WEST UNIVERSITY PLACE, TEXAS

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION
BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURESLAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Principal	Interest	Total Service Requirements	Total General Expenditures	Ratio of Debt Service Requirements to Expenditures
1994	\$ 685,000	\$ 1,705,780	\$ 2,390,780	\$ 12,780,238	18.71%
1995	735,000	1,621,489	2,356,489	17,360,827	13.57%
1996	1,015,000	1,621,489	2,636,489	16,725,431	15.76%
1997	1,085,000	1,856,455	2,941,455	13,052,607	22.54%
1998	1,425,000	1,932,122	3,357,122	15,826,726	21.21%
1999	1,585,000	2,045,071	3,630,071	16,248,570	22.34%
2000	1,780,000	2,058,343	3,838,343	18,091,426	21.22%
2001	1,880,000	2,813,336	4,693,336	25,991,457	18.06%
2002	2,185,000	3,130,630	5,315,630	27,738,275	19.16%
2003	2,295,000	3,808,650	6,103,650	26,813,015	22.76%

Note: Total debt service requirements includes fiscal agent's fee.
This schedule reflects general expenditures for all governmental fund types of the City.

CITY OF WEST UNIVERSITY PLACE, TEXAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
DECEMBER 31, 2003
(UNAUDITED)

<u>Name of Governmental Unit</u>	<u>Net Debt Outstanding</u>	<u>Outstanding as of</u>	<u>Percentage Applicable to the City</u>	<u>City's Share of Debt</u>
Houston Independent School District	\$ 1,567,211,293	08/31/01	2.80	\$ 43,881,916
Harris County	1,195,547,000	02/28/02	1.12	13,390,126
Port of Houston Authority	297,364,120	12/31/01	1.92	<u>5,709,391</u>
	Total Net Overlapping Debt			62,981,433
City of West University Place	69,682,175	12/31/01	100.00	<u>69,682,175</u>
	Total Net Direct and Overlapping Debt			<u>\$ 132,663,608</u>

CITY OF WEST UNIVERSITY PLACE, TEXAS

DEMOGRAPHIC STATISTICS

LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income</u>	<u>Median Age</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
1994	12,920	\$ 42,450	N/A	816	0.07
1995	12,920	43,299	N/A	816	0.06
1996	12,920	44,165	N/A	885	1.30
1997	12,920	45,049	N/A	885	0.90
1998	12,920	45,950	N/A	885	0.90
1999	12,920	46,869	N/A	952	1.10
2000	14,211	47,806	39.30	950	0.07
2001	14,211	48,762	39.30	947	1.06
2002	14,211	49,737	39.30	915	1.06
2003	14,211	50,732	39.30	915	1.06

* The school enrollment reflects enrollment in schools located within the City limits.

Source: Population and median age are taken from the 1990 and 2000 census. Per capita income is obtained from the 1990 census increased annually by 2 percent census. The unemployment rate is obtained from the Texas Employment Commission. School enrollment was supplied by Houston Independent School District.

CITY OF WEST UNIVERSITY PLACE, TEXAS

PROPERTY VALUE AND CONSTRUCTION

LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Property Value	Number of Building Permits	Value
1994	\$ 1,426,015,540	335	\$ 36,438,091
1995	1,482,648,030	69	22,812,000
1996	1,519,242,260	62	17,865,800
1997	1,531,424,410	103	29,369,628
1998	1,545,971,060	135	41,284,660
1999	1,758,813,670	113	40,399,396
2000	2,054,320,850	133	34,470,564
2001	2,288,904,840	112	39,495,832
2002	2,451,835,220	86	32,969,995
2003	2,546,978,920	88	36,304,415

Source: City records obtained from tax appraisals performed by the Harris County Appraisal District and accumulation of building permits issued.

