

CITY OF MEADOWS PLACE, TEXAS

FORT BEND COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2004

CITY OF MEADOWS PLACE, TEXAS

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ANNUAL FINANCIAL REPORT

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Honorable Mayor and Board of Aldermen
City of Meadows Place, Texas
Fort Bend County, Texas

Independent Auditor's Report

We have audited the accompanying basic financial statements of the City of Meadows Place, Texas (the "City"), as of and for the year ended September 30, 2004, as listed in the preceding table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted as promulgated within 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinion.

In our opinion, the basic financial statements, referred to above, present fairly, in all material respects, the financial position of the City as of September 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Managements Discussion and Analysis-for State and Local Governments*, as of and for the fiscal year ended September 30, 2004.

Honorable Mayor and Board of Aldermen
City of Meadows Place, Texas

November 12, 2004

The Management's Discussion and Analysis on pages 3 to 8 and the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 35 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board 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 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's basic financial statements. The supplemental information, excluding that portion marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McCall, Gibson & Company, PLLC

McCall, Gibson & Company, PLLC
Certified Public Accountants

November 12, 2004

CITY OF MEADOWS PLACE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2004

Our discussion and analysis of the City of Meadows Place, Texas (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2004. Please read it in conjunction with the City's financial statements, which begin on page 9.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) the government-wide financial statements, (2) the fund financial statements and (3) the notes to the financial statements. This report also includes required and other supplemental information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The governmental-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The government-wide financial statements are prepared utilizing the economic resources measurement focus and the accrual basis of accounting. The Statement of Net Assets on page 9 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. Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. water and wastewater systems, streets and sidewalks, etc.), to assess the overall health or financial condition of the City.

The Statement of Activities on pages 10 to 11 presents information showing how the City's net assets changed during the most recent fiscal year. All of the revenues and expenses are taken into account as soon as the underlying event giving rise to the item occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- Governmental Activities - Most of the City's basic services are reported here, including police, public works, municipal courts, parks, and general administration. Property taxes, sales taxes, franchise fees, fines and forfeitures finance most of these activities.

CITY OF MEADOWS PLACE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2004

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

- Business-Type Activities – Includes services for which the City charges a fee to customers to help cover all or most of the cost of providing such services. The City's water and wastewater systems, as well as garbage service are reported here.
- Component Units – The City includes one separate legal entity in its report – the Meadows Economic Development Corporation. Although legally separate, this "component unit" is included because the City is financially accountable for it.

FUND FINANCIAL STATEMENTS

The basic financial statements also include 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 has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources accumulated for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources segregated for acquisition or construction of facilities and related costs.

Governmental funds are reported in the Governmental Funds Balance Sheet on pages 12 to 13 and in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances on pages 15 to 16. The focus in the fund statements provides a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the City and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 to 33 in this report.

**CITY OF MEADOWS PLACE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2004**

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). Budgetary comparison statements are included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$22,421,850 as of September 30, 2004.

A portion of the City's net assets reflects its investments in capital assets (e.g. buildings, land, streets, sidewalks, water and wastewater facilities, and infrastructure), less any debt used to acquire those assets that is still outstanding.

With the first year implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, the City is not presenting comparable prior year columns in the various comparisons and analyses. In future years, when prior-year information is available on a comparable basis, a comparative analysis of government-wide changes in net assets will be presented.

	Summary of Net Assets
	2004
Current and Other Assets	\$ 5,153,078
Capital Assets (Net of Accumulated Depreciation)	23,212,965
Total Assets	\$ 28,366,043
Long-Term Liabilities	\$ 5,173,752
Other Liabilities	770,441
Total Liabilities	\$ 5,944,193
Net Assets:	
Invested in Capital Assets, Net of Related Debt	17,622,955
Restricted	1,287,845
Unrestricted	3,511,050
Total Net Assets	\$ 22,421,850

**CITY OF MEADOWS PLACE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2004**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the City's operations for the year ended September 30, 2004. The City first implemented GASB Statement No. 34 in 2004; therefore comparative data is not presented. The City increased its net assets by \$557,579, accounting for a 2.6% growth in net assets.

Summary of Changes in Net Assets

	2004
Revenues:	
Property Taxes	\$ 1,622,125
Sales Taxes	601,688
Charges for Services	994,112
Sale of Land	1,141,992
Other Revenues	722,777
Total Revenues	\$ 5,082,694
Expenses for Services	4,525,115
Change in Net Assets	\$ 557,579
Net Assets, Beginning of year	21,864,271
Net Assets, End of Year	\$ 22,421,850

FINANCIAL ANALYSIS OF THE CITY'S GOVERNMENTAL FUNDS

The City's combined fund balances as of the end of the fiscal year ended September 30, 2004 were \$4,832,135, an increase of \$838,866 from the prior year.

The General Fund fund balance increased by \$1,060,544, primarily due to the sale of land during the fiscal year.

The Debt Service Fund fund balance increased by \$11,010, primarily due to increased property tax collections.

The Capital Projects Fund fund balance decreased by \$232,688. This net decrease was primarily due to the City making planned rehabilitation and capital expenditures.

**CITY OF MEADOWS PLACE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2004**

GENERAL FUND BUDGETARY HIGHLIGHTS

The City did not amend the budget during the fiscal year. Actual revenue was \$163,867 more than budgeted revenue due higher than expected property tax and sales tax revenue and increased license and permit revenue. Actual expenditures were \$407,154 more than budgeted expenditures due to higher than expected capital outlay and public utility departmental expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

The City's investment in capital assets as of September 30, 2004 amounts to \$23,212,965 (net of accumulated depreciation). This investment in capital assets includes land, buildings, sidewalks, streets, vehicles and equipment as well as the water, wastewater and drainage systems.

Capital asset events during the current fiscal year included the following:

- Purchase of a handheld ticket writer system
- Purchase of 2 vehicles and a motorcycle
- Installation of Baseball lights and other park improvements
- Lease of a new phone system

Capital Assets At Year-End Net of Accumulated Depreciation

Land	\$ 8,363,976
Buildings	534,386
Furniture & Fixtures	3,062
Machinery & Equipment	259,331
Park Improvements	81,239
Vehicles	151,866
Water System	2,482,040
Sanitary Wastewater System	6,654,735
Drainage System	1,086,347
Streets and Sidewalks	<u>3,595,983</u>
Total Net Capital Assets	<u>\$ 23,212,965</u>

Additional information on the City's capital assets can be found in note 6 on pages 28 and 29 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total of bond debt payable of \$5,500,000. Of this debt, the Meadows Economic Development Corporation has agreed to make the payments on the \$700,000 remaining from the Series 1997 Bond issue.

