

City of Tomball, Texas

Comprehensive Annual Financial Report

October 1, 2003 through September 30, 2004

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

City of Tomball, Texas

**For the fiscal year ended
September 30, 2004**

**Report Prepared By
City Manager and
Members of His Staff**

TABLE OF CONTENTS

Page

I. INTRODUCTORY SECTION

Letter of Transmittal.....	iv
GFOA Certificate of Achievement for Excellence in Financial Reporting.....	ix
Principal Officials.....	x
Organization Chart.....	xi

II. FINANCIAL SECTION

Independent Auditor’s Report	3
Management’s Discussion and Analysis	6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	20
Reconciliation of the Balance Sheet of Governmental funds to the Statement of Net Assets.....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	23
Statement of Net Assets – Proprietary Fund	24
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	27
Statement of Cash Flows – Proprietary Fund.....	28
Notes to Financial Statements.....	30
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	56
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Debt Service Fund	57

TABLE OF CONTENTS - continued

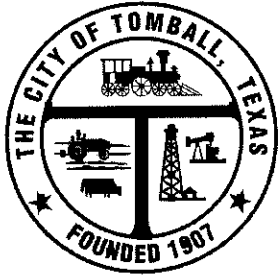
	Page
Combining Balance Sheet – Non-Major Governmental Funds	58
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds	59
Capital Assets Used in the Operation of Governmental Funds:	
Comparative Schedule by Source.....	61
Schedule by Function and Activity	62
Schedule of Changes by Function and Activity	64

III. STATISTICAL SECTION (UNAUDITED)

General Government Expenditures by Function – General, Special Revenue, Debt Service, Capital Projects Funds and Component Unit – Last Ten Fiscal Years.....	66
General Governmental Revenues by Source – General, Special Revenue, Debt Service, Capital Projects Funds and Component Unit – Last Ten Fiscal Years	68
Property Tax Levies and Collections – Last Ten Fiscal Years.....	70
Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years	72
Property Tax Rates per \$100 Assessed Value – All Direct and Overlapping Government – Last Ten Fiscal Years.....	74
Property Tax Levies per \$100 Assessed Value – All Direct and Overlapping Government – Last Ten Fiscal Years.....	76
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita – Last Ten Fiscal Years.....	78
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Government Expenditures – Last Ten Fiscal Years	80
Computation of Net Direct and Estimated Overlapping Debt	81
Computation of Legal Debt Margin	82
Tax Rate Distribution.....	83
Revenue Bond Coverage – Last Ten Fiscal Years	84
Schedule of Insurance in Force	85
Demographic Statistics.....	86
Property Value, Construction and Bank Deposits – Last Ten Fiscal Years.....	87
Principal Taxpayers.....	88
Miscellaneous Statistical Data	89

INTRODUCTORY SECTION

This page left blank intentionally.



City of Tomball

**H. G. HARRINGTON
MAYOR**

**BEN GRIFFIN
CITY MANAGER**

**MARY COKER
ASSTISANT
CITY MANAGER**

**DORIS SPEER
CITY SECRETARY**

March 22, 2005

To the Honorable Mayor, Members of City Council, and Citizens of the City of Tomball, Texas

State law requires that all general-purpose local governments publish within six month of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Tomball for the fiscal year ended September 30, 2004.

This report consists of management's representations concerning the finances of the City of Tomball. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Tomball has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Tomball's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Tomball's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Tomball's financial statements have been audited by Fitts, Roberts and Company, a firm of licensed certified public accounts. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Tomball for the fiscal year ended September 30, 2004, 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 Tomball's financial statements for the fiscal year ended September 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Profile of the Government

The City of Tomball, incorporated on July 18, 1933, is located northwest of Houston, Texas in a high growth area. The City of Tomball currently occupies a land area of 10.78 square miles and serves an estimated population of 9,883. The City of Tomball is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

The City of Tomball has operated under the council-manager form of government since 1980. Policy-making and legislative authority are vested in a governing council consisting of the mayor and five other members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the government's manager and attorney. The government's manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve three-year staggered terms, with two council members elected every three years. The mayor is elected to serve a three-year term. The mayor and council are elected at large.

The City of Tomball provides a full range of services, including police and fire protection; the construction and maintenance of streets and other infrastructure; and recreational activities and cultural events. Sanitation services are provided through a contract with Waste Management.

The annual budget serves as the foundation for the City of Tomball's financial planning and control. All departments of the City of Tomball are required to submit requests for appropriation to the Finance Director. These requests serve as a starting point for developing a proposed budget. The City Manager then presents this proposed budget to the council for review. The council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than September 30, the close of the City of Tomball's fiscal year. The appropriated budget is prepared by fund, function, and department. Department heads may make requests to the City Manager for transfers of appropriations within a department. Transfers of appropriations between departments, however, require the special approval of the governing council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 56 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 57.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Tomball operates.

Local economy. The City of Tomball currently enjoys a favorable economic environment and local indicators point to continued stability. The region has a varied manufacturing and technology base that adds to the relative stability of the unemployment rate. Major industries with headquarters or divisions located within the government's boundaries or in close proximity include international headquarters for a large oil related corporation, a regional hospital with related health care facilities,

and computer hardware and software manufacturers. There are two major retail centers that completed construction in the past year in Tomball, adding further jobs and sales tax revenues.

The region (which includes the City of Tomball and the surrounding unincorporated area within the same county) has an employed labor force of approximately 13,600, which is anticipated to grow for the next several years. The largest groups of employers are in retail and in health services. There are two new subdivisions in the early development stages, which show a prospective of continued residential growth.

Long-term financial planning. The governing council has allocated funds to revitalize the historic downtown area of Tomball. This project includes the restoration of the original train depot, expanded parking, sidewalk additions and improvements, new thematic streets lights and public facilities. The City believes that by improving this area, Tomball will attract more tourists and improve the revenues generated by an attractive and convenient atmosphere in the historical downtown area.

In conjunction with the component unit, the Tomball Economic Development Corporation, the City is expanding water, sewer and gas utilities east, west and south to accommodate the anticipated future commercial development. Utilities on the west side of Tomball are along the Texas Farm to Market Highway 2920 linking I-45 (which runs north to Dallas from Houston) to SH290 (which runs west to Austin from Houston). This road is heavily traveled and attractive to commercial industry. The expansion on the east side of the City, from FM2920 to the southern portion of the city limits, was done to assist BJ Services in their expansion project to locate their international home office in Tomball. The south side utility project is designed to fully loop utilities around the southern border of the current city limits, providing utility access to undeveloped areas of Tomball.

Drainage detention and channels are ongoing projects for several years that are designed to provide a means of flood control in the area before flooding becomes a problem for the City. Because these projects are multi-million dollar endeavors, the City of Tomball is taking manageable steps to accomplish these flood control goals.

Cash management policies and practices. Cash temporarily idle during the year was maintained in an interest bearing checking account, the State Treasurer's investment pool, obligations of the U.S. Treasury and government backed securities. The maturities of the investments range from 30 days to 2 years, with an average maturity of 9 months. The average yield on investments was 3.1 percent. Investment income includes an adjustment for the fair value of investments, which does not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

Risk management. Safety meetings are held on a monthly basis to minimize accident-related losses. The City of Tomball maintains coverage with the Texas Municipal League for worker compensation claims. Additional information may be found in Note IV on page 50 of the financial statements.

Pension and other postemployment benefits. The City of Tomball provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, defined contribution plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The City of Tomball has no obligation in connection with employee

benefits offered through this plan beyond its dedicated monthly payments to TMRS. Further information on this plan is identified in Note IV beginning on page 51 of the financial statements.

The City of Tomball also provides postretirement health and dental care benefits for certain retirees and their dependents. As of the end of the current fiscal year, there was 1 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. Generally Accepted Accounting Principles do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

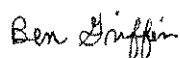
Awards and Acknowledgements

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 Tomball for its comprehensive annual financial report for the fiscal year ended September 30, 2003. This was the thirteenth consecutive year that the government has achieved 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.

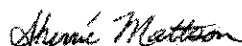
A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the administrative staff of the City of Tomball. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Tomball's finances.

Respectfully submitted,



Ben Griffin
City Manager



Sherrie Mattson
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Tomball,
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zjelke

President

Jeffrey R. Emer

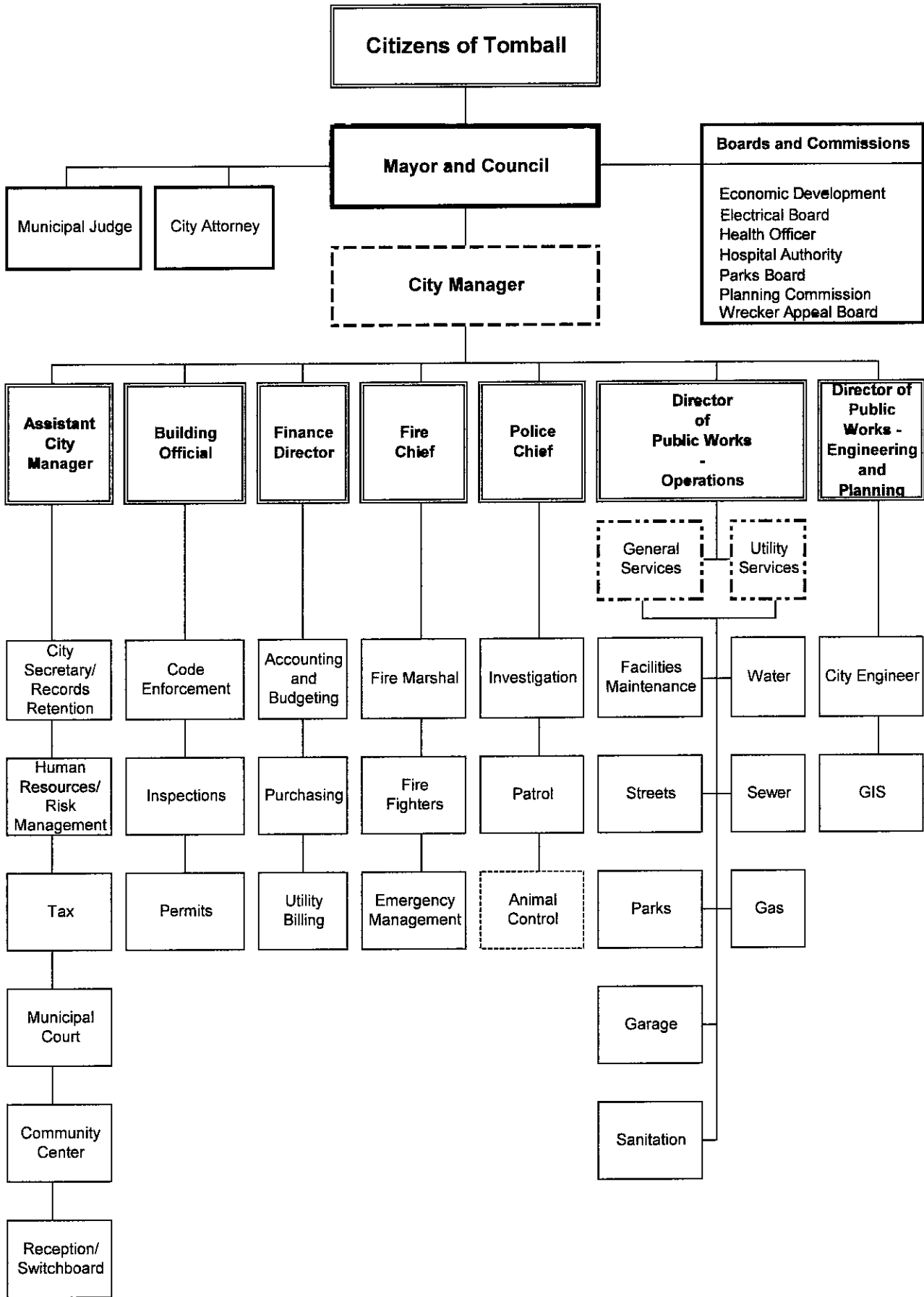
Executive Director

PRINCIPAL OFFICIALS
 CITY OF TOMBALL, TEXAS
 September 30, 2004

<u>CITY OFFICIALS</u>	<u>ELECTIVE POSITION</u>	<u>TERM EXPIRES</u>
H. G. Harrington	Mayor	2004
David Martin	Councilman Position 1	2005
Homer Ford	Councilman Position 2	2006
Gretchen Fagan	Councilman Position 3	2004
J. Michael Gatlin	Councilman Position 4	2006
Warren Driver	Councilman Position 5	2005

<u>DEPARTMENT HEADS</u>	<u>APPOINTIVE POSITION</u>
Ben Griffin	City Manager
Mary Coker	Assistant City Manager
Doris Speer	City Secretary
Michael Blake	Chief of Police
Randall Parr	Fire Chief
Roderick Hainey	Director of Public Works
Sherrie Mattson	Finance Director

City of Tomball Organization Chart



FINANCIAL SECTION

This page left blank intentionally

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council
City of Tomball, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Tomball, Texas (the City), as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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, the discretely presented component unit, each major fund, and the remaining fund information of the City of Tomball, Texas, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and supplementary information presented on pages 6 through 14 and 56, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

This page left blank intentionally.

Our audit was conducted for the purpose of forming an opinion on the City's basic financial statements. The combining fund statements and schedules presented on pages 57 and 58 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us 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.

The introductory and statistical sections, as listed in the table of contents, as well as the budgetary comparison schedule for the debt service fund and the schedules of capital assets used in the operation of government funds presented on pages 60-64, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Houston, Texas
January 15, 2005

Fitts, Roberts & Co., P.C.