CITY OF WEST UNIVERSITY PLACE, TEXAS

**TEXAS MUNICIPAL RETIREMENT SYSTEM
ANALYSIS OF FUNDING PROGRESS**

**LAST TEN CALENDAR YEARS
(UNAUDITED)**

<u>Calendar Year</u>	<u>Net Assets Available for Benefits</u>	<u>Pension Benefit Obligation</u>	<u>Percentage Funded</u>	<u>Unfunded Pension Benefit Obligation</u>	<u>Annual Covered Payroll</u>
1994	\$ 5,277,484	\$ 6,818,100	77.40%	\$ 1,540,616	\$ 3,428,720
1995	6,056,171	7,750,182	78.14%	1,694,011	3,574,301
1996	6,809,635	9,070,592	75.07%	2,260,957	3,750,990
1997	7,760,694	10,231,032	75.85%	2,470,338	3,807,656
1998	8,671,620	11,942,292	72.61%	3,270,672	3,764,642
1999	9,051,990	12,504,787	72.39%	3,452,797	4,114,817
2000	9,745,961	13,228,490	73.67%	3,482,529	3,952,192
2001	9,745,961	13,228,490	73.67%	3,482,529	4,018,383
2002	10,748,722	14,372,452	74.79%	3,623,730	4,902,792
2003	13,522,221	19,648,251	68.82%	6,126,030	5,708,418

TABLE 14

<u>Unfunded Pension Benefit as a Percentage of Covered Payroll</u>	<u>City Contribution to TMRS</u>	<u>Average City Rate</u>
44.9%	\$ 267,095	7.8%
47.4%	279,168	7.8%
60.3%	374,939	10.0%
64.9%	385,309	10.1%
86.9%	388,251	10.3%
83.9%	455,923	11.1%
88.1%	580,535	14.7%
86.7%	568,996	14.2%
73.9%	670,077	13.7%
107.3%	730,622	12.8%

CITY OF WEST UNIVERSITY PLACE, TEXAS

CITY COUNCIL

<u>City Council</u>	<u>Address</u>	<u>Salary</u>	<u>Number of Terms Served*</u>	<u>Profession</u>
Burt Ballanfant	3123 Amherst	\$ 1,800	1	Attorney
Teresa Fogler	3610 Sunset	600	1	Attorney
Mike Farley	3304 Nottingham	600	2	Writer
Steven Segal	2901 Sunset	600	1	Attorney
Mike Woods	3932 Browning	600	1	Architect

* Mayor and Council Members shall not serve for more than two successive terms.

CITY OF WEST UNIVERSITY PLACE, TEXAS

MISCELLANEOUS STATISTICAL DATA

DECEMBER 31, 2003
(UNAUDITED)

Date of Incorporation	1924
Date of City home rule charter in force	1983
Form of government	Council - Manager
Population	14,211 (per 2000 census)
Area	1.9 square miles
Miles of streets	43 miles
Fire Protection:	
Number of stations	1
Number of employees	24
Number of volunteers	8
Number of part-time employees	6
Number of fire runs	650
Average response time	2:30
Number of emergency runs	447
Average response time	4.13
Number of fire hydrants	324
Number of vehicles	7
Police Protection:	
Number of stations	1
Number of employees	32
Number of patrol units	9
Number of calls for service	26,966
Average response time (emergency calls)	2.08
Number of police reports	804
Recreation:	
Number of parks	7
Total acres	12.50
Number of swimming pools	2
Number of tennis courts	5
Number of racquetball/handball courts	2
Number of gymnasiums	1
Number of basketball courts	2

(continued)

CITY OF WEST UNIVERSITY PLACE, TEXAS

MISCELLANEOUS STATISTICAL DATA

(Continued)

DECEMBER 31, 2003

(UNAUDITED)