**CITY OF MEADOWS PLACE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2004**

DEBT ADMINISTRATION (Continued)

The changes in the debt position of the City during the fiscal year ended September 30, 2004, is summarized as follows:

Bond Debt Payable, October 1, 2003	\$ 5,900,000
Less: Bond Principal Paid	<u>400,000</u>
Bond Debt Payable, September 30, 2004	<u>\$ 5,500,000</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Meadows Place, Texas' finances for anyone with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to City of Meadows Place, Texas, One Troyan Drive, Meadows Place Texas 77477.

CITY OF MEADOWS PLACE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	Meadows Economic Development Corporation
ASSETS				
Cash and Cash Equivalents, Note 5	\$ 3,965,985	\$ 1,011,792	\$ 4,977,777	\$ 58,393
Receivables:				
Property Taxes	32,056		32,056	
Service Accounts (Net of Allowance for Doubtful Accounts of \$-0-)		71,667	71,667	
Garbage		16,987	16,987	
Franchise Fees	35,982		35,982	
Mixed Beverages Taxes	3,435		3,435	
Other	15,174		15,174	
Land, Note 6	7,934,791	429,185	8,363,976	
Capital Assets (Net of Accumulated Depreciation), Note 6	<u>4,468,949</u>	<u>10,380,040</u>	<u>14,848,989</u>	
TOTAL ASSETS	<u>\$ 16,456,372</u>	<u>\$ 11,909,671</u>	<u>\$ 28,366,043</u>	<u>\$ 58,393</u>
LIABILITIES				
Accounts Payable	\$ 162,573	\$ 90,051	\$ 252,624	\$ 100
Wages Payable	21,091	1,050	22,141	
Accrued Compensated Absences, Note 4	53,890		53,890	
Due to Developer	1,372		1,372	
Security Deposits		12,750	12,750	
Accrued Interest Payable	4,289	7,117	11,406	1,417
Non-Current Liabilities				
Due Within One Year				
Capital Lease Payable, Note 11	16,258		16,258	
Bonds Payable, Note 3	112,800	287,200	400,000	
Due in More than One Year				
Capital Lease Payable, Note 11	73,752		73,752	
Bonds Payable, Note 3	<u>1,692,000</u>	<u>3,408,000</u>	<u>5,100,000</u>	
TOTAL LIABILITIES	<u>\$ 2,138,025</u>	<u>\$ 3,806,168</u>	<u>\$ 5,944,193</u>	<u>\$ 1,517</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	\$ 10,508,930	\$ 7,114,025	\$ 17,622,955	\$
Restricted For:				
Capital Projects	545,112		545,112	
Debt Service	742,733		742,733	
Unrestricted	<u>2,521,572</u>	<u>989,478</u>	<u>3,511,050</u>	<u>56,876</u>
TOTAL NET ASSETS	<u>\$ 14,318,347</u>	<u>\$ 8,103,503</u>	<u>\$ 22,421,850</u>	<u>\$ 56,876</u>

The accompanying notes to basic financial statements are an integral part of this report.

**CITY OF MEADOWS PLACE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

		Program Revenues	
	Expenses	Charges for Services	Grants
GOVERNMENTAL ACTIVITIES			
General Government	\$ 813,283	\$ 118,010	\$
Municipal Court	84,272	17,041	
Public Works	679,283		
Police Department	1,063,066	303,656	
Parks and Recreation	337,588	26,252	28,388
Interest on Long-Term Debt	106,549		
TOTAL GOVERNMENTAL ACTIVITIES	\$ 3,084,041	\$ 464,959	\$ 28,388
BUSINESS-TYPE ACTIVITIES			
Public Utilities	\$ 1,441,074	\$ 994,112	\$ -0-
TOTAL PRIMARY GOVERNMENT	\$ 4,525,115	\$ 1,459,071	\$ 28,388
COMPONENT UNIT	\$ 60,452	\$ -0-	\$ -0-
GENERAL REVENUES			
Property Taxes			
Sales Taxes			
Franchise Fees			
Investment Income			
SPECIAL ITEM			
Gain on Sale of Land			
TOTAL GENERAL REVENUES AND SPECIAL ITEM			
CHANGE IN NET ASSETS			
NET ASSETS – OCTOBER 1, 2003			
NET ASSETS – SEPTEMBER 30, 2004			

The accompanying notes to basic financial statements are an integral part of this report.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Meadows Economic Development Corporation
\$ (695,273)	\$	\$ (695,273)	\$
(67,231)		(67,231)	
(679,283)		(679,283)	
(759,410)		(759,410)	
(282,948)		(282,948)	
(106,549)		(106,549)	
<u>\$ (2,590,694)</u>	<u>\$ -0-</u>	<u>\$ (2,590,694)</u>	<u>\$ -0-</u>
<u>\$ -0-</u>	<u>\$ (446,962)</u>	<u>\$ (446,962)</u>	<u>\$ -0-</u>
<u>\$ (2,590,694)</u>	<u>\$ (446,962)</u>	<u>\$ (3,037,656)</u>	<u>\$ -0-</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (60,452)</u>
\$ 1,622,125	\$	\$ 1,622,125	\$
601,688		601,688	195,113
181,647		181,647	
43,983	3,800	47,783	59
<u>1,141,992</u>	<u></u>	<u>1,141,992</u>	<u></u>
<u>\$ 3,591,435</u>	<u>\$ 3,800</u>	<u>\$ 3,595,235</u>	<u>\$ 195,172</u>
\$ 1,000,741	\$ (443,162)	\$ 557,579	\$ 134,720
<u>13,317,606</u>	<u>8,546,665</u>	<u>21,864,271</u>	<u>(77,844)</u>
<u>\$ 14,318,347</u>	<u>\$ 8,103,503</u>	<u>\$ 22,421,850</u>	<u>\$ 56,876</u>

The accompanying notes to basic financial statements are an integral part of this report.

