

*COMPREHENSIVE
ANNUAL FINANCIAL REPORT*

of the

CITY OF TOMBALL, TEXAS

For the Year Ended
September 30, 2007

Prepared by:

Finance Director
and
Members of Her Staff

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CITY OF TOMBALL, TEXAS

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CITY OF TOMBALL, TEXAS

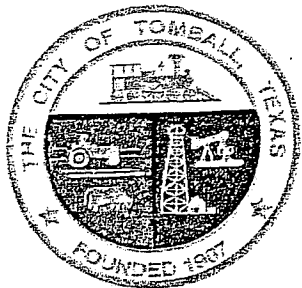
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INTRODUCTORY SECTION

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City of Tomball

January 16, 2008

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

It is with great pleasure that we present to you a copy of the Comprehensive Annual Financial Report (CAFR) of the City of Tomball, Texas (the "City"), for the fiscal year ended September 30, 2007. The responsibility for both the accuracy of the presented information and the completeness and fairness of the presentation of the data, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the end results of operation of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The CAFR is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, the City's organizational chart, and a list of principal officials. The Financial Section includes Management's Discussion and Analysis (MD&A), Basic Financial Statements, Required Supplementary Information, Combining and Individual Fund Financial Statements and Other Supplemental Information, as well as the independent auditor's report. The Statistical Section includes selected financial and demographic information generally presented on a multi-year basis.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City, incorporated on July 18, 1933, is located northwest of Houston, Texas in a high growth area. The City currently occupies a land area of 10.78 square miles and serves an estimated population of 11,500. 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 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 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's financial planning and control. All departments of the City 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'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 61 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 74.

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 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 City'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 several major retail centers and restaurants that are located in the City, adding further jobs and sales tax revenues.

The region (which covers an area within a 5 mile radius from the center of the City) has an employed labor force of approximately 46,457 which is anticipated to grow for the next several years. The largest groups of employers are in retail and in health services. There are three 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 the City 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 completed and will assist in the growth and development in the southeastern portion of the City. The south side utility project, designed to fully loop utilities around the southern border of the current City limits, and to provide utility access to undeveloped areas of the City, is in the final stages of completion.

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, partnering with other governmental entities, is taking manageable steps to accomplish these flood control goals.

Major Initiatives

The largest revenue source in the General Fund is sales tax. The City has experienced a great deal of commercial retail growth over the last several years. Between sales tax on construction materials and sales tax from the establishments themselves, the amount of sales tax received by the City has remained strong. Fiscal year 2007 sales tax revenues did however fall short of fiscal year 2006 revenues by 2.5%. Due to two large retailers opening their stores in early 2008 and another large retail project starting construction, sales tax revenues for fiscal 2008 are anticipated to be approximately 7% higher than those received during 2007.

The City will undertake a number of engagements during fiscal year 2007- 08 aimed at responsibly planning for the City's future. Funds are budgeted for a facility needs assessment to address the City organization's current and future needs for office space. The City will also work with consultants to develop a Comprehensive Plan for the City. A utility rate study will also be conducted to evaluate current utility rates and the rates that will be required in the future to finance water and wastewater projects included in the Capital Improvements Plan.

Keeping Tomball a safe place to live and work continues to be a focus of the City. Continuing a commitment to public safety, the fiscal year 2007-08 budget includes two additional full time and one additional part employees in the Police Department and 2 additional full time firefighters in the Fire Department. Each department will also receive funding for technology upgrades and needed facility improvements.

The City will also continue working on the possible acquisition of Hooks Airports just east of Tomball. Legislation was adopted by the Texas Senate and House of Representatives that would allow the City to cross over the City of Houston's Extraterritorial Jurisdiction to annex the airport property.

In the late summer of 2008, the City plans to issue \$7.9 million in certificates of obligation to facilitate street and drainage improvement projects and \$6.2 million in revenue bonds for multiple water, wastewater and gas utility projects.

Financial Information

The City's management team is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of the controls should not exceed the benefits likely to be derived and (2) the valuation of cost and benefits requires estimates and judgments to be made by management.