Management's Discussion and Analysis

As management of the City of Tomball, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Tomball for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets of the City of Tomball exceeded its liabilities at the close of the most recent fiscal year by \$47,358,241 (net assets). Of this amount, \$13,621,507 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Tomball's governmental funds reported combined ending fund balances of \$23,798,659, an increase of \$223,627 in comparison with the prior year. Approximately 64% of this total amount, \$15,271,434, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$15,224,108, or 114% of total general fund expenditures.
- The City of Tomball's total debt increased by \$6,606,162 (21 percent) during the current fiscal year. The key factor in this increase was the issuance of \$8,500,000 in Combination Tax and Revenue Certificates of Obligation for the purpose of constructing buildings, streets, drainage and utility lines.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Tomball's basic financial statements. The City of Tomball's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Tomball's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Tomball'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 of Tomball is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Tomball that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from

other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Tomball include general government, public safety, streets and drainage, sanitation, and parks and recreation. The business-type activities of the City of Tomball include water, sewer and gas utilities.

The government-wide financial statements include not only the City of Tomball itself (known as the *primary government*), but also a legally separate economic development corporation, which is a component unit of the City of Tomball. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. The water, sewer and gas utilities, although also legally separate, functions for all practical purposes as departments of the City of Tomball, and therefore have been included as an integral part of the primary government. The government-wide financial statements can be found on pages 17-19 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Tomball, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Tomball 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 *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City of Tomball maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, both of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Tomball adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. This schedule can be found on page 56 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 24-29 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-53 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*, which includes Management's Discussion and Analysis and a budgetary comparison of the general fund. In addition, combining statements for the non-major governmental funds is presented as additional supplementary information. Supplementary information can be found on pages 6-13 and 56-59 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Tomball, assets exceeded liabilities by \$47,358,241 at the close of the most recent fiscal year.

A large portion of the City of Tomball's net assets (32 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Tomball uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Tomball's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Tomball's Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 24,978	\$ 24,425	\$ 16,723	\$ 15,487	\$ 41,701	\$ 39,912
Capital assets	19,526	15,844	27,518	23,463	47,044	39,307
Total assets	\$ 44,504	\$ 40,269	\$ 44,241	\$ 38,950	\$ 88,745	\$ 79,219
Long-term liabilities	\$ 20,397	\$ 13,569	\$ 16,005	\$ 16,590	\$ 36,402	\$ 30,159
Current liabilities	3,143	2,376	1,843	1,283	4,986	3,659
Total liabilities	\$ 23,540	\$ 15,945	\$ 17,848	\$ 17,873	\$ 41,388	\$ 33,818
Net assets:						
Invested in capital assets, net of related debt	\$ 4,441	\$ 1,182	\$ 10,928	\$ 6,353	\$ 15,369	\$ 7,535
Restricted for:						
Debt Service	1,253	1,630	1,159	1,054	2,412	2,684
Construction	6,704	7,114	9,251	8,991	15,955	16,105
Unrestricted	8,566	14,398	5,056	4,679	13,622	19,077
Total net assets	\$ 20,964	\$ 24,324	\$ 26,394	\$ 21,077	\$ 47,358	\$ 45,401

The remaining balance of *unrestricted net assets* (\$13,621,507) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Tomball is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

City of Tomball's Changes in Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 2,716	\$ 2,569	\$ 5,734	\$ 5,067	\$ 8,450	\$ 7,636
Operating grants and contributions	96	57			96	57
Capital grants and contributions			281		281	
General revenues:						
Property taxes	1,965	1,823			1,965	1,823
Other taxes	6,673	6,196			6,673	6,196
Grants and contributions not restricted to specific programs	34	7	720		754	7
Other	420	588	216	232	636	820
Total revenues	\$ 11,904	\$ 11,240	\$ 6,951	\$ 5,299	\$ 18,855	\$ 16,539
Expenses:						
Administration	\$ 1,979	\$ 1,666	\$ 1,039	\$ 895	\$ 3,018	\$ 2,561
Public safety	4,075	3,540			4,075	3,540
Streets and drainage	605	540			605	540
Sanitation	1,571	1,433			1,571	1,433
Parks and recreation	394	366			394	366
Interest on long-term debt	985	711		751	985	1,462
Water			1,520	621	1,520	621
Sewer			1,620	724	1,620	724
Gas			1,956	1,611	1,956	1,611
Depreciation	1,154	1,029		832	1,154	1,861
Total expenses	\$ 10,763	\$ 9,285	\$ 6,135	\$ 5,434	\$ 16,898	\$ 14,719
Increase in net assets before transfers	1,141	1,955	816	(135)	1,957	1,820
Transfers	(4,500)	1,107	4500	870	0	1,977
Increase in net assets	\$(3,359)	\$ 3,062	\$ 5,316	\$ 735	\$ 1,957	\$ 3,797
Net assets – beginning	24,324	21,262	21,077	20,342	45,401	41,604
Net assets – ending	\$ 20,965	\$ 24,324	\$ 26,394	\$ 21,077	\$ 47,358	\$ 45,401

Governmental activities. Governmental activities decreased the City of Tomball's net assets by \$3,359,329. Approximately \$3,696,228 was invested in capital assets, net of depreciation.

Total key elements in revenues sources for 2004 are as follows:

- Property taxes of \$1,965,330 were received on a tax base of \$660,661,360 in gross valuations at a rate of 28 cents per each \$100 of property value.
- Sales tax revenues accounted for \$5,556,890, which was 47 percent of the total governmental activities revenues.
- Building permit revenue was \$269,941 for a total construction value of \$25,864,468.

Total key elements in expenditures for 2004 are as follows:

- The Public Safety Departments had \$4,074,658 in expenditures, of which \$3,287,520 (81 percent) was for personnel services.
- The City of Tomball contracts with Waste Management for its sanitation services, which accounts for the majority of the \$1,571,259 of expenditure in that department.
- Administration expenditures of \$1,979,477 include costs for the administration of City Hall services, Public Works services, Permits and Inspections and the Garage department.

Business-type activities. Business-type activities increased the City of Tomball's net assets by \$5,316,412. Key elements of this increase are as follows:

- Charges for services for business-type activities accounts for a significant portion of the revenue sources. The water, sewer and gas utilities total \$5,602,829, or 98 percent of the total business-type revenue.
- Likewise the expenditures for the water, sewer and gas utilities total \$5,095,776, which is 83 percent of the overall business-type expenditures.
- The increase in the consumption of natural gas was the major reason that the business-type expenditures exceeded revenues by \$119,740.
- Transfer from debt service of \$4.5 million received from bond issuance.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Tomball's governmental funds reported combined ending fund balances of \$23,798,659, an increase of \$223,627 in comparison with the prior year. Approximately 64 percent of this total amount (\$15,271,434) constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$570,009), 2) to pay debt service (\$1,253,170), or 3) for a variety of other restricted purposes (\$6,704,046).

The general fund is the chief operating fund of The City of Tomball. At the end of the current fiscal year, unreserved fund balance of the general fund was \$15,224,108, while total fund balance reached \$22,498,163. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 114 percent of total general fund expenditures, while total fund balance represents 148 percent of that same amount.

The fund balance of the City of Tomball's general fund increased by \$574,910 during the current fiscal year. Key factors in this change are as follows:

- An increase of \$476,901 in the sales, franchise and other tax revenues attributed to the commercial growth in the City.
- The increase of the property tax distribution to maintenance and operations was offset by an allocation of the sales tax revenue (\$638,500) to reduce the effective property tax rate.
- An increase of \$662,789 in expenditures in the streets department to purchase land for easements in preparation for various streets and drainage projects.

The debt service fund has a total fund balance of \$1,253,170, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$376,569. The amount of property tax revenue dedicated to debt service was \$1,274,308 in the current fiscal year, a decrease of \$523,216 from the prior year, which was offset by sales tax revenue. Principal and Interest expenditures increased during the current period by \$745,835 as the result of indebtedness incurred with the 2002 and 2003 certificates of obligation.

Proprietary funds. The City of Tomball's proprietary funds provide the same type of information found in the government-wide financial statement, but in more detail.

Unrestricted net assets of the City of Tomball's Enterprise Fund at the end of the year amount to \$5,055,643. The increase in net assets was \$5,316,412. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

There were no changes to the original budget as approved by the Tomball City Council. The budget ordinance passed allows the City Manager to authorize budget changes within a department, which does not affect the overall amount allocated to the department.

Differences between the budget and actual amounts were decreases totaling \$8,448,477 in both anticipated revenues and expenditures and can be briefly summarized as follows:

- \$1,953,669 in contributions for the most part was attributed to the delay in a street expansion project whereby the Texas Department of Transportation would contribute 80 percent or \$1,760,000 and Harris County would contribute \$30,000.
- \$1,863,496 in expenditures for the Fire Department did not occur due to a delay in the construction of the new fire station and the decision to postpone the purchase of an additional fire truck. The fire district area outside the city limits was reverted back to Harris County.
- \$6,453,912 in expenditures for the Street Department did not occur due to the difficulty incurred in obtaining easements, which delayed construction on several street and drainage projects.
- \$286,321 in expenditures for the Parks Department did not occur because the sports associations requested a further delay in constructing new facilities so that they could review additional options to make repairs to current structures at the ball parks and utilize the funds to a greater capacity.

- Of the \$8,500,000 in debt proceeds received in November 2003, \$4,000,000 was allocated to the General Fund for capital projects.

Capital Asset and Debt Administration

Capital assets. The City of Tomball's investment in capital assets for its governmental and business-type activities as of September 30, 2004, amounts to \$47,044,331 (net of accumulated depreciation). This investment in capital assets includes land, buildings, system expansion, improvements, machinery and equipment, park facilities, streets and drainage. The governmental activities fixed assets totaled \$19,526,022 and the total for the business-type activities was \$27,518,309. The total increase in the City of Tomball's investment in capital assets for the current fiscal year was \$3,696,228 (23 percent) for governmental activities and \$4,055,296 (17 percent) for business-type activities.

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

- Construction was completed on a new Public Works facility.
- Utility Expansion project from FM2920 East and south to Holderrieth Road is a construction project with \$3,139,622 spent to date.
- Construction on Johnson Road for \$571,443 provided an alternative north and south route parallel to State Highway 249 to the medical complex area.
- A variety of street and utility expansion projects are in different stages of pre-construction. Engineering, appraisal and legal fees as of the end of the current fiscal year was \$1,768,018.
- Land purchases in preparation for several street and utility expansion projects for the current year were \$285,701.

City of Tomball's Capital Assets (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Machinery and Equipment	\$ 1,180	\$ 1,201	\$	\$	\$ 1,180	\$ 1,201
Vehicles	590	857	523	333	1,113	1,190
Fire Apparatus	940	1,022			940	1,022
Land	3,254	2,002	603	333	3,857	2,335
Buildings and Plant	6,450	4,356	26,364	22,797	32,814	27,153
Infrastructure	6,836	5,601			6,836	5,601
Construction in Progress	276	805	28		304	805
Total	\$ 19,526	\$ 15,844	\$ 27,518	\$ 23,463	\$ 47,044	\$ 39,307

Additional information on the City of Tomball's capital assets may be found in note III.C on pages 44-45 of this report.

Long-term debt. At the end of the current fiscal year, the City of Tomball had total bonded debt outstanding of \$37,760,000. Of this amount, \$21,170,000 comprises general obligation debt and \$16,590,000 is for enterprise fund debt. The City of Tomball's bond debt increased by \$6,730,000 (22 percent) during the current fiscal year. This represents the regular principal payments made during the fiscal year of \$1,770,000 and a new issue of Certificates of Obligation for \$8,500,000 issued in November 2003 to finance various street, drainage and utility expansion capital improvement projects.

City of Tomball's Outstanding Debt (in thousand)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 21,170	\$ 13,920	\$ 10,450	\$ 10,670	\$ 31,620	\$ 24,590
Revenue bonds			6,140	6,440	6,140	6,440
Total	\$ 21,170	\$ 13,920	\$ 16,590	\$ 17,110	\$ 37,760	\$ 31,030

The presently outstanding tax supported debt of the City of Tomball is rated "A" by Standard and Poor's and "A2" by Moody's. The City also has five issues outstanding which are rated "Aaa" by Moody's and "AAA" by Standard and Poor's through insurance by various commercial insurance companies. The revenue bond for the sewer plant issued in 1999 carries a rating of "AAA-" by Standard and Poor's and "Aaa" by Moody's.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City of Tomball is \$66,066,135, which is significantly in excess of the City of Tomball's outstanding general obligation debt.

Additional information on the City of Tomball's long-term debt can be found in note III.D. on pages 46-49 of this report.

Economic Factors and Next Year's Budgets and Rates

- The appraised values of taxable property in the City of Tomball for 2004 and 2003 increased 7.6 and 7.9 percent, respectively.
- Sales tax receipts for the City of Tomball have continued to increase. In the fiscal year ending September of 2004 revenues had increased 8 percent and there was a 6 percent increase for the year ending September 2003.
- New construction for the current fiscal year was \$25,864,468 comprised of 47 residential units and 64 commercial units.

All of these factors were considered in preparing the City of Tomball's budget for the 2004-2005 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$15,224,108. The City of Tomball has appropriated \$6,271,884 of this amount for spending in the 2004-2005 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes during the upcoming fiscal year.

Sanitation, water, sewer and gas utility rates increased 3 percent for the 2004-2005 fiscal year. These rates were necessary to remain current with the cost of living increase.