CITY OF MEADOWS PLACE, TEXAS
GOVERNMENTAL FUNDS BALANCE SHEET
September 30, 2004

	General Fund	Debt Service Fund
ASSETS		
Cash and Cash Equivalents, Note 5	\$ 3,678,526	\$ 754,139
Receivables:		
Property Taxes	20,181	11,875
Service Accounts (Net of Allowance for Doubtful Accounts of \$0)	71,667	
Garbage	16,987	
Franchise Fees	35,982	
Mixed Beverage Taxes	3,435	
Other	15,174	
TOTAL ASSETS	\$ 3,841,952	\$ 766,014
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 252,624	\$
Wages Payable	22,141	
Due to Developer	1,372	
Security Deposits	12,750	
Deferred Tax Revenue	20,181	11,875
TOTAL LIABILITIES	\$ 309,068	\$ 11,875
FUND BALANCES		
Fund Balances:		
Reserved for Future Debt Service	\$	\$ 754,139
Designated for Capital Projects		
Unreserved/Undesignated	3,532,884	
TOTAL FUND BALANCES	\$ 3,532,884	\$ 754,139
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,841,952	\$ 766,014

The accompanying notes to basic financial
statements are an integral part of this report.

<u>Capital Projects Fund</u>	<u>Primary Government Total</u>	<u>Component Unit</u>
\$ 545,112	\$ 4,977,777	\$ 58,393
	32,056	
	71,667	
	16,987	
	35,982	
	3,435	
	<u>15,174</u>	
<u>\$ 545,112</u>	<u>\$ 5,153,078</u>	<u>\$ 58,393</u>
\$	\$ 252,624	\$ 100
	22,141	
	1,372	
	12,750	
	<u>32,056</u>	
<u>\$ -0-</u>	<u>\$ 320,943</u>	<u>\$ 100</u>
\$	\$ 754,139	\$
545,112	545,112	
	<u>3,532,884</u>	<u>58,293</u>
<u>\$ 545,112</u>	<u>\$ 4,832,135</u>	<u>\$ 58,293</u>
<u>\$ 545,112</u>	<u>\$ 5,153,078</u>	<u>\$ 58,393</u>

The accompanying notes to basic financial statements are an integral part of this report.

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CITY OF MEADOWS PLACE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Total Fund Balance per Balance Sheet	\$ 4,832,135
Governmental funds do not include long-term liabilities. However, in the Statement of Net Assets long-term liabilities are included:	
Bonds Payable	(5,500,000)
Lease Payable	(90,010)
Governmental funds do not include Capital Assets. However, in the Statement of Net Assets, capital assets are included.	
	23,212,965
Governmental funds do not include accrued interest payable. However, in the Statement of Net Assets, accrued interest payable is recorded.	
	(11,406)
Governmental funds do not include accrued compensated absences. However, in the Statement of Net Assets, a liability is recorded.	
	(53,890)
Governmental funds record deferred tax revenue and in the Statement of Net Assets tax revenue is recognized when earned.	
	<u>32,056</u>
Total Net Assets per Statement of Net Assets	<u>22,421,850</u>

The accompanying notes to basic financial statements are an integral part of this report.

CITY OF MEADOWS PLACE, TEXAS
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	General Fund	Debt Service Fund
	<u> </u>	<u> </u>
REVENUES		
Property Taxes and Penalties	\$ 1,035,690	\$ 593,102
City Sales Taxes	601,688	
Public Utilities	994,112	
Franchise Fees	181,647	
Fines and Forfeitures	320,697	
Licenses and Permits	101,063	
Investment Revenues	32,850	14,933
Other	<u>43,199</u>	
TOTAL REVENUES	<u>\$ 3,310,946</u>	<u>\$ 608,035</u>
EXPENDITURES		
Service Operations:		
General Government	\$ 372,762	\$ 12,775
Municipal Court	79,763	
Public Works	663,701	
Police Department	1,008,686	
Park and Recreation	305,305	
Public Utilities	872,756	
Capital Outlay	179,431	
Debt Service:		
Bond Principal		300,000
Bond Interest		<u>284,250</u>
TOTAL EXPENDITURES	<u>\$ 3,482,404</u>	<u>\$ 597,025</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (171,458)</u>	<u>\$ 11,010</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from Capital Lease, Note 11	<u>\$ 90,010</u>	<u>\$ -0-</u>
SPECIAL ITEM		
Proceeds from Sale of Land	<u>\$ 1,141,992</u>	<u>\$ -0-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES, OTHER FINANCING SOURCES (USES) AND SPECIAL ITEMS	<u>\$ 1,060,544</u>	<u>\$ 11,010</u>
FUND BALANCES – OCTOBER 1, 2003	<u>2,472,340</u>	<u>743,129</u>
FUND BALANCES – SEPTEMBER 30, 2004	<u>\$ 3,532,884</u>	<u>\$ 754,139</u>

The accompanying notes to basic financial
statements are an integral part of this report.

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Component Unit</u>
\$	\$ 1,628,792	\$ 195,113
	601,688	
	994,112	
	181,647	
	320,697	
	101,063	
	47,783	59
<u>28,388</u>	<u>71,587</u>	<u> </u>
\$ <u>28,388</u>	\$ <u>3,947,369</u>	\$ <u>195,172</u>
\$ 152,601	\$ 538,138	\$ 24,389
	79,763	
	663,701	
	1,008,686	
	305,305	
	872,756	
108,475	287,906	
	300,000	100,000
<u> </u>	<u>284,250</u>	<u>36,250</u>
\$ <u>261,076</u>	\$ <u>4,340,505</u>	\$ <u>160,639</u>
\$ (232,688)	\$ (393,136)	\$ 34,533
\$ -0-	\$ 90,010	\$ -0-
\$ -0-	\$ 1,141,992	\$ -0-
\$ (232,688)	\$ 838,866	\$ 34,533
<u>777,800</u>	<u>3,993,269</u>	<u>23,760</u>
\$ <u>545,112</u>	\$ <u>4,832,135</u>	\$ <u>58,293</u>

The accompanying notes to basic financial statements are an integral part of this report.