Budgeting Controls

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund, Debt Service Fund, Special Revenue Funds (Hotel Occupancy Tax Fund, Equipment Replacement Fund, Municipal Court Fund, Public Safety Fund, and Emergency Management Fund), Utility Fund, and Utility Interest and Sinking Fund are included in the annual operating budget. The Tomball Economic Development Corporation, a component unit of the City, is also included in the annual operating budget. A capital improvement plan is approved each year. The level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is established at the division level within an individual fund. The City maintains an encumbrance accounting system as a means of accomplishing budgetary controls and a technique of budgetary "lock out" which will prevent a transaction from exceeding legally appropriated budgetary amounts. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Debt Administration

The City may issue General Obligation bonds that are approved by voters in a capital improvements plan. Certificates of Obligation are used for short-term construction projects and financing vehicles and equipment. When available, sales tax revenue in excess of budgeted projections can be dedicated to one-time capital purchases.

Cash Management

The City follows an active program of cash management, keeping all temporarily idle funds in interest-bearing accounts. These accounts are in the form of money market (government-based) funds, U.S. Treasury issues, and federal government agency instrumentalities. The City's investment policy is used to safeguard assets with a minimal amount of risk, while maintaining the necessary level of liquidity and maximizing the yield on investments. Accordingly, all of the City's deposits are either insured by the Federal Deposit Insurance Corporation or are collateralized by governmental securities. A third-party financial institution in the City of Tomball's name holds all collateral for deposits. State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies; obligations of the State of Texas and related agencies; fully collateralized repurchase agreements; local government investment pools; SEC-registered, no-load money market mutual funds; fully collateralized certificates of deposit; and municipal securities of any state rated "AA" or above by a nationally recognized rating service.

Independent Audit

The City Charter requires an independent audit of the accounts of the City by an independent auditor. Sandersen Knox and Belt, L.L.P., Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Tomball's financial statements for the year ended September 30, 2007. The independent auditor's report is located at the front of the financial section of this report.

Awards

The Government Finance Officers' Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2006. In order to be awarded the Certificate of Achievement, the City published an easily readable and efficiently organized Comprehensive Annual Financial Report. This report satisfies both generally accepted accounting principles and applicable legal requirements. The Certificate of Achievement is held for a period of one year only. I believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement requirements, and I am submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the administrative staff of the City. 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.