Requests for Information

This financial report is designed to provide a general overview of the City of Tomball's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Tomball, Finance Department, 501 James Street, Tomball, Texas, 77375.

This page left blank intentionally

BASIC FINANCIAL STATEMENTS

This page left blank intentionally

STATEMENT OF NET ASSETS
CITY OF TOMBALL, TEXAS
September 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 399,185	\$ 336,572	\$ 735,757	\$ 365,454
Investments	16,456,487	5,049,939	21,506,426	4,172,967
Receivables, net of allowance	1,452,792	801,986	2,254,778	330,720
Internal balances	(40,040)	40,040	-	
Inventories		84,760	84,760	
Prepaid expenses	5,921		5,921	928
Investments restricted for:				
Construction	6,704,046	9,250,567	15,954,613	
Debt service		1,159,219	1,159,219	
Capital assets:				
Land and construction in progress	3,529,956	631,473	4,161,429	
Other capital assets, net of accumulated depreciation	15,996,066	26,886,836	42,882,902	
TOTAL ASSETS	\$ 44,504,413	\$ 44,241,392	\$ 88,745,805	\$ 4,870,069
LIABILITIES				
Accounts payable and other current liabilities	\$ 960,309	\$ 788,339	\$ 1,748,648	\$ 350,000
Accrued interest payable	115,887	87,881	203,768	
Accrued compensated absences	562,742	132,715	695,457	
Accrued landfill postclosure costs	100,000		100,000	
Customer deposits		248,719	248,719	
Deferred revenue	12,327		12,327	
Bonds and capital leases payable, current	1,391,329	585,000	1,976,329	
Bonds and capital leases payable, non-current	20,397,316	16,005,000	36,402,316	
TOTAL LIABILITIES	23,539,910	17,847,654	41,387,564	350,000
COMMITMENTS AND CONTINGENCIES				
NET ASSETS				
Invested in capital assets, net of related debt	4,441,423	10,928,309	15,369,732	
Restricted for:				
Debt service	1,253,170	1,159,219	2,412,389	
Construction	6,704,046	9,250,567	15,954,613	
Unrestricted	8,565,864	5,055,643	13,621,507	4,520,069
TOTAL NET ASSETS	20,964,503	26,393,738	47,358,241	4,520,069
TOTAL LIABILITIES AND NET ASSETS	\$ 44,504,413	\$ 44,241,392	\$ 88,745,805	\$ 4,870,069

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

STATEMENT OF ACTIVITIES
 CITY OF TOMBALL, TEXAS
 For the year ended September 30, 2004

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Government administration	\$ 1,000,124	\$ 43,468	\$ -	\$ -
Police	3,168,271	11,965	90,000	
Fire	618,953			
Court	287,434	530,529		
Public works	619,635	72,000		
Sanitation	1,571,259	1,689,041		
Streets	604,983	8,280	6,279	
Permits	290,578	341,777		
Garage	69,140			
Parks	228,392			
Community center	166,437	19,015		
Interest on long-term debt	984,989			
Depreciation expense	1,153,822			
Total governmental activities	<u>10,764,017</u>	<u>2,716,075</u>	<u>96,279</u>	<u>-</u>
Business-type activities:				
Enterprise administration	1,038,905	131,327	-	-
Water	1,520,015	2,231,957		280,785
Sewer	1,620,045	1,259,970		
Gas	1,955,716	2,110,902		
Total business-type activities	<u>6,134,681</u>	<u>5,734,156</u>	<u>-</u>	<u>280,785</u>
Total primary government	<u>\$ 16,898,698</u>	<u>\$ 8,450,231</u>	<u>\$ 96,279</u>	<u>\$ 280,785</u>
Component unit:				
Tomball Economic Development Corporation	1,507,453	\$ -	\$ -	\$ -
Total component unit	<u>\$ 1,507,453</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

GENERAL REVENUES:

Taxes:

Property taxes, levied for general support

Property taxes, levied for debt service

Sales taxes

Franchise taxes

Other taxes

Unrestricted contributions

Sale of assets

Miscellaneous

Unrestricted investment earnings

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

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

Net (Expense) Revenue and
Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (956,656)	\$ -	\$ (956,656)	\$ -
(3,066,306)		(3,066,306)	
(618,953)		(618,953)	
243,095		243,095	
(547,635)		(547,635)	
117,782		117,782	
(590,424)		(590,424)	
51,199		51,199	
(69,140)		(69,140)	
(228,392)		(228,392)	
(147,422)		(147,422)	
(984,989)		(984,989)	
(1,153,822)		(1,153,822)	
(7,951,663)	-	(7,951,663)	-
	(907,578)	(907,578)	-
	992,727	992,727	
	(360,075)	(360,075)	
	155,186	155,186	
-	(119,740)	(119,740)	-
\$ (7,951,663)	\$ (119,740)	\$ (8,071,403)	\$ -
\$ -	\$ -	\$ -	\$ (1,507,453)
\$ -	\$ -	\$ -	\$ (1,507,453)
\$ 711,530	\$ -	\$ 711,530	\$ -
1,253,800		1,253,800	
5,556,890		5,556,890	1,851,197
1,020,001		1,020,001	
95,995		95,995	
34,052	720,000	754,052	
8,920		8,920	
119,949	40,976	160,925	
291,197	175,176	466,373	51,743
(4,500,000)	4,500,000	-	
4,592,334	5,436,152	10,028,486	1,902,940
(3,359,329)	5,316,412	1,957,083	395,487
24,323,832	21,077,326	45,401,158	4,124,582
\$ 20,964,503	\$ 26,393,738	\$ 47,358,241	\$ 4,520,069

BALANCE SHEET - GOVERNMENTAL FUNDS
 CITY OF TOMBALL, TEXAS
 September 30, 2004

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 382,056	\$ 2,950	\$ 14,178	\$ 399,184
Investments	15,183,747	1,236,501	36,239	16,456,487
Delinquent property taxes receivable, including penalties and interest, net of allowance	62,268	127,387		189,655
Other taxes receivable	1,153,755			1,153,755
Other receivables	109,382			109,382
Restricted investments: For construction	6,704,046			6,704,046
Prepaid items	5,923			5,923
TOTAL ASSETS	\$ 23,601,177	\$ 1,366,838	\$ 50,417	\$ 25,018,432
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 742,432	\$ -	\$ 3,091	\$ 745,523
Due to enterprise fund	40,040			40,040
Accrued liabilities	214,786			214,786
Accrued compensated absences	34,292			34,292
Deferred revenue	71,464	113,668		185,132
TOTAL LIABILITIES	1,103,014	113,668	3,091	1,219,773
COMMITMENTS AND CONTINGENCIES				
FUND BALANCES:				
Reserved for debt service		1,253,170		1,253,170
Reserved for restrictions	6,704,046			6,704,046
Reserved for encumbrances	570,009			570,009
Unreserved, reported in:				
General fund	15,224,108			15,224,108
Special revenue funds			38,108	38,108
Capital projects fund			9,218	9,218
TOTAL FUND BALANCES	22,498,163	1,253,170	47,326	23,798,659
TOTAL LIABILITIES AND FUND BALANCES	\$ 23,601,177	\$ 1,366,838	\$ 50,417	\$ 25,018,432

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

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
 FUNDS TO THE STATEMENT OF NET ASSETS
 CITY OF TOMBALL, TEXAS
 September 30, 2004

Total fund balances - governmental funds \$ 23,798,659

Amounts reported for governmental activities in the Statement of Net
 Assets are different because:

Capital assets of \$28,534,798 net of accumulated depreciation of
 \$9,008,776 used in governmental activities are not financial
 resources and therefore are not reported as assets in
 governmental funds. 19,526,022

Revenues have been recognized in the government-wide financial
 statements but are deferred as liabilities at the fund level as follows:

Property taxes	98,410	
Penalties and interest	<u>74,394</u>	
		172,804

Certain liabilities are not due and payable in the current period and
 therefore are not reported in the funds as follows:

Accrued interest payable	(115,887)	
Bonds payable	(21,170,000)	
Capital leases payable	(618,645)	
Compensated absences	(528,450)	
Accrued landfill postclosure	<u>(100,000)</u>	
		<u>(22,532,982)</u>

Net assets of governmental activities \$ 20,964,503

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS
 CITY OF TOMBALL, TEXAS
 For the year ended September 30, 2004

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Ad valorem taxes, penalty and interest	\$ 704,218	\$ 1,274,308	\$ -	\$ 1,978,526
Sales, franchise and other taxes	6,034,386	638,500		6,672,886
Permits and licenses	317,369			317,369
Fine and warrant revenue	531,439			531,439
Services revenue	1,749,537			1,749,537
Public rights-of-way	72,000			72,000
Contributions	124,331			124,331
Contributions from Component Unit	6,000			6,000
Interest on investments	351,746	14,400	716	366,862
Unrealized (loss) on investments	(75,665)			(75,665)
Other	127,249	19,875	40,245	187,369
TOTAL REVENUES	<u>9,942,610</u>	<u>1,947,083</u>	<u>40,961</u>	<u>11,930,654</u>
EXPENDITURES:				
Current and capital outlay:				
Administrative	1,204,835		15,675	1,220,510
Police department	3,351,127			3,351,127
Fire department	761,764			761,764
Municipal court	289,729			289,729
Public works administrative	1,975,109			1,975,109
Sanitation department	1,522,692			1,522,692
Streets	3,394,145			3,394,145
Permits	300,727			300,727
Garage	68,795			68,795
Parks department	354,329			354,329
Community center	167,861			167,861
Debt service:				
Principal retirement		1,373,838		1,373,838
Interest on debt		949,484		949,484
Other		330		330
TOTAL EXPENDITURES	<u>13,391,113</u>	<u>2,323,652</u>	<u>15,675</u>	<u>15,730,440</u>
Excess (deficiency) of revenues over expenditures	(3,448,503)	(376,569)	25,286	(3,799,786)
OTHER FINANCING SOURCES (USES)				
Debt proceeds		8,500,000		8,500,000
Transfers	4,000,000	(8,500,000)		(4,500,000)
Sale of capital assets	23,413			23,413
TOTAL OTHER FINANCING SOURCES (USES)	<u>4,023,413</u>	<u>0</u>	<u>0</u>	<u>4,023,413</u>
NET CHANGE IN FUND BALANCES	574,910	(376,569)	25,286	223,627
FUND BALANCES - BEGINNING	21,923,253	1,629,739	22,040	23,575,032
FUND BALANCES - ENDING	<u>\$ 22,498,163</u>	<u>\$ 1,253,170</u>	<u>\$ 47,326</u>	<u>\$ 23,798,659</u>

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
CITY OF TOMBALL, TEXAS
September 30, 2004

Net change in fund balances - total governmental funds	\$ 223,627
Amounts reported for governmental activities in the statement of activities are different because:	
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 (\$4,850,050) exceed depreciation (\$1,153,822) in the current period.	3,696,228
Revenues previously recognized in the statement of activities provided current financial resources in the funds.	(29,379)
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.	(7,126,162)
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 the governmental funds.	<u>(23,643)</u>
Change in net assets of governmental activities	<u>\$ (3,259,329)</u>

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

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
 CITY OF TOMBALL, TEXAS
 September 30, 2004

	<u>Enterprise Fund</u>
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 336,572
Investments	15,459,725
Water, gas, sewer and garbage receivables, net of allowance of \$90,334	780,113
Other receivables	21,873
Due from general fund	40,040
Inventory, materials and supplies	<u>84,760</u>
TOTAL CURRENT ASSETS	16,723,083
PROPERTY, PLANT AND EQUIPMENT	37,550,278
Less accumulated depreciation	<u>(10,031,969)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>27,518,309</u>
TOTAL ASSETS	<u><u>\$ 44,241,392</u></u>

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

Enterprise
Fund

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 752,191
Accrued liabilities	36,148
Accrued compensated absences	132,715
Customer deposits	248,719
Current portion of bonds and other debt	585,000
Accrued interest payable	87,881

TOTAL CURRENT LIABILITIES 1,842,654

Long-term portion of bonds payable 16,005,000

TOTAL LIABILITIES 17,847,654

NET ASSETS:

Invested in capital assets, net of related debt	10,928,309
Restricted for:	
Construction	9,250,567
Debt service	1,159,219
Unrestricted	5,055,643

TOTAL NET ASSETS 26,393,738

TOTAL LIABILITIES AND NET ASSETS \$ 44,241,392

This page left blank intentionally

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND NET ASSETS - PROPRIETARY FUNDS
 CITY OF TOMBALL, TEXAS
 For the year ended September 30, 2004

	<u>Enterprise Fund</u>
OPERATING REVENUES	
Water, sewer and gas billings	\$ 5,063,643
Taps and connections	190,133
Plumbing permits	18,344
Penalties	76,246
Capital recovery fees	348,871
Miscellaneous	77,895
TOTAL OPERATING REVENUES	<u>5,775,132</u>
OPERATING EXPENSES	
Maintenance and operating expenses	4,539,346
Depreciation	870,095
TOTAL OPERATING EXPENSES	<u>5,409,441</u>
OPERATING INCOME	365,691
NON-OPERATING REVENUE (EXPENSE)	
Interest income	230,005
Unrealized gain (loss) on investments	(54,829)
Bond interest (expense)	(725,240)
TOTAL NON-OPERATING (EXPENSE)	<u>(550,064)</u>
Capital contributions - water and sewer expansion	280,785
Transfer from general fund	4,500,000
Contribution from component unit	720,000
CHANGE IN NET ASSETS	5,316,412
TOTAL NET ASSETS, BEGINNING	<u>21,077,326</u>
TOTAL NET ASSETS, ENDING	<u>\$ 26,393,738</u>

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

COMBINED STATEMENT OF CASH FLOWS -
 ALL PROPRIETARY FUND TYPES
 For the year ended September 30, 2004

	ENTERPRISE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 5,628,092
Cash payments to suppliers	\$ (2,409,470)
Cash payments to employees	(1,619,101)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,599,521</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Contribution from general fund	4,500,000
Contribution from component unit	720,000
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>5,220,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(4,925,391)
Principal paid on revenue bonds and warrants	(520,000)
Interest paid on bonds and notes	(725,240)
Capital contribution - water and sewer expansion	280,785
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(5,889,846)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds received from sale of investments	5,426,596
Purchase of investments	(6,644,891)
Interest on investments	230,005
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(988,290)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(58,615)
CASH AND CASH EQUIVALENTS - OCTOBER 1, 2003	<u>395,187</u>
CASH AND CASH EQUIVALENTS - SEPTEMBER 30, 2004	<u>\$ 336,572</u>

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

	<u>ENTERPRISE FUND</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
OPERATING INCOME	\$ 365,691
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation	870,095
Change in assets and liabilities:	
(Increase) in accounts receivable	(133,263)
Decrease in inventory	42,749
(Increase) in due from other funds	(40,040)
Increase in accounts payable	474,285
(Decrease) in accrued expenses	(6,259)
Increase in customer deposits	<u>26,263</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,599,521</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF TOMBALL, TEXAS

NOTE I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Tomball, Texas (the “City”), was incorporated on July 18, 1933 and adopted a “Home Rule Charter” on January 17, 1987. The Charter provides for a “Council-City Manager” form of city government.