CITY OF MEADOWS PLACE, TEXAS
RECONCILIATION OF THE STATEMENT OF GOVERNMENTAL FUNDS
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Change in Fund Balances – Governmental Funds	\$ 838,866
Amounts Reported for Governmental Activities in the Statements of Activities are Different Because:	
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Assets, bond principal payments are reported as decreases in long-term liabilities.	300,000
Governmental funds report capital expenditures in the period purchased. However, in the Statement of Net Assets, Capital Assets are increased by new purchases.	287,906
Governmental funds report interest expenditures on bonds as expenditures in the year paid. However, in the Statement of Net Assets, interest is accrued on bonds through fiscal year end.	875
Governmental funds do no account for depreciation. However, in the Statement of Net Assets, capital assets are depreciated and depreciation expense is recorded.	(768,683)
Governmental funds record proceeds from entering into a lease agreement as an other financing source. However, in the Statement of Net Assets, a liability is recorded.	(90,010)
Governmental funds do not account for the increase in accrued compensated absences. However, in the Statement of Net Activities, the increase is recorded as an expense.	(4,708)
Governmental funds do not account for penalties and interest on tax collections receivable. However, in the Statement of Net Assets, revenue for the current year is recorded when the penalties are assessed.	<u>(6,667)</u>
Change in Net Assets per Statement of Activities	<u>\$ 557,579</u>

The accompanying notes to basic financial statements are an integral part of this report.

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 1. CREATION OF CITY

The City of Meadows Place (the "City") was incorporated in November of 1983 under the provisions of the State of Texas. The City is governed by an elected five-member council and a mayor. The City provides the following services; public safety, maintenance and improvements to highways and streets, public improvements, and general administration services.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board has established the criteria for determining whether or not a given entity is a component unit. The criteria are (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit's board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The City is an independent political subdivision of the State of Texas and is considered a primary government.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. Based on these considerations, the City's basic financial statements include the Meadows Economic Development Corporation. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Discretely Presented Component Units

Meadows Economic Development Corporation (the "Corporation") has been included in the reporting entity as a discretely presented component unit. The Corporation was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. The Board of Directors is appointed by and serves at the discretion of City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, all assets of the Corporation shall be conveyed to the City. The operations of the Corporation are presented on the Statement of Net Assets and the Statement of Activities.

Financial Statement Presentation

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) 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 those on the following:

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

For the first time, the financial statements include:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and changes in financial position.
- Government-wide financial statements prepared using the accrual basis of accounting for all of the City's governmental activities.

GASB Statement No. 34 established standards for external financial reporting for all state and local government entities, which include a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components-invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Assets – This component of net assets consists of external constraints placed on the use of net assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of "Restricted" or "Invested in Capital Assets, Net of Related Debt".

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

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. The Statement of Net Assets is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Assets.

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense.

Fund Financial Statements

The City's fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The City has three governmental funds.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, costs and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources accumulated for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources segregated for acquisition or construction of facilities and related costs.

Basis of Accounting

The City uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred.

Property taxes considered available by the City and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred tax revenues are those taxes which the City does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as another financing source or use. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as an expenditure in the governmental fund incurred and as an expense in the government-wide Statement of Net Assets. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Buildings	40
Furniture & Fixtures	3-20
Machinery & Equipment	5-20
Vehicles	5
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
Park Improvements	10-25
Streets & Sidewalks	30

Inventory

Inventory is recorded at the average cost basis. Average cost is calculated on the average cost of each specific item during the fiscal year.

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

In compliance with governmental accounting principles, the City Council annually adopts an unappropriated budget for the General Fund, Debt Service Fund and Component Unit. The budgets were not amended during the current fiscal year.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the city. Cash in all funds is combined into one bank account in order to maximize investment opportunities. Although individual funds may experience temporary overdraft liabilities, a positive balance is maintained in combined cash.

Pensions

For employees of the City, a pension plan has been established, see Note 8.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net assets.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances are included on the Balance Sheet as follows:

Reserved:

To indicate fund equity which is legally segregated for a specific future use.

Unreserved:

Designated - To indicate fund equity for which the City has made tentative plans.

Undesignated - To indicate fund equity which is available for use in future periods.

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. BONDS PAYABLE

The City's General Obligation Bonds are payable from and secured by property taxes in accordance with underlying ordinances and resolutions authorizing their issuance. Also, in accordance with authorizing ordinances and resolutions, separate Debt Service Funds have been established and are being maintained for these debt issues. Any revenues from investments in these funds will be used to pay principal and interest on these debt issues.

Pertinent data related to the General Obligation Bonds is shown below.

	Series 1997	Series 2000
Amount Outstanding - September 30, 2004	\$ 700,000	\$ 4,800,000
Interest Rates	4.50% - 5.00%	5.00% - 7.00%
Maturity Dates – Serially Beginning/Ending	March 15, 2005/2011	March 15, 2005/2020
Interest Payment Dates	March 15/ September 15	March 15/ September 15
Callable Dates	March 15, 2004	March 15, 2010

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2004:

Bond Debt Payable – October 1, 2003		\$ 5,900,000
Less: Bond Principal Retirement		
Series 1997	\$ 100,000	
Series 2000	300,000	400,000
Bond Debt Payable - September 30, 2004		\$ 5,500,000

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 3. BONDS PAYABLE (Continued)

Bond Debt Payable-	
Due Within One Year	\$ 400,000
Due After One Year	<u>5,100,000</u>

Bond Debt Payable-September 30, 2004 \$ 5,500,000

As of September 30, 2004, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2005	\$ 400,000	\$ 294,950	\$ 694,950
2006	400,000	269,300	669,300
2007	400,000	243,550	643,550
2008	400,000	217,700	617,700
2009	400,000	192,125	592,125
2010-2014	1,700,000	649,750	2,349,750
2015-2019	1,500,000	262,500	1,762,500
2020	<u>300,000</u>	<u>7,500</u>	<u>307,500</u>
	<u>\$ 5,500,000</u>	<u>\$ 2,137,375</u>	<u>\$ 7,637,375</u>

During the year ended September 30, 2004, the City levied an ad valorem debt service tax at the rate of \$0.263 per \$100 of assessed valuation, which resulted in a tax levy of \$576,141 on the adjusted taxable valuation of \$219,064,974 for the 2003 tax year. The bond orders require the City to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes, see Note 7 related to maintenance and operations tax.

The City's tax calendar is as follows:

- Levy Date - October 1, or as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Upon receipt but not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 4. ACCRUED COMPENSATED EMPLOYEE ABSENCES

The liability for accrued compensated absences at September 30, 2004, is accounted for in the Statement of Net Assets and is comprised of the following components:

Sick Leave	\$ 38,205
Comp-time	<u>15,685</u>
Total	<u>\$ 53,890</u>

Employees are allowed to earn twelve sick leave days per year. Employees may accumulate up to 36 sick leave days. Upon termination of employment, whether voluntary or involuntary, including retirement, employees receive payment for a maximum of 50 percent of accumulated sick leave days at their base salary in effect at date of termination.