Solid Waste Management:	
Number of garbage trucks	6
Number of recycling vehicles	4
Tons of garbage collected	6049.31
Tons of recycling waste sold and not deposited at landfill	1,454 tons a year (average)
Education	Houston Independent School District
City Employees:	
Appointed positions	6
Fulltime employees	123
Part-time and temporary	34
Water:	
Source	80% surface water, 20% well water
Average daily pumped	2.386
Maximum daily capacity	5.99
Number of connections	5,868
Number of gallons of surface water pumped	696.694 MG.
Number of gallons of well water pumped	174.103 MG.
Total water to system	870.797 MG.
Number of gallons billed	704.523 MG.
Sewer:	
Average daily flows	1,354 MG.
Maximum daily flows	4,685 MG.
Sanitary sewer mains	40 miles
Rated daily capacity	2.0 MG.
Water Consumption Residential Rates:	
Residential class 5/8" or 3/4" meter (standard residential meter):	
Base monthly charge	4.31
First 3,000 gallons (0 to 3,000)	2.00 per thousand gallons
Next 12,000 gallons (3,001 to 15,000)	2.18 per thousand gallons
Each 1,000 gallons thereafter (over 15,000)	2.37 per thousand gallons
Sanitary Sewer Residential Rates:	
Base monthly charge	2.24
Gallonage charges	1.95 per thousand gallons
Banks:	
Number within City limits	2
Libraries:	
(The City provides space for the County library)	1

CITY OF WEST UNIVERSITY PLACE, TEXAS

HISTORICAL OPERATIONS OF THE CITY

DECEMBER 31, 2003

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
GENERAL FUND				
Revenues				
General property taxes	\$ 4,762,649	\$ 4,519,428	\$ 4,166,847	\$ 3,605,950
Sales taxes	777,290	877,185	533,646	786,672
Franchise fees	873,649	939,577	896,958	824,614
Licenses and permits	432,144	386,124	472,081	496,677
Fines and forfeitures	243,931	304,812	274,331	274,001
Charges for services	1,086,952	1,074,335	901,544	914,686
Investment income	75,620	113,421	336,451	346,193
Other	<u>173,148</u>	<u>146,760</u>	<u>50,672</u>	<u>352,037</u>
Total revenues	\$ <u>8,425,383</u>	\$ <u>8,361,642</u>	\$ <u>7,632,530</u>	\$ <u>7,600,830</u>
Expenditures				
Administration	\$ 1,952,308	\$ 2,019,807	\$ 1,777,263	\$ 1,777,263
Public safety	4,701,684	4,336,152	3,525,192	3,525,192
Public works	1,631,434	1,484,477	1,490,417	1,490,417
Public service	928,830	822,380	794,869	794,869
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	\$ <u>9,214,256</u>	\$ <u>8,662,816</u>	\$ <u>7,587,741</u>	\$ <u>7,587,741</u>
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES				
	\$ <u>(157,873)</u>	\$ <u>(86,752)</u>	\$ <u>(1,000,282)</u>	\$ <u>(227,670)</u>
FUND BALANCES, BEGINNING	\$ 2,925,536	\$ 2,993,248	\$ 3,993,530	\$ 4,221,200
PRIOR PERIOD ADJUSTMENTS	<u>222,499</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	\$ <u>2,990,162</u>	\$ <u>2,906,496</u>	\$ <u>2,993,248</u>	\$ <u>3,993,530</u>
DEBT SERVICE FUND				
Fund balances, ending	\$ <u>656,145</u>	\$ <u>567,825</u>	\$ <u>633,071</u>	\$ <u>811,335</u>