The City is composed of a Mayor and five Councilmen, all of whom are elected by the voters of the City at large to serve three-year terms. The Mayor is the official head of City government. He presides at all meetings of Council and signs all official documents. The Mayor is entitled to vote at Council meetings only in cases of a tie vote and does not have the power of veto.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements 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. Considerations regarding the potential for inclusion of other entities, organizations or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

NOTE I. Summary of Significant Accounting Policies - continued

Discretely-presented component unit

Tomball Industrial Development Corporation – This Corporation was formed in 1994 pursuant to the Development Corporation Act of 1979, governed under Section 4B of the Act. It receives and utilizes the proceeds of a one-half cent sales tax to promote and assist in the economic development of the City. The seven directors of the Corporation are appointed by the Governing Body of the City. Directors are removable by the Governing Body of the City at anytime without cause.

Financial information for the Tomball Industrial Development Corporation may be obtained from the following address:

Tomball Industrial Development Corporation
401 West Market Street
Tomball, Texas 77375

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component unit. 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 revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given 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 revenues are reported instead as *general revenues*.

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

C. Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The City's accounts are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

NOTE I. Summary of Significant Accounting Policies - continued

The City reports the following major governmental funds:

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

Debt Service Fund is used to account for the accumulation of resources for the retirement of general long-term debt and related costs. The primary source of revenues of the Debt Service Fund is property taxes.

The City reports the following major proprietary fund:

The **Enterprise Fund** is used to account for the City's water, wastewater collection, wastewater treatment operations, and gas services to the residents of the City. Such operations are operated in a manner similar to private business enterprises, where the intent of the City is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation) and other City funds. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board's (FASB) standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its proprietary funds as presented by the GASB.

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 revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE I. Summary of Significant Accounting Policies - continued

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.

D. Assets, Liabilities, and Equity

1. Cash, Cash Equivalents and Investments

Cash balances from all funds are combined and invested in authorized investments. These investments are stated at fair value or, in some instances, cost (which approximates fair value) and are presented in Note III. Earnings from these investments are allocated to each fund based on balances of cash and investments in those funds.

Highly liquid investments with an original maturity of three months or less are considered cash equivalents. Certificates of deposit and other investments with maturities in excess of three months are carried as investments.

The investment policies of the City are governed by State statute and an adopted City Investment Policy.

In summary the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit
- Mutual funds of specific type
- Statewide investment pools

In accordance with GASB Statement No. 31, the City's participating investments with a remaining maturity at time of purchase of less than one year and non-participating investments are reported utilizing a cost base measure. Participating investments with a remaining maturity at date of purchase of more than one year are reported at fair value.

2. Receivables and Property Taxes

Property taxes are levied October 1 of each year and are due upon receipt of the City's tax bill and become delinquent on February 1 of the following year. Delinquent property taxes are subject to such penalty and interest as the Council may provide by ordinance. Accounts with delinquent balances as of June 1st are referred to an attorney who files tax suits.

NOTES TO FINANCIAL STATEMENTS - continued
 CITY OF TOMBALL, TEXAS

NOTE I. Summary of Significant Accounting Policies - continued

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivables/ payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”.

All trade receivables are shown net of an allowance for uncollectibles.

3. Inventories and Prepaid Items

Inventories in government funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

Certain payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

4. Property, Plant and Equipment

Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost when determinable, or estimated historic costs based on appraisals or other acceptable methods. Gifts or contributions of property and equipment are recorded at fair market value at time of receipt. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Property, plant and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
System infrastructure	20-40
Machines and equipment	3-10
Vehicles	5
Fire apparatus	15

Depreciation expense is not allocated to functions and programs in the financial statements.

NOTE I. Summary of Significant Accounting Policies - continued

5. Accumulated Unpaid Compensated Absences

Employees are entitled to vacations ranging from 10 to 20 working days depending on length of employment by the City. There is a requirement that vacation be taken during the year, but with approval of the City Manager, vacation may be carried over. At termination, employees are paid for any accumulated vacation.

Employees are entitled to sick leave at the rate of 10 days per year. Full-time employees with a minimum of 5 years service receive payment for 20 to 60 accrued sick days upon retirement or resignation based on length of service.

Accumulated personnel leave is accrued in the government-wide statements as current liabilities based upon amounts that were vested as of September 30, 2004. Accumulated personnel leave is accrued in the general fund as a current liability if amounts were paid within 60 days of year-end.

6. Long-Term Obligations

The portion of long-term general obligations, used to finance proprietary fund assets and operations that are payable from revenues of the proprietary funds, are recorded in the enterprise fund.

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. For bonds issued after October 1, 2002, bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

7. Landfill Postclosure Care Costs

The City reports municipal solid waste landfill costs in accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs". The liability for landfill postclosure costs is reported in the General Fund.

NOTE I. Summary of Significant Accounting Policies - continued

8. 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.

9. 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

10. Encumbrances

Encumbrances outstanding at the end of the year are not included in the expenditures of the General Fund. A reserve for encumbrances is established and a budget reappropriation made for those amounts the City intends to pay during the next year applicable to next year's budget appropriations.

11. Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. The full amount estimated to be required for debt service on general obligation debt is provided by the debt service tax together with interest earned in the Debt Service Fund.

NOTES TO FINANCIAL STATEMENTS - continued
 CITY OF TOMBALL, TEXAS

NOTE I. Summary of Significant Accounting Policies - continued

12. Restricted Assets

As of September 30, the City's restricted investments were held for the following purposes:

	<u>2004</u>	<u>2003</u>
General Fund		
Debt proceeds for various construction projects	\$ 6,704,046	\$ 7,223,715
TOTAL GENERAL FUND	6,704,046	7,223,715
Enterprise Fund		
Expansion of water and sewer system	9,250,567	8,991,130
Revenue bond reserve account	<u>1,159,219</u>	<u>1,054,514</u>
TOTAL ENTERPRISE FUND	<u>10,409,786</u>	<u>10,045,644</u>
 TOTAL RESTRICTED ASSETS	 <u>\$17,113,832</u>	 <u>\$17,269,359</u>

13. Cost Allocation

Certain indirect costs (specifically administrative overhead) have been included as part of the program expenses reported for the various functions of both governmental and business-type activities in the government-wide statement of activities.

NOTE II. Stewardship, Compliance, and Accountability

A. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. In October, the budget is legally enacted through passage of an ordinance.

NOTES TO FINANCIAL STATEMENTS - continued
CITY OF TOMBALL, TEXAS

NOTE II. Stewardship, Compliance, and Accountability – continued

4. Any revisions that alter the total expenditures of any fund must be approved by the City Council, as must transfers from one department to another. The City Manager is authorized to transfer budgeted amounts between divisions within any department. The level on which expenditures may not legally exceed appropriations is at the department level.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and the Debt Service Fund. Formal budgetary integration is not employed for Capital Projects Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions and Council approval of all contracts.
6. Budgets for the General Fund and the Debt Service Fund are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended in accordance with the annual appropriation ordinance. Individual amendments were not material in relation to the original appropriations which were amended.
7. Unexpended appropriations lapse at year-end.

The following funds have legally adopted budgets. Other funds adopt budgets as a management tool.

1. General Fund
2. Debt Service Fund

NOTE III. Detailed Notes On All Funds

A. Deposits and Investments

Credit Risk Categorization for Deposits

Cash deposits held at financial institutions can be categorized according to three levels of risk. The three levels of risk are:

- Category 1 Deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name.

NOTES TO FINANCIAL STATEMENTS - continued
CITY OF TOMBALL, TEXAS

NOTE III. Detailed Notes On All Funds - continued

Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 Deposits which are not collateralized or are collateralized with securities held by the pledging financial institution's trust department or agent but not in the entity's name.

At year-end, the book value of the primary depository was \$737,757 and the bank balance was \$922,957. Of the bank balance, \$100,000 was covered by federal depository insurance and \$822,957 was collateralized with securities held by the pledging financial institution's trust department or agent in the government's name.

The carrying amount of deposits for Tomball Economic Development Corporation, a discretely presented component unit, was \$365,454 and the bank balance was \$366,314. Of the bank balance, \$100,000 was covered by federal depository insurance and \$266,314 was collateralized with securities held by the pledging financial institution's trust department or agent in the government's name.

Credit Risk Categorization for Investments

Similar to cash deposits, investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

Category 1 Insured or registered, or securities held by the entity or by its agent in the entity's name.

Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or its agent, but not in the entity's name.

NOTES TO FINANCIAL STATEMENTS - continued
CITY OF TOMBALL, TEXAS

NOTE III. Detailed Notes On All Funds - continued

At year-end, the government's investment balances were as follows:

	<u>Category</u>			<u>Reported Amount/ Fair Value</u>	<u>Amortized Cost Basis</u>
	<u>2</u>	<u>Other⁽¹⁾</u>	<u>Total</u>		
Governmental activities:					
U.S. Treasury Notes and Receipts	\$ 12,518,520	\$ -	\$ 12,518,520	\$ 12,518,520	\$ 12,570,277
TexPool		<u>10,642,013</u>	<u>10,642,013</u>	<u>10,642,013</u>	<u>10,642,013</u>
	<u>12,518,520</u>	<u>10,642,013</u>	<u>23,160,533</u>	<u>23,160,533</u>	<u>23,212,290</u>
Business-type activities:					
U.S. Treasury Notes and Receipts	1,414,691		1,414,691	1,414,691	1,452,593
TexPool		<u>14,045,034</u>	<u>14,045,034</u>	<u>14,045,034</u>	<u>14,045,034</u>
	<u>1,414,691</u>	<u>14,045,034</u>	<u>15,459,725</u>	<u>15,459,725</u>	<u>15,497,627</u>
Component Unit:					
U.S. Treasury Notes and Receipts	992,500		992,500	992,500	1,000,000
TexPool		<u>3,180,467</u>	<u>3,180,467</u>	<u>3,180,467</u>	<u>3,180,467</u>
	<u>992,500</u>	<u>3,180,467</u>	<u>4,172,967</u>	<u>4,172,967</u>	<u>4,180,467</u>
	<u>\$ 14,925,711</u>	<u>\$ 27,867,514</u>	<u>\$ 42,793,225</u>	<u>\$ 42,793,225</u>	<u>\$ 42,890,384</u>

NOTES TO FINANCIAL STATEMENTS - continued
CITY OF TOMBALL, TEXAS

NOTE III. Detailed Notes On All Funds - continued

- (1) The TexPool investment totaled \$27,867,514, which also represents the value of the pool shares held. The assets are safe kept at the Federal Reserve Bank in the account of the Texas Treasury Safekeeping Trust Company.

The Comptroller of Public Accounts (the "Comptroller") is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company (the "Trust Company") which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by The Chase Manhattan Bank and First Southwest Asset Management, Inc., under an agreement with the Comptroller, acting on behalf of the Trust Company.

The Comptroller maintains oversight of the services provided to TexPool by The Chase Manhattan Bank and First Southwest Asset Management, Inc. ("Chase and First Southwest Asset Management"). In addition, the TexPool Advisory Board advises on TexPool's Investment Policy and approves any fee increases. As required by the Public Funds Investment Act, the Advisory Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

TexPool is subject to annual review by an independent auditor. KPMG Peat Marwick has performed audits for each year beginning with the accounting period ending August 31, 1990. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office.