Employees are allowed to earn up to 240 hours of comp-time for overtime hours worked. Upon termination of employment, whether voluntary or involuntary, including retirement, employees receive payment for 100 percent of accumulated comp-time earned at their base salary in effect at date of termination.

NOTE 5. CASH AND INVESTMENTS

Cash and investments include petty cash on hand in various departments, time deposit accounts, and deposits in Tex-Pool and Lone Star Investment Pool.

State statutes include specifications for and limitations applicable to the City and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) certain qualified securities lending programs.

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 5. CASH AND INVESTMENTS (Continued)

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all City funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the City's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The City's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest City funds without express written authority from the Mayor.

	<u>ASSETS AT COST</u>		<u>FAIR VALUE</u>
	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Combined</u>
<u>GENERAL FUND -</u>			
Claim on Pooled Cash	\$ 356,141	\$	\$ 356,141
Demand Deposits, Money Market Deposit Accounts and Savings Accounts	69,830		69,830
Tex-Pool		2,936,010	2,936,010
Lone Star		316,545	316,545
<u>DEBT SERVICE FUND -</u>			
(Restricted for Payment of Debt Service and Cost of Assessing and Collecting Taxes)			
Claim on Pooled Cash	123,390		123,390
Tex-Pool		630,749	630,749

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 5. CASH AND INVESTMENTS (Continued)

	<u>ASSETS AT COST</u>		<u>FAIR VALUE</u>
	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Combined</u>
<u>CAPITAL PROJECTS FUND -</u>			
(Restricted for Purchase of General Fixed Assets)			
Claim on Pooled Cash Tex-Pool	(452,629)		(452,629)
		997,741	997,741
 <u>ECONOMIC DEVELOPMENT CORPORATION -</u>			
(Restricted for Activities of the Economic Development Corporation)			
Claim on Pooled Cash Tex-Pool	57,813		57,813
		580	580
TOTALS	<u>\$ 154,545</u>	<u>\$ 4,881,625</u>	<u>\$ 5,036,170</u>

All investments are recorded at cost, which the City considers to be fair value. The City invests in TexPool and Lone Star, external investment pools that are not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool. Lehman Brothers and Federated Investors manage the daily operations of TexPool under a contract with the Comptroller. The Texas Association of School Boards has oversight of Lone Star and Dain Rauscher, Inc. and Mellon Bank manage the daily operations. The fair value of the City's position in both pools are the same as the value of pool shares.

State statutes require that any cash balance in any fund shall to the extent not insured by the Federal Deposit Insurance Corporation or its successor be continuously secured by a valid pledge to the City of securities eligible under the laws of Texas to secure the funds of a municipality, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At the fiscal year end, the carrying amount of the City's deposits was \$154,545 and the bank balance was \$215,017. Of the bank balance, \$169,449 was covered by federal depository insurance and the balance was collateralized with securities held in a third party depository in the City's name.

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 5. CASH AND INVESTMENTS (Continued)

The City's policy is to require depositories to pledge adequate collateral to secure the City's deposits at all times to the extent that the City's depository balances exceed the limits of federal depository insurance. As of the highest cash balance date of each depository exceeding federal depository insurance, the depositories of the City did pledge adequate collateral to secure the deposits of the City. The entity pledging the collateral provided the information concerning market value.

NOTE 6. CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended September 30, 2004:

	<u>October 1, 2003</u>	<u>Net Change</u>	<u>September 30, 2004</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 8,343,976	\$ 20,000	\$ 8,363,976
Capital Assets Subject to Depreciation			
Buildings	\$ 823,085	\$	\$ 823,085
Furnitures and Fixtures	244,907		244,907
Machinery Equipment	245,143	150,382	395,525
Park Improvements	81,467	81,239	162,706
Vehicles	593,229	36,285	629,514
Water System	4,147,376		4,147,376
Wastewater System	8,715,772		8,715,772
Drainage	2,593,799		2,593,799
Streets and Sidewalks	<u>12,167,820</u>		<u>12,167,820</u>
Total Capital Assets at Historical Cost Subject to Depreciation	<u>\$ 29,612,598</u>	<u>\$ 267,906</u>	<u>\$ 29,880,504</u>
Less Accumulated Depreciation			
Buildings	\$ (244,426)	\$ (44,274)	\$ (288,700)
Furnitures and Fixtures	(240,821)	(1,024)	(241,845)
Machinery Equipment	(99,902)	(36,292)	(136,194)
Park Improvements	(81,467)		(81,467)
Vehicles	(423,606)	(54,042)	(477,648)
Water System	(1,544,212)	(121,123)	(1,665,335)
Wastewater System	(1,862,151)	(198,886)	(2,061,037)
Drainage	(1,449,654)	(57,798)	(1,507,452)
Streets and Sidewalk	<u>(8,316,593)</u>	<u>(255,244)</u>	<u>(8,571,837)</u>
Total Accumulated Depreciation	<u>\$ (14,262,832)</u>	<u>\$ (768,683)</u>	<u>\$ (15,031,515)</u>
Total Depreciable Capital Assets, Net Accumulated Depreciation	<u>15,434,766</u>	<u>(500,776)</u>	<u>14,848,989</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 23,693,742</u>	<u>\$ (480,776)</u>	<u>\$ 23,212,965</u>

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 6. CAPITAL ASSETS (Continued)

The City's capital assets included donations of \$817,456, most of which were donated land and improvements for parks and recreational facilities. Remaining amounts have been provided by expenditures of the General and Capital Projects Funds. Depreciation categorized by department at September 30, 2004, follows:

General Government	\$ 275,145
Municipal Court	4,509
Public Works	15,582
Police Department	49,672
Public Utilities Water/Sewer	391,492
Parks and Recreation	<u>32,283</u>
Total Depreciation Expense	<u>\$ 768,683</u>

NOTE 7. MAINTENANCE AND OPERATIONS TAX LEVY

During the current fiscal year, the City levied a 2003 maintenance and operations tax at the rate of \$0.467 per \$100 of valuation. The levy was based upon a total adjusted property valuation of \$219,064,974. This tax levy resulted in a total tax amount of \$1,023,034. The revenue derived from this levy is deposited into the combined General Fund and Public Utilities Fund of the City.