TABLE 17

<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
\$ 3,309,185	\$ 3,186,390	\$ 3,124,989	\$ 3,097,744	\$ 3,006,983	\$ 2,881,786
543,556	637,106	543,755	454,906	832,743	364,206
818,326	804,005	716,279	686,500	652,893	665,005
396,484	558,469	421,159	336,588	409,527	530,510
307,058	184,813	367,165	324,502	289,457	271,937
796,763	702,131	1,488,771	1,887,703	1,310,356	1,383,291
306,790	443,834	301,604	359,605	484,652	292,616
<u>151,073</u>	<u>152,933</u>	<u>75,423</u>	<u>92,750</u>	<u>82,595</u>	<u>264,240</u>
<u>\$ 6,629,235</u>	<u>\$ 6,669,681</u>	<u>\$ 7,039,145</u>	<u>\$ 7,240,298</u>	<u>\$ 7,069,206</u>	<u>\$ 6,653,591</u>
\$ 1,803,017	\$ 1,571,878	\$ 1,462,013	\$ 1,396,276	\$ 1,311,020	\$ 1,020,448
2,952,688	2,892,950	2,900,458	2,763,358	2,624,252	2,829,649
1,423,214	1,275,690	1,996,804	1,915,247	1,937,787	1,836,629
806,536	658,310	700,059	686,289	948,327	767,702
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 6,985,455</u>	<u>\$ 6,398,828</u>	<u>\$ 7,059,334</u>	<u>\$ 6,761,170</u>	<u>\$ 6,821,386</u>	<u>\$ 6,454,428</u>
<u>\$(173,620)</u>	<u>\$ 430,373</u>	<u>\$(110,189)</u>	<u>\$(633,872)</u>	<u>\$(607,700)</u>	<u>\$(291,060)</u>
\$ 4,394,820	\$ 3,964,447	\$ 4,074,636	\$ 4,708,508	\$ 5,223,208	\$ 5,607,268
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,000</u>	<u>(93,000)</u>
<u>\$ 4,221,200</u>	<u>\$ 4,394,820</u>	<u>\$ 3,964,447</u>	<u>\$ 4,074,636</u>	<u>\$ 4,708,508</u>	<u>\$ 5,223,208</u>
<u>\$ 811,335</u>	<u>\$ 638,877</u>	<u>\$ 938,753</u>	<u>\$ 1,102,161</u>	<u>\$ 914,817</u>	<u>\$ 781,733</u>

CITY OF WEST UNIVERSITY PLACE, TEXAS

WATER REVENUE BOND

INTEREST AND SINKING FUND RESERVES

DECEMBER 31, 2003

	<u>Current Debt Service</u>	<u>Revenue Bond Debt Service</u>
Required Ultimate Balance		
Annual Debt Service - Series 1996A	\$ 377,235	\$ -
Annual Debt Service - Series 1996B	130,335	-
Annual Debt Service - Series 1998	343,052	-
Annual Debt Service - Series 2001A	247,388	-
Annual Debt Service - Series 2001B	171,130	-
Average Annual Debt Service - Series 1996A	-	387,760
Average Annual Debt Service - Series 1996B	-	130,740
Average Annual Debt Service - Series 1998	-	371,170
Average Annual Debt Service - Series 2001A	-	313,980
Average Annual Debt Service - Series 2001B	-	246,950
	<u> </u>	<u> </u>
Total Ultimate Balance	\$ <u>1,269,140</u>	\$ <u>1,450,600</u>
Required Present Balance		
2003 Debt Service	\$ 1,269,140	\$ -
Accumulated Reserve	<u> -</u>	<u> 1,144,540</u>
	<u> </u>	<u> </u>
Total Required Balance	\$ <u>1,269,140</u>	\$ <u>1,144,540</u>
Actual Present Balance	\$ <u>1,269,140</u>	\$ <u>1,157,453</u>

CITY OF WEST UNIVERSITY PLACE, TEXAS

SALES TAX RECEIPTS

LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Sales Tax Receipts</u>	<u>Equivalent Tax Year</u>	<u>Tax Rate Equivalent</u>	<u>Percent of Adjusted Tax Levy</u>
1994	\$ 364,206	1993	\$ 0.0276	7.42%
1995	397,794	1994	0.0274	7.40%
1996	454,906	1995	0.0314	8.47%
1997	543,755	1996	0.0367	9.63%
1998	637,106	1997	0.0423	10.71%
1999	543,556	1998	0.0347	7.60%
2000	786,672	1999	0.0502	11.00%
2001	533,646	2000	0.0300	7.30%
2002	877,185	2001	0.0381	8.43%
2003	777,290	2002	0.0312	7.03%