NOTES TO FINANCIAL STATEMENTS - continued
CITY OF TOMBALL, TEXAS

NOTE III. Detailed Notes On All Funds - continued

B. Accounts Receivable

Accounts receivable less allowance for doubtful accounts was comprised of the following categories at year-end:

	Primary Government				Total	Component Unit
	General	Debt Service	Non- Major	Enterprise		
Receivables:						
Property taxes	\$ 50,563	\$103,441	\$ -	\$ -	\$ 154,004	\$ -
Interest & penalties on taxes	47,777	97,742			145,519	
Accounts				870,447	870,447	
Sales & franchise taxes receivable	1,153,755				1,153,755	330,720
Investment interest & other	<u>109,382</u>			<u>21,873</u>	<u>131,255</u>	
Gross receivables	1,361,477	201,183	-	892,320	2,454,980	330,720
Less:						
allowance for uncollectibles	<u>(36,072)</u>	<u>(73,796)</u>	<u>-</u>	<u>(90,334)</u>	<u>(200,202)</u>	<u>-</u>
Net Total Receivables	<u>\$1,325,405</u>	<u>\$127,387</u>	<u>\$ -</u>	<u>\$801,986</u>	<u>\$2,254,778</u>	<u>\$330,720</u>

NOTES TO FINANCIAL STATEMENTS - continued
CITY OF TOMBALL, TEXAS

NOTE III. Detailed Notes On All Funds - continued

C. Capital Assets

A summary of changes in land, buildings, and equipment included in governmental activities for the year ended September 30, 2004 is as follows:

	Balance 10/1/2003	Additions	Deletions	Balance 9/30/2004
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 2,001,905	\$1,252,094	\$ -	\$ 3,253,999
Construction in progress	805,203	275,957	(805,203)	275,957
Total capital assets, not being depreciated	2,807,108	1,528,051	(805,203)	3,529,956
Capital assets, being depreciated:				
Land improvements	-	11,200		11,200
Buildings	5,311,611	2,182,343		7,493,954
Building improvements	-	8,995		8,995
Pavings and bridges	8,527,197	1,463,002		9,990,199
Machinery and equipment	3,225,280	402,168		3,627,448
Fire apparatus	1,226,884			1,226,884
Automobiles and trucks	2,608,407	59,495	(21,740)	2,646,162
Total capital assets being depreciated	20,899,379	4,127,203	(21,740)	25,004,842
Less accumulated depreciation for:				
Land improvements	-	(93)	-	(93)
Buildings	(955,542)	(108,080)		(1,063,622)
Building improvements	-			-
Pavings and bridges	(2,926,020)	(228,314)		(3,154,334)
Machinery and equipment	(2,024,464)	(423,391)		(2,447,855)
Fire apparatus	(205,218)	(81,792)		(287,010)
Automobiles and trucks	(1,750,955)	(312,152)	7,245	(2,055,862)
Total accumulated depreciation	(7,862,199)	(1,153,822)	7,245	(9,008,776)
Total capital assets, being depreciated, net	13,037,180	2,973,381	(14,495)	15,996,066
Governmental activities assets, net	\$15,844,288	\$4,501,432	\$(819,698)	\$19,526,022

NOTES TO FINANCIAL STATEMENTS - continued
CITY OF TOMBALL, TEXAS

NOTE III. Detailed Notes On All Funds - continued

A summary of changes in Enterprise Fund land, buildings, and equipment for the year ended September 30, 2004 is as follows:

	Balance 10/1/2003	Additions	Deletions	Balance 9/30/2004
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 332,966	\$ 269,980	\$ -	\$ 602,946
Construction in progress	-	28,527		28,527
Total capital assets, not being depreciated	332,966	298,507	-	631,473
Capital assets, being depreciated:				
Plant				
Water	7,772,839	1,543,233		9,316,072
Sewer	17,717,609	2,153,688		19,871,297
Gas	3,815,117	469,387		4,284,504
Auto equipment	831,457	285,293		1,116,750
Utility meters	31,516			31,516
Taps and connections	2,123,384	175,283		2,298,667
Total capital assets being depreciated	32,291,922	4,626,884	-	36,918,806
Less accumulated depreciation for:				
Plant				
Water	(2,198,627)	(203,555)		(2,402,182)
Sewer	(4,818,045)	(427,717)		(5,245,762)
Gas	(1,295,649)	(89,571)		(1,385,220)
Auto equipment	(498,189)	(95,595)		(593,784)
Utility meters	(27,549)	(597)		(28,146)
Taps and connections	(323,816)	(53,060)		(376,876)
Total accumulated depreciation	(9,161,875)	(870,095)	-	(10,031,970)
Total capital assets, being depreciated, net	23,130,047	3,756,789	-	26,886,836
Business-type activities capital assets, net	<u>\$23,463,013</u>	<u>\$4,055,296</u>	<u>\$ -</u>	<u>\$27,518,309</u>

NOTES TO FINANCIAL STATEMENTS - continued
CITY OF TOMBALL, TEXAS

NOTE III. Detailed Notes On All Funds - continued

D. Long-Term Debt

General Obligation Bonds: The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund both general obligation and revenue bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amount of principal maturing each year.

Revenue Bonds: The City also issued bonds where the government pledges income derived from the acquired or constructed assets to pay debt service.

During the year the following changes occurred in the City's long-term debt.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 995,000	\$ -	\$ (510,000)	\$ 485,000	\$ 485,000
Certificates of obligation	<u>12,925,000</u>	<u>8,500,000</u>	<u>(740,000)</u>	<u>20,685,000</u>	<u>780,000</u>
Total bonds payable	13,920,000	8,500,000	(1,250,000)	21,170,000	1,265,000
Capital leases	<u>742,483</u>	<u>-</u>	<u>(123,838)</u>	<u>618,645</u>	<u>126,329</u>
Governmental Activity Long-term Liabilities	<u>\$14,662,483</u>	<u>\$8,500,000</u>	<u>\$(1,373,838)</u>	<u>\$21,788,645</u>	<u>\$1,391,329</u>
Business-type activities:					
Bonds	<u>\$17,110,000</u>	<u>\$ -</u>	<u>\$(520,000)</u>	<u>\$16,590,000</u>	<u>\$ 585,000</u>

NOTES TO FINANCIAL STATEMENTS - continued
CITY OF TOMBALL, TEXAS

NOTE III. Detailed Notes On All Funds - continued

Bonds payable consist of the following:

<u>Description</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Date of Final Maturity</u>	<u>Balance at 9/30/04</u>
Governmental Activities:				
1995 General Obligation Bonds	4.45-4.55%	\$2,145,000	2-15-05	\$ 485,000
Certificates of Obligation (CO's)				
1995 Combination tax and revenue CO's	4.6-5.125%	\$1,765,000	2-15-11	750,000
1998 Combination tax and revenue CO's	4.75%-6.3%	\$4,010,000	2-15-18	3,165,000
2002 Combination tax and revenue CO's	4.125-5.125%	\$9,000,000	2-15-22	8,550,000
2003 Combination tax and revenue CO's	1-4.5%	\$8,500,000	2-15-23	<u>8,220,000</u>
Total Certificates of Obligation				<u>12,925,000</u>
 Total Bonds and CO's				<u>\$21,170,000</u>
Business-Type Activities:				
1999 Water and sewer bonds	2.9-4.1%	\$7,550,000	9-30-19	\$ 6,140,000
2002 Combination tax & revenue certificate of obligation	4.125-5.125%	\$11,000,000	2-15-22	<u>10,450,000</u>
				<u>\$16,590,000</u>

Annual debt service requirements to maturity for bonds are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	1,265,000	910,846	585,000	701,118
2006	1,065,500	710,308	919,500	669,099
2007	1,065,500	805,227	934,500	628,055
2008	1,085,500	755,906	944,500	589,361
2009	1,110,500	707,835	959,500	552,996
2010-2014	5,672,500	2,827,794	5,002,500	2,173,790
2015-2019	6,010,750	1,563,362	5,454,250	1,066,279
2020-2023	<u>3,894,750</u>	<u>332,306</u>	<u>1,790,250</u>	<u>134,269</u>
Total	<u>\$21,170,000</u>	<u>\$8,613,584</u>	<u>\$16,590,000</u>	<u>\$6,514,967</u>

NOTES TO FINANCIAL STATEMENTS - continued
CITY OF TOMBALL, TEXAS

NOTE III. Detailed Notes On All Funds - continued

Sinking Fund Requirements

Under the terms of the Bond Orders of the 1957 through 1977 general obligation bonds, the City is required to maintain a sinking fund equal to 2% of the outstanding principal of all general obligation bonds. The status of this reserve at September 30, 2004 is as follows:

General obligation bonds outstanding	\$ 485,000
Amount of required 2% reserve	9,700
Amount available in general debt service fund	1,253,170

Advance Refunding of General Long-Term Debt and Enterprise Fund Debt

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On September 30, 2004, \$2.2 million of Enterprise Fund and General Long-Term Debt Fund bonds outstanding are considered defeased.

Arbitrage Compliance

Proceeds from tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The City invests, records, and reports these proceeds in the manner set forth by the U.S. Treasury and Internal Revenue Service to maintain the tax-exempt status of the bonds. The City incurred rebatable arbitrage earnings related to its 1999 water and sewer bonds in the amount of \$179,035.

Capital Leases

The City has entered into two lease agreements for financing the acquisition of two fire trucks. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The fire trucks are included in Property & Equipment at an original cost of \$1,226,885 less accumulated depreciation of \$287,010.

NOTES TO FINANCIAL STATEMENTS - continued
 CITY OF TOMBALL, TEXAS

NOTE III. Detailed Notes On All Funds - continued

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2004, were as follows:

<u>Year Ending September 30,</u>	<u>Aerial Fire Truck</u>	<u>Tanker/ Ladder Truck</u>	<u>Total</u>
2005	99,535	59,155	158,690
2006	95,400	59,155	154,555
2007	91,265		91,265
2008	87,175		87,175
2009	82,995		82,995
2010-2013	<u>153,519</u>		<u>153,519</u>
Total minimum lease payments	609,889	118,310	728,199
Less: amount representing interest	<u>(101,237)</u>	<u>(8,317)</u>	<u>(109,554)</u>
Present value of minimum lease payments	<u>\$ 508,652</u>	<u>\$ 109,993</u>	<u>\$ 618,645</u>

E. Interfund receivables, payables and transfers

The composition of interfund balances as of September 30, 2004, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Enterprise	General	<u>\$ 40,040</u>

Interfund transfers:

Transfer out:	<u>Transfer in:</u>		<u>Total</u>
	<u>General Fund</u>	<u>Enterprise Fund</u>	
Debt service fund	<u>\$4,000,000</u>	<u>\$4,500,000</u>	<u>\$8,500,000</u>

The above transfers were made to allocate debt proceeds to individual funds noted.

NOTE III. Detailed Notes On All Funds - continued

F. Landfill Postclosure Liability

State and federal regulations required the City to place a final cover on the City of Tomball landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site until determined by the state. The \$100,000 reported as accrued landfill postclosure costs at September 30, 2004 represent the remaining estimated postclosure costs. These amounts are based on what it would cost to perform all postclosure care in 2004. Actual costs may be higher due to inflation, changes in technology or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

NOTE IV. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. In addition, the City participates along with 1,866 other entities in the Texas Municipal League Intergovernmental Risk Pool for worker compensation claims. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three fiscal years.

B. Commitments and Contingencies

The City has been named as defendant in several lawsuits in the normal course of its operations. Legal counsel for the City is unable to estimate the amount, if any, for which the City may eventually become liable, however, such claims are not material to the financial condition of the City, in the opinion of its management. Should the City become liable in this manner, such liability would be satisfied by budgetary appropriation in a subsequent year.

NOTE IV. Other Information - continued

C. Intergovernmental Transactions

The City received the following intergovernmental revenues:

Criminal Justice Department Grant	\$90,000
-----------------------------------	----------

D. Pension Plan

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, 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 initiation of the plan 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 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.

NOTES TO FINANCIAL STATEMENTS - continued
CITY OF TOMBALL, TEXAS

NOTE IV. Other Information - continued

Members can retire at ages 60 and above with 10 or more years of service or with 25 years of service regardless of age. A member is vested after 10 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. All assumptions for the 12-31-03 valuations are contained in the 2003 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

Contributions

The contribution rate for the employees is 7% and the City's matching ratio is currently two to one, both as adopted by City Council. 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 retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period, which began January 1997. 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 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, 2002 valuation is effective for rates beginning January 2004).

NOTES TO FINANCIAL STATEMENTS - continued
CITY OF TOMBALL, TEXAS

NOTE IV. Other Information – continued

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/03	12/31/02	12/31/01	12/31/00	12/31/99	12/31/98
Actuarial value of assets	\$6,607,279	\$5,669,871	\$5,237,041	\$4,469,051	\$3,776,448	\$3,037,344
Actuarial accrued liability	8,454,808	7,467,661	7,202,888	6,294,196	5,403,478	4,554,617
Percentage funded	78.1%	75.9%	72.7%	71%	69.9%	66.7%
Unfunded actuarial accrued liability (UAAL)	1,847,529	1,797,790	1,965,847	1,825,145	1,627,030	1,517,273
Annual covered payroll	3,924,520	3,788,913	3,456,016	3,252,676	3,021,052	2,763,103
UAAL as a percentage of covered payroll	47.1%	47.4%	56.9%	56.1%	54.0%	54.9%
Net pension obligation (NPO) at the beginning of the period	0	0	0	0	0	0
Annual Pension Cost:						
Annual required contribution (ARC)	525,782	477,379	446,942	383,558	338,989	208,071
Interest on NPO	0	0	0	0	0	0
Adjustment to the ARC	0	0	0	0	0	0
	<u>525,782</u>	<u>477,379</u>	<u>446,942</u>	<u>383,558</u>	<u>338,989</u>	<u>208,071</u>
Contribution made	525,782	477,379	446,942	383,558	338,989	208,071
Increase in NPO	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NPO at the end of the period	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

Actuarial Assumptions

The actuarial value of the plan's assets is determined using amortized cost. The actuarial cost method used is the unit credit method. The investment rate of return is assumed at eight percent. The amortization method used is the level percent of payroll and is for an open period of 25 years. The inflation rate, projected salary increases rate, and postretirement benefit rates are assumed at zero.