NOTE 8. PENSION PLAN

Plan Description and Provisions

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System ("TMRS"), one of 794 administered by TMRS, an agent multiple-employer public employee retirement system.

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

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 8. PENSION PLAN (Continued)

Plan Description and Provisions (Continued)

City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Members can retire at ages 60 and above with five 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 state statutes.

Contributions

The contribution rate for employees was increased to seven percent effective November 1, 2003, and the matching percent remains 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 City matching percent, which are the obligation of the City as of an employee's retirement rate, 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.

The unit credit actuarial cost method is used for determining the City's contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, 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 January 2005).

The City's total payroll in fiscal year 2004 was approximately \$1,125,061, and the City's contributions were based on a payroll of approximately \$1,015,117. Contributions made by employees totaled \$68,786, and the City made contributions of \$101,949 during the fiscal year ended September 30, 2004.

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 8. PENSION PLAN (Continued)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Actuarial Valuation Date	12/31/03	12/31/02	12/31/01	12/31/00	12/31/99
Actuarial Value of Assets	\$ 1,808,882	\$ 1,564,933	\$ 1,412,051	\$ 1,232,686	\$1,052,060
Actuarial Accrued Liability	2,167,751	1,683,980	1,532,748	1,384,508	1,195,162
Percentage Funded	83.4%	92.9%	92.1%	89.0%	88.0%
Unfunded (Over-Funded) Actuarial Accrued Liability	358,869	119,047	120,697	151,822	143,102
Annual Covered Payroll	972,927	951,902	944,907	863,405	877,191
Unfunded (Over-Funded) Actuarial Accrued Liability as a Percentage of Covered Payroll	36.9%	12.5%	12.8%	17.6%	16.3%
Net Pension Obligation (NPO) at the Beginning of the Period	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Annual Pension Costs:					
Annual Required Contribution (ARC)	101,949	73,620	78,467	66,500	61,692
Contributions Made	101,949	73,620	78,467	66,500	61,692
Increase in NPO	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
NPO at the end of the period	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Ten-year trend information may be found in the supplemental information section of the City's financial report.

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 9. CONTRACT WITH CITY OF HOUSTON

The Meadows Municipal Utility City (“MUD”), which was dissolved and added to City operations in 1993, had contracted with the City of Houston in a prior year for the use of capacity in the MUD’s sewage treatment plant. Under the terms of the contract (which has been continued with the City), the City operates and owns the plant and charges the City of Houston for a proportionate share of the plant’s operating costs. The City of Houston’s contracted plant capacity is 67,500 gallons per day for 180 connections which represents approximately 4.5 percent of total plant capacity. During the fiscal year ended September 30, 2004, the City received \$18,504 from the City of Houston for their proportionate share of the plant’s operating costs.

NOTE 10. COMPONENT UNIT RECONCILIATION

Component Unit – Net Change in Fund Balance	\$ 34,533
Governmental funds report bond principal payments as expenditures. In the Statement of Net Assets, bond principal payments decrease long-term liabilities.	100,000
Governmental funds report interest expenditures in the year paid. However, in the Statement of Net Assets, interest is accrued on bonds through the fiscal year end.	<u>187</u>
Component Unit – Change in Net Assets	<u>\$ 134,720</u>

NOTE 11. CAPITAL LEASE

The City executed a lease agreement on October 28, 2003, for the purchase of a phone system. The lease term is 60 months and the monthly payment is \$1,881. The following is a schedule of the future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of September 30, 2004.

CITY OF MEADOWS PLACE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 11. CAPITAL LEASE (Continued)

Year Ending <u>September 30</u>	
2005	\$ 20,682
2006	22,562
2007	22,562
2008	22,562
2009	<u>9,401</u>
Minimum Lease Payments	\$ 97,769
Less:	
Amount Representing Interest	<u>7,759</u>
Present Value of Minimum Lease Payments	<u>\$ 90,010</u>
Lease Payable – Due Within One Year	\$ 16,258
Lease Payable – Due in More Than One Year	<u>73,752</u>
Total Lease Payable	<u>\$ 90,010</u>

NOTE 12. RISK MANAGEMENT

The City is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, automobile, boiler and machinery, errors and omissions and workers compensation coverage. The City, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and paid by TML. During the current fiscal year the City contributed \$67,728 to TML for this insurance coverage. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

CITY OF MEADOWS PLACE, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2004

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF MEADOWS PLACE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2004

	Original/Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes and Penalties	\$ 1,004,529	\$ 1,035,690	\$ 31,161
City Sales Taxes	557,100	601,688	44,588
Public Utilities	961,000	994,112	33,112
Franchise Fees	195,000	181,647	(13,353)
Fines and Forfeitures	280,000	320,697	40,697
Licenses and Permits	50,000	101,063	51,063
Investment Revenue	40,000	32,850	(7,150)
Other	<u>59,450</u>	<u>43,199</u>	<u>(16,251)</u>
TOTAL REVENUES	<u>\$ 3,147,079</u>	<u>\$ 3,310,946</u>	<u>\$ 163,867</u>
EXPENDITURES			
General Government	\$ 343,318	\$ 372,762	\$ (29,444)
Municipal Court	80,581	79,763	818
Public Works	644,051	663,701	(19,650)
Police Department	992,417	1,008,686	(16,269)
Parks and Recreation	270,643	305,305	(34,662)
Public Utilities	714,240	872,756	(158,516)
Capital Outlay	<u>30,000</u>	<u>179,431</u>	<u>(149,431)</u>
TOTAL EXPENDITURES	<u>\$ 3,075,250</u>	<u>\$ 3,482,404</u>	<u>\$ (407,154)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 71,829</u>	<u>\$ (171,458)</u>	<u>\$ (243,387)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Capital Lease	<u>\$ -0-</u>	<u>\$ 90,010</u>	<u>\$ 90,010</u>
SPECIAL ITEM			
Proceeds from Sale of Land	<u>\$ -0-</u>	<u>\$ 1,141,992</u>	<u>\$ 1,141,992</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES, OTHER FINANCING SOURCES (USES) AND SPECIAL ITEMS	<u>\$ 71,829</u>	<u>\$ 1,060,544</u>	<u>\$ 988,715</u>
FUND BALANCES – OCTOBER 1, 2003	<u>2,472,340</u>	<u>2,472,340</u>	<u>_____</u>
FUND BALANCES – SEPTEMBER 30, 2004	<u>\$ 2,544,169</u>	<u>\$ 3,532,884</u>	<u>\$ 988,715</u>

See accompanying independent auditor's report.