CITY OF WEST UNIVERSITY PLACE, TEXAS

ANALYSIS OF TAX BASE

LAST 9 YEARS

Type of Property	2003 Tax Roll		2002 Tax Roll		2001 Tax Roll	
	Amount	%	Amount	%	Amount	%
Residential	\$ 2,518,869,720	96.98%	\$ 2,369,631,220	96.65%	\$ 2,203,866,100	96.28%
Vacant lots/tracts	25,864,390	1.00%	21,886,930	0.89%	20,649,870	0.90%
Commercial and industrial	20,367,190	0.78%	20,735,470	0.85%	21,536,490	0.94%
Utilities	21,073,580	0.81%	30,281,390	1.24%	28,138,830	1.23%
Other	11,130,650	0.43%	9,300,210	0.38%	14,713,550	0.64%
Total Market Value	2,597,305,530		2,451,835,220		2,288,904,840	
Less: exemptions	79,831,440		54,426,270		54,014,970	
Total Taxable Value	\$ 2,517,474,090		\$ 2,397,408,950		\$ 2,234,889,870	

Type of Property	2000 Tax Roll		1999 Tax Roll		1998 Tax Roll	
	Amount	%	Amount	%	Amount	%
Residential	\$ 1,976,639,680	96.22%	\$ 1,690,522,670	96.12%	\$ 1,482,846,550	95.92%
Vacant lots/tracts	21,146,270	1.03%	13,682,730	0.78%	14,466,710	0.94%
Commercial and industrial	17,447,860	0.85%	16,319,980	0.93%	12,882,000	0.83%
Utilities	26,778,740	1.30%	26,260,380	1.49%	28,699,660	1.86%
Other	12,308,300	0.60%	12,027,910	0.68%	7,076,140	0.46%
Total Market Value	2,054,320,850		1,758,813,670		1,545,971,060	
Less: exemptions	57,022,280		56,106,070		59,326,660	
Total Taxable Value	\$ 1,997,298,570		\$ 1,702,707,600		\$ 1,486,644,400	

Type of Property	1997 Tax Roll		1996 Tax Roll		1995 Tax Roll	
	Amount	%	Amount	%	Amount	%
Residential	\$ 1,462,950,680	95.53%	\$ 1,449,264,400	95.39%	\$ 1,419,574,580	95.75%
Vacant lots/tracts	12,566,760	0.82%	11,805,800	0.78%	13,403,080	0.90%
Commercial and industrial	17,579,170	1.15%	16,339,360	1.08%	13,385,030	0.90%
Utilities	29,869,890	1.95%	29,582,250	1.95%	29,674,300	2.00%
Other	8,457,910	0.55%	12,250,450	0.81%	6,611,040	0.45%
Total Market Value	1,531,424,410		1,519,242,260		1,482,648,030	
Less: exemptions	63,727,640		67,208,700		69,512,000	
Total Taxable Value	\$ 1,467,696,770		\$ 1,452,033,560		\$ 1,413,136,030	

CITY OF WEST UNIVERSITY PLACE, TEXAS

REVENUE BOND COVERAGE

LAST TEN FISCAL YEARS
(UNAUDITED)

Calendar Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenues Available for Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
1994	\$ 2,508,637	\$ 1,609,878	\$ 898,759	\$ -	\$ -	\$ -	-
1995	2,966,340	2,354,380	611,960	-	-	-	-
1996	3,133,575	2,429,479	704,096	-	-	-	-
1997	2,968,012	1,990,369	977,643	5,000	251,590	256,590	3.81
1998	3,366,410	2,360,258	1,006,152	220,000	316,630	536,630	1.87
1999	3,413,889	2,297,558	1,116,331	225,000	484,177	709,177	1.57
2000	3,427,821	2,613,128	814,693	335,000	510,759	845,759	0.96
2001	3,274,339	2,352,802	921,537	350,000	489,684	839,684	1.10
2002	3,358,111	2,469,348	888,763	360,000	801,739	1,161,739	0.77
2003	3,106,875	2,359,745	747,130	510,000	765,160	1,275,160	0.60

(1) Total revenues including interest, excluding tap fees.

(2) Total operating expenses less depreciation.

(3) Includes revenue bonds only.