This page left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
 CITY OF TOMBALL, TEXAS
 For the year ended September 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Ad valorem taxes, penalty and interest	\$ -	\$ -	\$ 704,218	\$ 704,218
Sales, franchise and other taxes	6,278,350	5,639,850	6,034,386	394,536
Permits and licenses	428,500	428,500	317,369	(111,131)
Fine and warrant revenue	508,100	508,100	531,439	23,339
Services revenue	1,739,050	1,739,050	1,749,537	10,487
Public rights-of-way	72,000	72,000	72,000	-
Contributions	2,078,000	2,078,000	124,331	(1,953,669)
Contributions from component unit	5,500	5,500	6,000	500
Interest on investments	443,000	443,000	351,746	(91,254)
Unrealized (loss) on investments	-	-	(75,665)	(75,665)
Other	51,800	51,800	127,249	75,449
TOTAL REVENUES	11,604,300	10,965,800	9,942,610	(1,023,190)
EXPENDITURES:				
Current and capital outlay:				
Administrative	1,493,250	1,493,250	1,204,835	288,415
Police department	3,644,500	3,644,500	3,351,127	293,373
Fire department	2,625,260	2,625,260	761,764	1,863,496
Municipal court	321,500	321,500	289,729	31,771
Public works administrative	1,939,450	1,919,450	1,975,109	(55,659)
Sanitation department	1,759,500	1,759,500	1,522,692	236,808
Streets department	9,848,057	9,848,057	3,394,145	6,453,912
Permits department	336,250	336,250	300,727	35,523
Garage	81,400	81,400	68,795	12,605
Parks department	640,650	640,650	354,329	286,321
Community center	199,550	199,550	167,861	31,689
TOTAL EXPENDITURES	22,889,367	22,869,367	13,391,113	9,478,254
Excess (Deficiency) of Revenues Over Expenditures	(11,285,067)	(11,903,567)	(3,448,503)	8,455,064
OTHER FINANCING SOURCES (USES)				
Debt proceeds	4,000,000	4,000,000	-	(4,000,000)
Transfers			4,000,000	4,000,000
Sale of capital assets	30,000	30,000	23,413	(6,587)
TOTAL OTHER FINANCING SOURCES (USES)	4,030,000	4,030,000	4,023,413	(6,587)
NET CHANGE IN FUND BALANCES	(7,255,067)	(7,873,567)	574,910	8,448,477
FUND BALANCES - BEGINNING	21,923,253	21,923,253	21,923,253	-
FUND BALANCES - ENDING	\$ 14,668,186	\$ 14,049,686	\$ 22,498,163	\$ 8,448,477

See Note II.A. in Notes to Financial Statements and Independent Auditor's Report

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - DEBT SERVICE FUND
CITY OF TOMBALL, TEXAS
For the year ended September 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Ad valorem taxes, penalty and interest	\$ 1,788,000	\$ 1,788,000	\$ 1,274,308	\$ (513,692)
Sales, franchise and other taxes	638,500	638,500	638,500	-
Interest on investments			14,400	14,400
Other			19,875	
TOTAL REVENUES	<u>2,426,500</u>	<u>2,426,500</u>	<u>1,947,083</u>	<u>(499,292)</u>
EXPENDITURES:				
Debt service:				
Principal retirement	1,361,868	1,361,868	1,373,838	(11,970)
Interest on debt	1,076,585	1,076,585	949,484	127,101
Other	160,000	159,999	330	159,669
TOTAL EXPENDITURES	<u>2,598,453</u>	<u>2,598,452</u>	<u>2,323,652</u>	<u>274,800</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(171,953)</u>	<u>(171,952)</u>	<u>(376,569)</u>	<u>(204,617)</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds			8,500,000	(8,500,000)
Transfers			(8,500,000)	8,500,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(171,953)</u>	<u>(171,952)</u>	<u>(376,569)</u>	<u>(204,617)</u>
FUND BALANCES - BEGINNING	<u>21,923,253</u>	<u>21,923,253</u>	<u>1,629,739</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 21,751,300</u>	<u>\$ 21,751,301</u>	<u>\$ 1,253,170</u>	<u>\$ (204,617)</u>

See Independent Auditor's Report

COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 CITY OF TOMBALL, TEXAS
 September 30, 2004

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Non-Major</u>
ASSETS			
Cash and cash equivalents	\$ 4,960	\$ 9,218	\$ 14,178
Investments	<u>36,239</u>	<u> </u>	<u>36,239</u>
TOTAL ASSETS	<u><u>\$ 41,199</u></u>	<u><u>\$ 9,218</u></u>	<u><u>\$ 50,417</u></u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 3,091	\$ -	\$ 3,091
TOTAL LIABILITIES	<u>3,091</u>	<u>-</u>	<u>3,091</u>
 FUND BALANCES:			
Unreserved	<u>38,108</u>	<u>9,218</u>	<u>47,326</u>
TOTAL FUND BALANCES	<u>38,108</u>	<u>9,218</u>	<u>47,326</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 41,199</u></u>	<u><u>\$ 9,218</u></u>	<u><u>\$ 50,417</u></u>

See Independent Auditor's Report

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 CITY OF TOMBALL, TEXAS
 For the year ended September 30, 2004

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Non-Major</u>
REVENUES:			
Interest on investments	\$ 390	\$ 326	\$ 716
Other	<u>31,965</u>	<u>8,280</u>	<u>40,245</u>
TOTAL REVENUES	<u>32,355</u>	<u>8,606</u>	<u>40,961</u>
EXPENDITURES:			
Current and capital outlay:			
Administrative	<u>15,675</u>	<u> </u>	<u>15,675</u>
TOTAL EXPENDITURES	<u>15,675</u>	<u>-</u>	<u>15,675</u>
Excess (deficiency) of revenues over expenditures	<u>16,680</u>	<u>8,606</u>	<u>25,286</u>
NET CHANGE IN FUND BALANCES	16,680	8,606	25,286
FUND BALANCES - BEGINNING	<u>21,428</u>	<u>612</u>	<u>22,040</u>
FUND BALANCES - ENDING	<u><u>\$ 38,108</u></u>	<u><u>\$ 9,218</u></u>	<u><u>\$ 47,326</u></u>

See Independent Auditor's Report

This page left blank intentionally.

CAPITAL ASSETS USED IN THE OPERATION
 OF GOVERNMENT FUNDS
 COMPARATIVE SCHEDULE BY SOURCE
 CITY OF TOMBALL, TEXAS
 September 30, 2003 (Unaudited)

	<u>2003</u>	<u>2002</u>
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land	\$ 2,001,905	\$ 895,746
Construction in progress	805,203	465,185
Buildings	5,311,611	4,403,141
Pavings and bridges	8,527,197	6,538,428
Machines and equipment	3,225,280	4,480,169
Fire apparatus	1,226,884	-
Automobiles and trucks	<u>2,608,407</u>	<u>2,999,511</u>
 Total	 <u>\$ 23,706,487</u>	 <u>\$ 19,782,180</u>
 INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:		
Capital projects funds general obligation bonds	\$ 3,191,298	\$ 3,191,298
Proceeds of notes payable and capital leases	1,357,597	1,357,597
General fund revenues	16,580,328	12,656,021
Acquisitions prior to October 1, 1998	<u>2,577,264</u>	<u>2,577,264</u>
 Total	 <u>\$ 23,706,487</u>	 <u>\$ 19,782,180</u>

CAPITAL ASSETS USED IN THE OPERATION
 OF GOVERNMENT FUNDS
 SCHEDULE BY FUNCTION AND ACTIVITY
 CITY OF TOMBALL, TEXAS
 September 30, 2003 (Unaudited)

<u>Function and Activity</u>	<u>Land</u>	<u>Construction in progress</u>	<u>Buildings</u>	<u>Pavings and Bridges</u>
General and administrative	\$ 559,903		\$ 1,211,900	\$ -
Police	13,565	13,193	944,745	-
Municipal court	-		-	-
Fire	29,442		1,129,110	-
Sanitation	-		5,554	83,816
Public works	1,771,396	262,764	3,409,306	9,838,987
Parks	862,097		767,778	67,396
Community services	28,796		19,022	-
Permits / inspections	-		15,534	-
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	\$ 3,265,199	\$ 275,957	\$ 7,502,949	\$ 9,990,199

<u>Machinery and Equipment</u>	<u>Fire Apparatus</u>	<u>Automobiles and Trucks</u>	<u>Total</u>
\$ 919,648		\$ 26,569	\$ 2,718,020
498,556		1,122,787	2,592,846
41,955		-	41,955
1,362,713	1,226,884	1,051,995	4,800,144
52,792		-	142,162
562,868		366,181	16,211,502
169,919		33,114	1,900,304
16,966		45,516	110,300
<u>2,031</u>		<u>-</u>	<u>17,565</u>
<u>\$ 3,627,448</u>	<u>\$ 1,226,884</u>	<u>\$ 2,646,162</u>	<u>\$ 28,534,798</u>

CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENT FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
CITY OF TOMBALL, TEXAS
September 30, 2003 (Unaudited)

Function and Activity	Balance at October 1, 2002	Additions	Deletions	Total
General and administrative	\$ 2,535,772	\$ 182,244	\$ -	\$ 2,718,016
Police	2,422,327	192,261	(21,740)	2,592,848
Municipal court	41,955	-		41,955
Fire	4,657,073	143,074		4,800,147
Sanitation	90,911	51,255		142,166
Public works	12,067,006	4,144,492		16,211,498
Parks	1,763,579	136,725		1,900,304
Community services	110,299	-		110,299
Permits / inspections	17,565	-		17,565
Total Governmental Funds Capital Assets	\$ 23,706,487	\$ 4,850,051	\$ (21,740)	\$ 28,534,798

STATISTICAL SECTION

GENERAL GOVERNMENT EXPENDITURES BY FUNCTION -
 GENERAL, SPECIAL REVENUE, DEBT SERVICE, CAPITAL PROJECTS
 FUNDS AND COMPONENT UNIT
 CITY OF TOMBALL, TEXAS
 Last ten fiscal years (Unaudited)

<u>FISCAL YEAR</u>	<u>GENERAL AND ADMINISTRATIVE</u>	<u>POLICE, FIRE AND PUBLIC SAFETY</u>	<u>SANITATION</u>	<u>PUBLIC WORKS</u>
1995	\$ 773,847	\$ 1,940,757	\$ 662,623	\$ 672,783
1996	1,201,366	3,559,943	615,168	784,995
1997	1,439,275	2,379,156	704,388	879,741
1998	863,192	2,387,995	924,927	1,871,919
1999	1,073,251	2,730,498	923,657	2,015,386
2000	948,064	3,659,997	1,073,323	1,175,875
2001	1,050,393	4,610,905	1,155,148	1,170,075
2002	1,549,002	4,435,382	1,338,532	2,164,441
2003	1,178,641	4,287,942	1,455,603	4,186,189
2004	1,521,237	4,402,620	1,522,692	5,438,049

(1) The component unit listed is the Tomball Economic Development Corporation.

The increase in the General and Administrative expenditures is largely due to the purchase of land for the Downtown Revitalization program and for a new telephone system. The increase in Public Safety related expenditures is attributed to salaries and benefits. Public Works completed the new facility and expanded streets and drainage within the City. The Debt Service increased due to the obligation payments.

	<u>PARKS AND COMMUNITY CENTER</u>	<u>DEBT SERVICE</u>	<u>COMPONENT UNIT AND OTHER (1)</u>	<u>TOTAL</u>
\$	196,533	\$ 649,979	\$ 113,824	\$ 5,010,346
	419,682	746,623	162,981	7,490,758
	866,937	611,317	191,387	7,072,201
	270,660	669,978	473,953	7,462,624
	518,827	945,785	359,695	8,567,099
	694,342	971,526	639,038	9,162,165
	665,304	874,429	606,881	10,133,135
	399,740	1,240,030	455,110	11,582,237
	424,454	1,580,759	259,507	13,373,095
	522,190	2,323,652	153,453	15,883,893

GENERAL GOVERNMENT REVENUES BY SOURCE - GENERAL, SPECIAL REVENUE,
 DEBT SERVICE, CAPITAL PROJECTS FUNDS AND COMPONENT UNIT
 CITY OF TOMBALL, TEXAS
 Last ten fiscal years (Unaudited)

<u>FISCAL YEAR</u>	<u>PROPERTY TAXES</u>	<u>SALES, FRANCHISE AND OTHER TAXES</u>	<u>LICENSES AND PERMITS</u>	<u>FINES</u>
1995	\$ 978,279	\$ 3,606,258	\$ 86,319	\$ 420,540
1996	1,043,573	3,955,586	70,556	513,322
1997	1,116,390	4,280,616	122,754	502,775
1998	1,256,934	4,865,543	211,761	512,545
1999	1,334,525	5,350,661	212,536	560,172
2000	1,494,389	5,914,961	276,890	665,483
2001	1,469,880	6,757,433	395,010	650,348
2002	1,656,768	7,424,809	495,521	683,007
2003	1,894,374	7,907,576	372,621	537,494
2004	1,978,526	8,524,083	317,369	531,439

Property tax revenues increased by 4% because of a larger tax base as the tax rate remained at \$0.28 per \$100 value. Sales tax revenues increased by 7%, which is an indication of the continued growth in Tomball and the surrounding community.