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CITY OF MEADOWS PLACE, TEXAS

SUPPLEMENTAL INFORMATION

SEPTEMBER 30, 2004

CITY OF MEADOWS PLACE, TEXAS
SCHEDULE OF REVENUES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2004

	Original/Final Budget	Actual	Variance Positive (Negative)
Property Taxes and Penalties:			
Taxes – Ad Valorem Current	\$ 1,004,529	\$ 1,026,298	\$ 21,769
Penalty and Interest		9,392	9,392
Total Property Taxes and Penalties	<u>\$ 1,004,529</u>	<u>\$ 1,035,690</u>	<u>\$ 31,161</u>
City Sales Taxes:			
Sales Tax	\$ 361,400	\$ 390,226	\$ 28,826
½% Ad Valorem Sales Tax	180,700	195,113	14,413
Mixed Beverage Sales Tax	15,000	16,349	1,349
Total City Sales Taxes	<u>\$ 557,100</u>	<u>\$ 601,688</u>	<u>\$ 44,588</u>
Public Utilities:			
Service Fees – Water	\$ 350,000	\$ 333,637	\$ (16,363)
Reconnect Fees	1,500		(1,500)
Service Fees – Sewer	360,000	348,067	(11,933)
Tap Connections	52,000	110,788	58,788
Garbage Fees	165,000	163,079	(1,921)
City of Houston	13,500	18,504	5,004
Late Fees	19,000	20,037	1,037
Total Public Utilities	<u>\$ 961,000</u>	<u>\$ 994,112</u>	<u>\$ 33,112</u>
Franchise Fees	<u>\$ 195,000</u>	<u>\$ 181,647</u>	<u>\$ (13,353)</u>
Fines and Forfeitures:			
Fines and Forfeitures	\$ 240,000	\$ 303,656	\$ 63,656
Court Cost 10% Administrative	40,000	17,041	(22,959)
Total Fines and Forfeitures	<u>\$ 280,000</u>	<u>\$ 320,697</u>	<u>\$ 40,697</u>
Licenses and Permits	<u>\$ 50,000</u>	<u>\$ 101,063</u>	<u>\$ 51,063</u>
Interest	<u>\$ 40,000</u>	<u>\$ 32,850</u>	<u>\$ (7,150)</u>
Other Revenues:			
Newsletter Advertising	\$ 7,500	\$ 7,867	\$ 367
Miscellaneous Revenue	7,000	9,080	2,080
Rentals	12,000	7,170	(4,830)
Programs	32,950	19,082	(13,868)
Total Other Revenues	<u>\$ 59,450</u>	<u>\$ 43,199</u>	<u>\$ (16,251)</u>
Total Revenues	<u>\$ 3,147,079</u>	<u>\$ 3,310,946</u>	<u>\$ 163,867</u>

See accompanying independent auditor's report.

CITY OF MEADOWS PLACE, TEXAS
SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2004

	Original/Final Budget	Actual	Variance Positive (Negative)
General Government:			
Personnel	\$ 152,768	\$ 168,906	\$ (16,138)
Operating and Other	<u>190,550</u>	<u>203,856</u>	<u>(13,306)</u>
Total General Government	<u>\$ 343,318</u>	<u>\$ 372,762</u>	<u>\$ (29,444)</u>
Municipal Court:			
Personnel	\$ 46,131	\$ 46,513	\$ (382)
Operating and Other	<u>34,450</u>	<u>33,250</u>	<u>1,200</u>
Total Municipal Court	<u>\$ 80,581</u>	<u>\$ 79,763</u>	<u>\$ 818</u>
Public Works:			
Personnel	\$ 255,676	\$ 273,815	\$ (18,139)
Operating and Other	<u>388,375</u>	<u>389,886</u>	<u>(1,511)</u>
Total Public Works	<u>\$ 644,051</u>	<u>\$ 663,701</u>	<u>\$ (19,650)</u>
Police Department:			
Personnel	\$ 859,417	\$ 868,455	\$ (9,038)
Operating and Other	<u>133,000</u>	<u>140,231</u>	<u>(7,231)</u>
Total Police Department	<u>\$ 992,417</u>	<u>\$ 1,008,686</u>	<u>\$ (16,269)</u>
Parks and Recreation:			
Personnel	\$ 113,183	\$ 125,870	\$ (12,687)
Operating and Other	<u>157,460</u>	<u>179,435</u>	<u>(21,975)</u>
Total Parks and Recreation	<u>\$ 270,643</u>	<u>\$ 305,305</u>	<u>\$ (34,662)</u>
Public Utilities:			
Personnel	\$ 86,340	\$ 83,080	\$ 3,260
Operating and Other	<u>627,900</u>	<u>789,676</u>	<u>(161,776)</u>
Total Public Utilities Water/Sewer	<u>\$ 714,240</u>	<u>\$ 872,756</u>	<u>\$ (158,516)</u>
Capital Outlay	<u>\$ 30,000</u>	<u>\$ 179,431</u>	<u>\$ (149,431)</u>
Total Expenditures	<u>\$ 3,075,250</u>	<u>\$ 3,482,404</u>	<u>\$ (407,154)</u>

See accompanying independent auditor's report.

CITY OF MEADOWS PLACE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2004

	Original/Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes and Penalties	\$ 565,705	\$ 593,102	\$ 27,397
Investment Revenue	<u>7,000</u>	<u>14,933</u>	<u>7,933</u>
TOTAL REVENUES	<u>\$ 572,705</u>	<u>\$ 608,035</u>	<u>\$ 35,330</u>
EXPENDITURES			
General Government	\$ 7,000	\$ 12,775	\$ (5,775)
Bond Principal	300,000	300,000	
Bond Interest	<u>284,250</u>	<u>284,250</u>	
TOTAL EXPENDITURES	<u>\$ 591,250</u>	<u>\$ 597,025</u>	<u>\$ (5,775)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (18,545)	\$ 11,010	\$ 29,555
FUND BALANCES – OCTOBER 1, 2003	<u>743,129</u>	<u>743,129</u>	
FUND BALANCES – SEPTEMBER 30, 2004	<u>\$ 724,584</u>	<u>\$ 754,139</u>	<u>\$ 29,555</u>

See accompanying independent auditor's report.