<u>CHARGES FOR SERVICES</u>	<u>INTEREST</u>	<u>SEIZED FUNDS</u>	<u>OTHER</u>	<u>TOTAL</u>
\$ 742,505	\$ 257,381	\$ 16	\$ 384,495	\$ 6,475,793
815,927	396,891	623	241,771	7,038,249
843,535	431,748	1,390	500,169	7,799,377
1,019,920	606,721	0	428,651	8,902,075
1,128,212	683,358	0	395,390	9,664,854
1,234,510	855,982	0	993,585	11,435,800
1,405,308	962,934	0	478,675	12,119,588
1,577,404	773,367	1,270	182,484	12,794,630
1,626,644	614,761	0	114,381	13,067,851
1,749,537	418,605	913	313,122	13,833,594

PROPERTY TAX LEVIES AND COLLECTIONS
 CITY OF TOMBALL, TEXAS
 Last ten fiscal years (Unaudited)

<u>FISCAL YEAR</u>	<u>TAX YEAR</u>	<u>(1) TOTAL TAX LEVY</u>	<u>CURRENT TAX COLLECTIONS AT END OF LEVY YEAR</u>	<u>PERCENT OF LEVY COLLECTED</u>
1995	1994	\$ 940,513	\$ 919,006	97.7%
1996	1995	1,010,284	999,914	99.0%
1997	1996	1,061,908	1,035,198	97.5%
1998	1997	1,146,061	1,119,860	97.7%
1999	1998	1,268,052	1,239,108	97.7%
2000	1999	1,452,696	1,397,136	96.2%
2001	2000	1,478,708	1,403,465	94.9%
2002	2001	1,570,051	1,535,623	97.8%
2003	2002	1,757,033	1,719,395	97.9%
2004	2003	1,915,562	1,875,251	97.9%

(1) Represents levy as adjusted at September 30, 2004.

(2) All taxes collected in the current fiscal year related to that year's levy are included in current tax collections.

(3) Amounts shown represent all fiscal years' collections for each tax levy; therefore, total tax collections are not intended to agree to each year's reported revenue.

<u>(2)</u> <u>DELINQUENT</u> <u>TAX</u> <u>COLLECTION</u>	<u>(3)</u> <u>TOTAL</u> <u>TAX</u> <u>COLLECTION</u>	<u>TOTAL</u> <u>COLLECTION</u> <u>AS PERCENT</u> <u>OF CURRENT</u> <u>LEVY</u>	<u>CUMULATIVE</u> <u>OUTSTANDING</u> <u>DELINQUENT</u> <u>TAXES AT</u> <u>END OF</u> <u>LEVY YEAR</u>	<u>OUTSTANDING</u> <u>DELINQUENT</u> <u>TAXES AT</u> <u>YEAR END AS</u> <u>PERCENT OF</u> <u>CURRENT LEVY</u>
\$ 13,346	\$ 932,352	99.1%	\$ 376,758	40.4%
532	1,000,446	99.0%	340,695	34.1%
12,929	1,048,127	98.7%	383,768	36.6%
61,518	1,181,378	103.1%	204,710	17.3%
41,838	1,280,946	101.0%	364,119	28.4%
42,216	1,439,352	99.1%	203,774	14.2%
41,719	1,445,184	97.7%	237,298	16.4%
68,440	1,604,063	102.2%	217,429	13.6%
92,111	1,811,506	103.1%	169,084	9.3%
40,628	1,915,879	100.0%	153,744	8.0%

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 CITY OF TOMBALL, TEXAS
 Last ten fiscal years (Unaudited)

FISCAL YEAR	TAX YEAR	REAL PROPERTY (1)		PERSONAL PROPERTY (1)	
		ASSESSED VALUE	ESTIMATED ACTUAL VALUE	ASSESSED VALUE	ESTIMATED ACTUAL VALUE
1995	1994	219,265,845	219,265,845	58,285,855	58,285,855
1996	1995	234,461,379	234,461,379	58,608,311	58,608,311
1997	1996	254,832,010	254,832,010	63,303,040	63,303,040
1998	1997	252,292,610	252,292,610	69,623,400	69,623,400
1999	1998	277,623,300	277,623,300	92,588,900	92,588,900
2000	1999	282,004,238	282,004,238	104,688,510	104,688,510
2001	2000	368,399,910	368,399,910	124,734,340	124,734,340
2002	2001	418,665,330	418,665,330	142,515,990	142,515,990
2003	2002	434,224,270	434,224,270	146,134,470	146,134,470
2004	2003	516,659,570	516,659,570	167,188,000	167,188,000

(1) As of September 30.

<u>TOTAL (1)</u>		<u>RATIO OF TOTAL ASSESSED TO TOTAL ESTIMATED ACTUAL VALUE</u>
<u>ASSESSED VALUE</u>	<u>ESTIMATED ACTUAL VALUE</u>	
277,551,700	277,551,700	100
293,069,690	293,069,690	100
318,135,050	318,135,050	100
321,916,010	321,916,010	100
370,212,200	370,212,200	100
386,692,748	386,692,748	100
493,134,250	493,134,250	100
561,181,320	561,181,320	100
580,358,740	580,358,740	100
683,847,570	683,847,570	100

PROPERTY TAX RATES PER \$100 ASSESSED VALUE - ALL
 DIRECT AND OVERLAPPING GOVERNMENTS - 1 OF 2
 CITY OF TOMBALL, TEXAS
 Last ten fiscal years (Unaudited)

<u>FISCAL YEAR ENDED JUNE 30 OR SEPTEMBER 30,</u>	<u>TAX YEAR</u>	<u>CITY OF TOMBALL</u>	<u>(1) TOMBALL INDEPENDENT SCHOOL DISTRICT</u>	<u>HARRIS COUNTY, TEXAS</u>	<u>HARRIS COUNTY FLOOD CONTROL DISTRICT</u>
1995	1994	0.342520	1.500000	0.362810	0.062520
1996	1995	0.342520	1.505130	0.406830	0.076000
1997	1996	0.342520	1.590000	0.427680	0.074240
1998	1997	0.342520	1.590000	0.418660	0.079670
1999	1998	0.342520	1.590000	0.416600	0.080000
2000	1999	0.342520	1.590000	0.394830	0.080000
2001	2000	0.300000	1.650000	0.359020	0.061730
2002	2001	0.280000	1.680000	0.383930	0.047580
2003	2002	0.280000	1.750000	0.388140	0.041740
2004	2003	0.280000	1.730000	0.388030	0.041740

(1) Includes TISD's portion of Harris County Education District.
 (2) New tax in 2004 for Emergency Medical Service.

<u>HARRIS COUNTY HOSPITAL DISTRICT</u>	<u>PORT OF HOUSTON AUTHORITY</u>	<u>SCHOOL EQUALIZATION</u>	<u>NORTH HARRIS- MONTGOMERY COLLEGE DISTRICT</u>	<u>(2) EMERGENCY SERVICE DISTRICT #8</u>	<u>TOTAL</u>
0.183500	0.013160	0.004660	0.000990	0.000000	2.470160
0.123810	0.012850	0.005130	0.001012	0.000000	2.473282
0.123810	0.016000	0.005620	0.012280	0.000000	2.592150
0.123810	0.019590	0.006110	0.001198	0.000000	2.581558
0.123810	0.021320	0.006110	0.001198	0.000000	2.581558
0.146500	0.020400	0.006290	0.001174	0.000000	2.581714
0.202680	0.018300	0.006290	0.001100	0.000000	2.599120
0.190210	0.018260	0.006290	0.001100	0.000000	2.607370
0.190210	0.019890	0.006290	0.001055	0.000000	2.677325
0.190210	0.020000	0.006290	0.001055	0.000000	2.657325

PROPERTY TAX LEVIES PER \$100 ASSESSED VALUE - ALL
 DIRECT AND OVERLAPPING GOVERNMENTS - 2 OF 2
 CITY OF TOMBALL, TEXAS
 Last ten fiscal years (Unaudited)

<u>FISCAL YEAR ENDED JUNE 30 OR SEPTEMBER 30,</u>	<u>TAX YEAR</u>	<u>CITY OF TOMBALL</u>	<u>(1) TOMBALL INDEPENDENT SCHOOL DISTRICT</u>	<u>HARRIS COUNTY, TEXAS</u>	<u>HARRIS COUNTY FLOOD CONTROL DISTRICT</u>
1995	1994	938,738	24,090,885	476,332,937	82,082,454
1996	1995	1,007,663	26,058,673	549,554,922	102,662,474
1997	1996	1,089,676	27,735,801	592,710,370	102,887,247
1998	1997	1,146,061	29,967,532	595,056,890	113,237,908
1999	1998	1,324,502	30,050,503	627,848,986	120,566,296
2000	1999	1,453,942	30,339,995	644,988,614	130,686,850
2001	2000	1,461,726	36,730,892	643,517,738	110,646,621
2002	2001	1,598,825	40,183,847	761,056,991	94,316,911
2003	2002	1,757,033	44,037,845	812,403,545	87,364,673
2004	2003	1,915,879	47,881,626	900,026,870	96,814,993
Due date for current taxes		October 1	October 1	October 1	October 1
Date taxes become delinquent		February 1	February 1	February 1	February 1

(1) Includes TISD's portion of Harris County Education District.

<u>HARRIS COUNTY HOSPITAL DISTRICT</u>	<u>PORT OF HOUSTON AUTHORITY</u>	<u>SCHOOL EQUALIZATION</u>	<u>NORTH HARRIS- MONTGOMERY COLLEGE DISTRICT</u>	<u>(2) EMERGENCY SERVICE DISTRICT #8</u>
240,916,992	17,277,753	6,118,110	1,299,770	0
167,245,274	17,358,063	6,929,717	1,364,330	0
171,584,996	22,173,976	7,788,609	17,018,526	0
175,975,717	27,843,989	8,684,368	1,705,604	0
186,591,414	32,130,918	9,208,251	1,808,494	0
239,320,295	33,325,147	10,275,254	1,911,295	0
363,289,441	32,801,444	11,274,376	1,971,672	0
377,049,593	36,196,444	12,468,545	2,180,509	0
398,122,529	41,631,129	13,165,400	2,218,652	0
441,187,823	46,389,551	14,589,514	2,458,646	0
October 1	October 1	October 1	October 1	October 1
February 1	February 1	February 1	February 1	February 1

RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE
AND NET BONDED DEBT PER CAPITA
CITY OF TOMBALL, TEXAS
Last ten fiscal years (Unaudited)

<u>FISCAL YEAR</u>	<u>BONDED DEBT</u>	<u>LESS DEBT SERVICE FUND</u>	<u>NET BONDED DEBT</u>
1995	\$ 2,735,000	\$ 495,723	\$ 2,239,277
1996	5,355,000	903,994	4,451,006
1997	8,365,000	1,110,389	7,254,611
1998	7,250,000	1,282,847	5,967,153
1999	7,005,000	1,270,879	5,734,121
2000	6,655,000	1,368,885	5,286,115
2001	6,110,000	1,609,563	4,500,437
2002	14,660,000	1,383,613	13,276,387
2003	13,920,000	1,629,739	12,290,261
2004	21,170,000	1,253,170	19,916,830

<u>ASSESSED VALUE</u>	<u>RATIO NET DEBT PER \$100 ASSESSED VALUE</u>	<u>POPULATION</u>	<u>NET BONDED DEBT PER CAPITA</u>
\$ 277,551,700	0.81%	7,380	\$ 303
293,069,690	1.52%	7,600	586
318,135,050	2.28%	7,825	927
321,916,010	1.85%	8,150	732
370,212,200	1.55%	8,650	663
386,692,748	1.37%	9,089	582
493,134,250	0.91%	9,543	472
561,181,320	2.37%	9,829	1,351
580,358,740	2.12%	9,843	1,249
683,847,570	2.91%	9,883	2,015

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES
FOR GENERAL BONDED DEBT TO TOTAL GENERAL
GOVERNMENT EXPENDITURES
CITY OF TOMBALL, TEXAS
Last ten fiscal years (Unaudited)

<u>FISCAL YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL DEBT SERVICE</u>	<u>TOTAL GENERAL EXPENDITURES (1)</u>	<u>RATIO OF DEBT SERVICE TO GENERAL EXPENDITURES</u>
1995	\$ 410,000	\$ 235,800	\$ 645,800	\$ 5,010,346	12.89%
1996	665,000	314,243	979,243	7,490,758	13.07%
1997	395,000	192,771	587,771	7,072,201 ⁽²⁾	8.31%
1998	395,000	273,106	668,106	7,462,624	8.95%
1999	540,000	389,319	929,319	8,567,099	10.85%
2000	622,633	323,756	946,389	9,162,165	10.33%
2001	545,000	322,546	867,546	10,133,135	8.56%
2002	450,000	365,980	815,980	11,582,237	7.05%
2003	740,000	670,601	1,410,601	13,373,095	10.55%
2004	1,250,000	910,515	2,160,515	15,883,893	13.60%

NOTES:

(1) Includes General, Special Revenue, Debt Service,
Capital Projects Funds, and Component Unit

(2) Excludes principal reduction due to refunding.