CITY OF MEADOWS PLACE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
COMPONENT UNIT
YEAR ENDED SEPTEMBER 30, 2004

	Original/Final Budget	Actual	Variance Positive (Negative)
REVENUES			
City Sales Taxes	\$ 180,700	\$ 195,113	\$ 14,413
Investment Revenue	<u>750</u>	<u>59</u>	<u>(691)</u>
TOTAL REVENUES	<u>\$ 181,450</u>	<u>\$ 195,172</u>	<u>\$ 13,722</u>
EXPENDITURES			
General Government	\$ 33,200	\$ 24,389	\$ 8,811
Bond Principal	100,000	100,000	
Bond Interest	<u>36,250</u>	<u>36,250</u>	
TOTAL EXPENDITURES	<u>\$ 169,450</u>	<u>\$ 160,639</u>	<u>\$ 8,811</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 12,000	\$ 34,533	\$ 22,533
FUND BALANCES – OCTOBER 1, 2003	<u>23,760</u>	<u>23,760</u>	
FUND BALANCES – SEPTEMBER 30, 2004	<u>\$ 35,760</u>	<u>\$ 58,293</u>	<u>\$ 22,533</u>

See accompanying independent auditor's report.

CITY OF MEADOWS PLACE, TEXAS
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2004

GENERAL OBLIGATION BONDS
SERIES - 1997

Due During Fiscal Years Ending September 30	Principal Due March 15	Interest Due March 15/ September 15	Total
2005	\$ 100,000	\$ 31,700	\$ 131,700
2006	100,000	27,050	127,050
2007	100,000	22,300	122,300
2008	100,000	17,450	117,450
2009	100,000	12,500	112,500
2010	100,000	7,500	107,500
2011	100,000	2,500	102,500
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
TOTAL	<u>\$ 700,000</u>	<u>\$ 121,000</u>	<u>\$ 821,000</u>

See accompanying independent auditor's report.

CITY OF MEADOWS PLACE, TEXAS
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2004

GENERAL OBLIGATION BONDS
 SERIES - 2000

Due During Fiscal Years Ending September 30	Principal Due March 15	Interest Due March 15/ September 15	Total
2005	\$ 300,000	\$ 263,250	\$ 563,250
2006	300,000	242,250	542,250
2007	300,000	221,250	521,250
2008	300,000	200,250	500,250
2009	300,000	179,625	479,625
2010	300,000	159,750	459,750
2011	300,000	142,500	442,500
2012	300,000	127,500	427,500
2013	300,000	112,500	412,500
2014	300,000	97,500	397,500
2015	300,000	82,500	382,500
2016	300,000	67,500	367,500
2017	300,000	52,500	352,500
2018	300,000	37,500	337,500
2019	300,000	22,500	322,500
2020	<u>300,000</u>	<u>7,500</u>	<u>307,500</u>
TOTAL	<u>\$ 4,800,000</u>	<u>\$ 2,016,375</u>	<u>\$ 6,816,375</u>

See accompanying independent auditor's report.

CITY OF MEADOWS PLACE, TEXAS
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2004

TOTAL ALL SERIES			
Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2005	\$ 400,000	\$ 294,950	\$ 694,950
2006	400,000	269,300	669,300
2007	400,000	243,550	643,550
2008	400,000	217,700	617,700
2009	400,000	192,125	592,125
2010	400,000	167,250	567,250
2011	400,000	145,000	545,000
2012	300,000	127,500	427,500
2013	300,000	112,500	412,500
2014	300,000	97,500	397,500
2015	300,000	82,500	382,500
2016	300,000	67,500	367,500
2017	300,000	52,500	352,500
2018	300,000	37,500	337,500
2019	300,000	22,500	322,500
2020	300,000	7,500	307,500
TOTAL	\$ 5,500,000	\$ 2,137,375	\$ 7,637,375

See accompanying independent auditor's report.

CITY OF MEADOWS PLACE, TEXAS
ANALYSIS OF CHANGES IN GENERAL LONG-TERM DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Description	Original Bonds Issued	Bonds Outstanding October 1, 2003
City of Meadows Place, Texas General Obligation Bonds - Series 1997	\$ 1,275,000	\$ 800,000
City of Meadows Place, Texas General Obligation Bonds - Series 2000	<u>6,000,000</u>	<u>5,100,000</u>
TOTAL	<u>\$ 7,275,000</u> *	<u>\$ 5,900,000</u>

See Note 3 for interest rates, interest payment dates and maturity dates.

* In addition to the bond issues listed above, the City has retired the following bond issues; Series 1991 in the amount of \$800,000 and the Series 1993 in the amount of \$3,050,000.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding September 30, 2004</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 100,000	\$ 36,250	\$ 700,000	Bank of New York Jacksonville, FL
<u> </u>	<u>300,000</u>	<u>284,250</u>	<u>4,800,000</u>	Bank of New York Jacksonville, FL
<u>\$ -0-</u>	<u>\$ 400,000</u>	<u>\$ 320,500</u>	<u>\$ 5,500,000</u>	

See accompanying independent auditor's report.

CITY OF MEADOWS PLACE, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
ANALYSIS OF FUNDING PROGRESS - UNAUDITED
Last Ten Calendar Years

Calendar Year	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded (Overfunded) Actuarial Accrued Liability
1994	426,173	449,096	94.90	22,923
1995	521,766	552,586	94.42	30,820
1996	607,570	669,467	90.75	61,897
1997	733,244	800,808	91.56	67,564
1998	885,204	1,013,506	87.30	128,302
1999	1,052,060	1,195,162	88.00	143,102
2000	1,232,686	1,384,508	89.00	151,822
2001	1,412,051	1,532,748	92.10	120,697
2002	1,564,933	1,683,980	92.90	119,047
2003	1,808,882	2,167,751	83.40	358,869

See accompanying independent
auditor's report .

Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll	Annual Required Contribution to TMRS	Average City Rate
727,897	3.15	32,843	4.51
783,176	3.94	38,359	4.90
824,668	7.51	42,520	5.16
859,233	7.86	49,439	5.75
939,814	13.7	51,317	5.46
877,191	16.3	61,692	7.04
863,405	17.6	66,500	7.71
944,907	12.8	78,467	7.91
951,902	12.5	73,620	7.54
972,927	36.9	101,949	10.13

See accompanying independent
auditor's report .