COMPUTATION OF NET DIRECT AND ESTIMATED OVERLAPPING DEBT
CITY OF TOMBALL, TEXAS
September 30, 2004 (Unaudited)

<u>NAME OF GOVERNMENTAL UNIT</u>	<u>NET DEBT OUTSTANDING</u>	<u>TOMBALL CITY'S APPLICABLE PERCENTAGE</u>	<u>TOMBALL CITY'S SHARE OF DEBT</u>
Tomball Independent School District	\$ 133,040,000	22.60%	\$ 30,067,040
Harris County	1,813,551,590	0.34%	6,166,075
Harris County Department of Education	1,135,000	0.34%	3,859
Harris County Flood Control District	53,599,985	0.34%	182,240
Harris County Hospital District	0	0.00%	0
Harris County Toll Road	717,527,049	0.34%	2,439,592
Port of Houston Authority	287,900,000	0.34%	978,860
North Harris Montgomery College Dist.	215,955,847	0.96%	<u>2,073,176</u>
		Net Total Estimated Overlapping Debt	\$ 41,910,842
		City of Tomball	<u>11,691,113</u>
		Total Net Direct and Estimated Overlapping Debt	\$ <u>53,601,955</u>
		Total Net Direct and Estimated Overlapping Debt Per Capita	\$ <u>5,424</u>

Source - First Southwest Company

COMPUTATION OF LEGAL DEBT MARGIN
 CITY OF TOMBALL, TEXAS
 September 30, 2004

Assessed value of taxable property (net of exempt property) (1)		\$ 683,847,570
Legal debt limitation (10% of assessed value)		68,384,757
Total bonded debt	\$ 37,760,000	
Less: amounts held in sinking funds	<u>(1,159,219)</u>	
Total debt subject to debt limitation		<u>36,600,781</u>
Legal debt margin		<u>\$ 31,783,976</u>

(1) Assessed value for the 2003 tax year is derived from the certified valuations provided by the Harris County Appraisal District (HCAD).

TAX RATE DISTRIBUTION
 CITY OF TOMBALL
 Last ten fiscal years (Unaudited)

<u>FISCAL YEAR</u>	<u>TAX YEAR</u>	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL TAX RATE (1)</u>
1995	1994	0.101000	0.241520	0.342520
1996	1995	0.104030	0.238490	0.342520
1997	1996	0.107150	0.235370	0.342520
1998	1997	0.110370	0.232150	0.342520
1999	1998	0.113680	0.228840	0.342520
2000	1999	0.122770	0.219750	0.342520
2001	2000	0.110760	0.189240	0.300000
2002	2001	0.114000	0.166000	0.280000
2003	2002	0.015410	0.264590	0.280000
2004	2003	0.108000	0.172000	0.280000

NOTES:

- (1) The maximum tax rate for the City of Tomball is \$2.50 per \$100 assessed valuation. Within the \$2.50 maximum there is no legal limit upon the amount of taxes which may be levied for debt service.

REVENUE BOND COVERAGE
CITY OF TOMBALL
Last ten fiscal years (Unaudited)

<u>FISCAL YEAR</u>	<u>GROSS REVENUES</u>	<u>EXPENSES (1)</u>	<u>NET REVENUE AVAILABLE FOR DEBT SERVICE</u>	<u>AVERAGE ANNUAL DEBT SERVICE</u>	<u>COVERAGE</u>
1995	\$ 2,956,674	\$ 1,955,533	\$ 1,001,141	\$ 658,752	1.52
1996	3,310,244	1,823,043	1,487,201	691,488	2.15
1997	3,259,734	2,045,828	1,213,906	680,466	1.78
1998	3,902,611	1,947,442	1,955,169	514,326	3.80
1999	3,966,533	1,943,010	2,023,523	583,239	3.47
2000	4,703,321	2,279,247	2,424,074	602,736	4.02
2001	6,366,787	3,579,876	2,786,911	575,996	4.84
2002	5,748,215	3,070,238	2,677,977	538,239	4.98
2003	6,204,814	3,850,816	2,353,998	538,846	4.37
2004	7,005,922	4,539,346	2,466,576	538,846	4.58

NOTES:

(1) Excludes depreciation and bond interest.

SCHEDULE OF INSURANCE IN FORCE
 CITY OF TOMBALL, TEXAS
 September 30, 2004 (Unaudited)

<u>COMPANY</u>	<u>POLICY NO.</u>	<u>COVERAGE DESCRIPTION</u>	<u>AMOUNT OF COVERAGE</u>	<u>TERM FROM - TO</u>	<u>PREMIUM</u>
TML	C7179	Auto Liability & Physical	\$ 1,000,000	10/1/03-10/1/04	\$ 44,257
TML	C7179	General Liability	2,000,000	10/1/03-10/1/04	17,930
TML	C7179	Errors and Omissions Liability	2,000,000	10/1/03-10/1/04	25,813
TML	C7179	Law Enforcement Liability	2,000,000	10/1/03-10/1/04	18,268
TML	C7179	Real and Personal Property	12,610,100	10/1/03-10/1/04	24,616
TML	C7179	Workers Compensation	N/A	10/1/03-10/1/04	109,821

DEMOGRAPHIC STATISTICS
 CITY OF TOMBALL, TEXAS
 Last ten fiscal years (Unaudited)

<u>FISCAL YEAR ENDED SEPTEMBER 30,</u>	<u>POPULATION (1)</u>	<u>PER CAPITA INCOME (2)</u>	<u>MEDIAN AGE (2)</u>	<u>SCHOOL ENROLLMENT (3)</u>	<u>UNEMPLOYMENT RATE (4)</u>
1995	7,380	17,654	32.3	5,749	6.1%
1996	7,600	17,304	33.1	5,888	5.9%
1997	7,825	18,889	33.2	6,100	5.4%
1998	8,150	19,366	33.1	6,372	5.5%
1999	8,650	20,011	33.1	6,680	5.2%
2000	9,089	24,447	33.5	6,982	4.8%
2001	9,543	41,860	36.3	7,775	5.6%
2002	9,829	32,701	36.3	8,048	6.5%
2003	9,843	37,787	34.6	8,394	6.9%
2004	9,883	22,334	34.6	8,730	5.5%

(1) Estimated (2000 adjusted to census reports)

(2) Source: Tomball Chamber of Commerce

(3) Source: Tomball Independent School District

(4) Source: Texas Employment Commission, Houston Primary Metropolitan Statistical Area

PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
 CITY OF TOMBALL, TEXAS
 Last ten fiscal years (Unaudited)

<u>FISCAL YEAR</u>	<u>BANK DEPOSITS (1)</u>	<u>VALUE OF NEW CONSTRUCTION (2)</u>	<u>PROPERTY VALUE (3)</u>
1995	\$ 347,843,000 (4)	\$ 16,273,800	\$ 277,551,700
1996	360,000,000 (4)	9,729,372	293,069,690
1997	380,000,000 (5)	8,943,077	318,135,050
1998	408,000,000 (5)	39,693,355	321,916,010
1999	429,816,420 (5)	49,178,615	370,212,200
2000	505,568,125 (5)	57,649,557	386,693,290
2001	630,389,315 (6)	82,477,590	493,134,250
2002	529,879,560	116,539,516	561,181,320
2003	518,996,858	40,129,009	580,358,740
2004	569,074,685	25,864,468	683,847,570

(1) Source: Bank of America, Coastal Banc, Guaranty Federal Bank, Klein Bank, Regions Bank State Bank, Texas National Bank, Wells Fargo Bank and Wood Forest Bank.

(2) Source: Records of the City Building Inspector.

(3) Source: Records of the City Tax Department.

(4) Individual branch of First Bank of Texas not available.

(5) Wells Fargo Bank and Bank of America were not able to provide branch numbers, therefore, this number is an estimate.

(6) Bank of America was not able to provide branch numbers, therefore, this number is an estimate.

PRINCIPAL TAXPAYERS
CITY OF TOMBALL, TEXAS
September 30, 2004 (Unaudited)

<u>TAXPAYER</u>	<u>TYPE OF PROPERTY</u>	<u>2004 ASSESSED VALUATION</u>	<u>PERCENT OF TOTAL VALUATION</u>
1. B. J. Services	Oil Well Service Equip.	\$ 63,602,860	9.30%
2. Wal-Mart	Shopping Center	19,670,410	2.88%
3. Lowe's	Home Renovation	14,066,660	2.06%
4. Centerpoint Energy	Electric Utility	13,695,460	2.00%
5. HEB Grocery	Grocery	9,069,660	1.33%
6. MBS Foundation of Tomball	Apartments	7,845,980	1.15%
7. Southwestern Bell	Telephone Utility	7,153,680	1.05%
8. Tomball Center, Inc.	Shopping Center	5,875,300	0.86%
9. CFP 1 LP	Shopping Center	5,522,850	0.81%
10. Target Corporation	Shopping Center	<u>5,457,470</u>	<u>0.80%</u>
		\$ 151,960,330	22.22%
All Others		<u>531,887,240</u>	<u>77.78%</u>
TOTAL ASSESSED VALUATION		<u>\$ 683,847,570</u>	<u>100.00%</u>

MISCELLANEOUS STATISTICAL DATA - 1 OF 4
 CITY OF TOMBALL
 September 30, 2004 (Unaudited)

Date of Incorporation	July 18, 1933
Date of Present Charter	Adopted Home Rule Charter January 17, 1987
Form of Government	Council - City Manager
Area	
Land	10.78 square miles (6,900 acres)
Streets	
Streets - paved	71.46 miles
Streets - unpaved	0.0 miles
Alleys - currently open and paved	1.5 miles
Sidewalks	3.65 miles
Number of street lights	462
Number of street signs	1051
Number of traffic signals	13
Railroad crossings	6
Fire Protection	
Number of stations	2
Number of full time employees	3
Number of part time employees	25
Number of volunteers	37
Police Protection	
Number of stations	1
Number of employees	47
Number of patrol units	26
Jail facilities (cells)	7
Average jail population per month	116

Source: Records of the various City Departments

MISCELLANEOUS STATISTICAL DATA - 2 OF 4
 CITY OF TOMBALL
 September 30, 2004 (Unaudited)

Recreation
 Parks

1. Community Center
2. Juergens Park
3. Matheson Park, Pool and Tennis Courts
4. Little League Complex
5. M.L.K., Jr. Park
6. Theis - Attaway Nature Reserve
7. Heritage Park

City Employees

Salaried employees (Authorized Full Time)	16
Hourly rate employees (Authorized Full Time)	108
Hourly rate employees (Authorized Part Time)	35
	<u>159</u>

Election

Number of votes cast	2004	2003	2002*	2001	2000	1999*
Precinct 1, City Hall	468	217	0	74	46	1,048
Absentee	467	183	0	84	14	586
Total Votes Cast	<u>935</u>	<u>400</u>	<u>0</u>	<u>158</u>	<u>60</u>	<u>1,634</u>

* There were three elections held in 1999.

* There were no elections needed in 2002.

Water

Source - water wells	4
Elevated storage tanks	3
Ground storage tanks	1
Average daily consumption	1.798 MGD
Maximum daily consumption	3.492 MGD
Number of connections	7,507
Miles of water main	59
Hydrants	630
Valves	1,475

MISCELLANEOUS STATISTICAL DATA - 3 OF 4
 CITY OF TOMBALL
 September 30, 2004 (Unaudited)

SEWER FLOW	<u>PERMIT REG.</u>	<u>ACTUAL</u>
North Wastewater Treatment Plant Station		
Daily average	1.5 MGD	0.753 MGD
Peak	4.5 MGD	4.500 MGD
Biochemical oxygen demand (BOD) 5-day		
30-day average	10 Mg/L	2.16 Mg/L
Individual composite sample	25 Mg/L	5.00 Mg/L
Average 30-day loading	125 lbs/day	14.34 lbs/day
Total suspended solids (TSS)		
30-day average	15 Mg/L	3.690 Mg/L
Individual composite sample	40 Mg/L	16.000 Mg/L
Average 30-day loading	188 lbs/day	26.650 lbs/day
PH	6-9 range	7.44
Minimum chlorine residual @		
20 minutes detention time	1.0 Mg/L	1.0 Mg/L
Wastewater flow characterization:		
Total flow estimate		.8000 MGD
Biochemical oxygen demand		18.000 lbs/day
South Wastewater Treatment Plant Station		
Daily average	1.5 MGD	.842 MGD
Peak	6.0 MGD	2.70 MGD
Biochemical oxygen demand (BOD) 5-day		
30-day average	10 Mg/L	2.00 Mg/L
Individual composite sample	25 Mg/L	4.00 Mg/L
Average 30-day loading	125 lbs/day	14.66 lbs/day
Total suspended solids (TSS)		
30-day average	15 Mg/L	2.510 Mg/L
Individual composite sample	40 Mg/L	11.000 Mg/L
Average 30-day loading	188 lbs/day	17.910 lbs/day
PH	6-9 range	7.41
Minimum chlorine residual @		
20 minutes detention time	1.0 Mg/L	1.0 Mg/L
Wastewater flow characterization:		
Total flow estimate		.900 MGD
Biochemical oxygen demand		18.000 lbs/day
Lift stations		10
Miles of storm sewer		16.15
Miles of sanitary sewer		48

MISCELLANEOUS STATISTICAL DATA - 4 OF 4
 CITY OF TOMBALL
 September 30, 2004 (Unaudited)

City and state taxable retail sales

1995	\$	153,660,133
1996	\$	171,517,773
1997	\$	182,239,100
1998	\$	208,631,400
1999	\$	234,961,874
2000	\$	263,357,308
2001	\$	293,842,058
2002	\$	318,641,169
2003	\$	346,849,130
2004	\$	370,723,585

Education

Tomball Independent School District

Number of elementary schools	City	1
	District Total	5
Number of intermediate schools	City	2
	District Total	3
Number of junior high schools	City	1
	District Total	2
Number of high schools		1
Number of alternative education centers		1
Number of staff	Professional Staff	681
	Total Staff	1,169
Number of students	City	4,400
	District Total	8,730