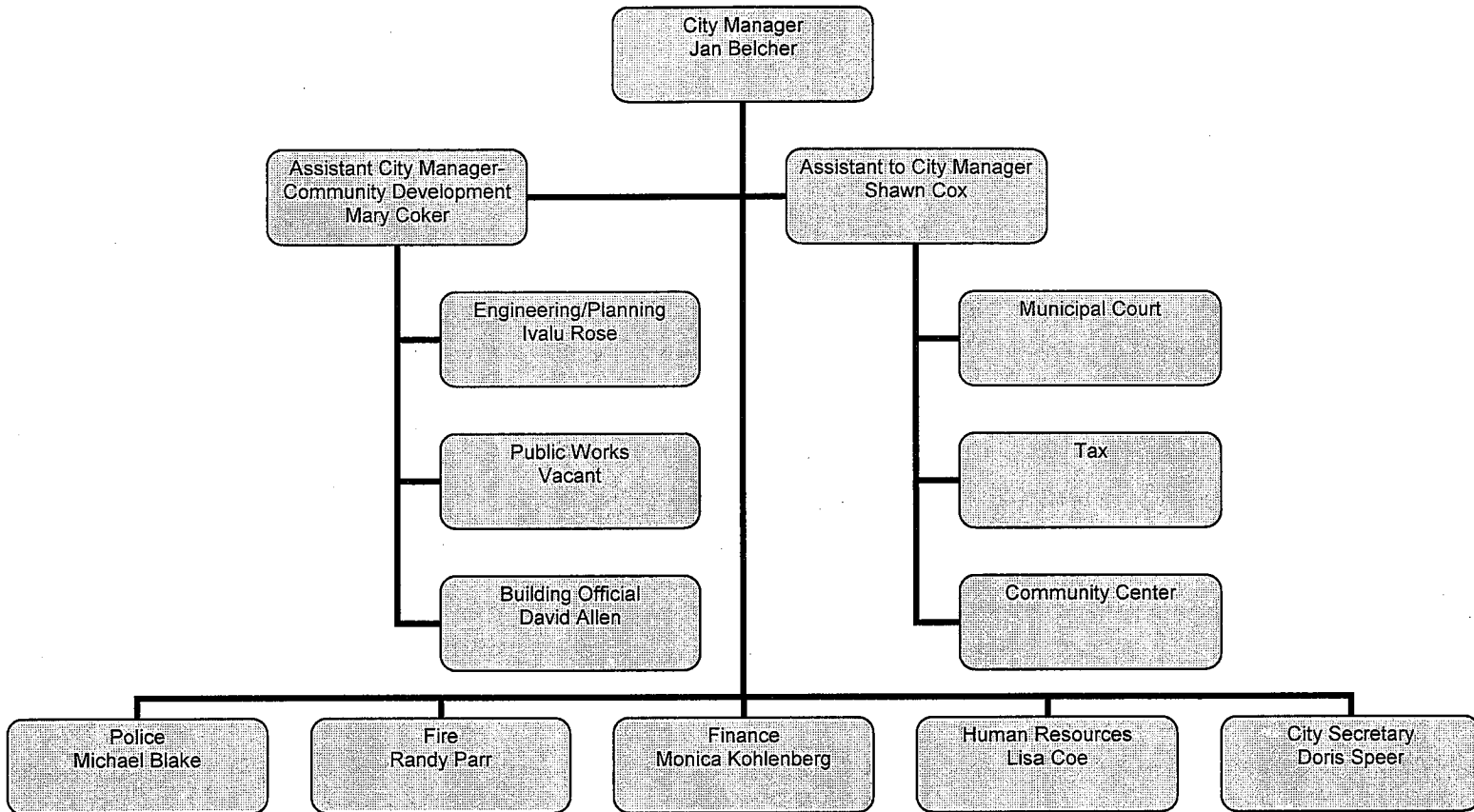
Respectfully submitted,

Monica Kohlenberg
Finance Director

CITY OF TOMBALL, TEXAS

ORGANIZATIONAL CHART

September 30, 2007



CITY OF TOMBALL, TEXAS
*CERTIFICATE OF ACHIEVEMENT FOR
EXCELLENCE IN FINANCIAL REPORTING*

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, 2006

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.



A handwritten signature in black ink, appearing to read "Olive S. Cox".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

CITY OF TOMBALL, TEXAS

PRINCIPAL OFFICIALS

September 30, 2007

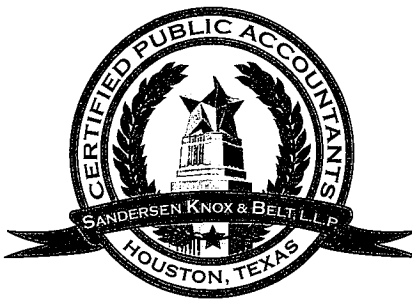
<u>City Officials</u>	<u>Elective Position</u>	<u>Term Expires</u>
Gretchen Fagan	Mayor	2010
David Quinn	Councilman Position 1	2008
Roy Lazenby	Councilman Position 2	2009
Bill Webb	Councilman Position 3	2010
Mary Harvey	Councilman Position 4	2009
Warren Driver	Councilman Position 5	2008

<u>Department Heads</u>	<u>Appointive Position</u>
Jan Belcher	City Manager
Mary Coker	Assistant City Manager
Doris Speer	City Secretary
Michael Blake	Chief of Police
Vacant	Director of Public Works
Randall Parr	Fire Chief
Monica Kohlenberg	Finance Director

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the 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 aggregate remaining fund information of the City of Tomball, Texas (the "City"), as of September 30, 2007, and for the year ended, 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 generally accepted auditing standards 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 aggregate remaining fund information of the City as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The management's discussion and analysis on pages 17 through 24, budgetary comparison information on page 61, and pension information on pages 62 through 63, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the City's basic financial statements. The introductory section, combining statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund statements and schedules have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, appearing to read "Sarah K. Bell". The signature is fluid and cursive, with a large initial "S" and "B".

January 16, 2008

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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CITY OF TOMBALL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2007

The statement of net assets presents information on all of the City's assets and liabilities. The difference between the two is reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The statement of activities presents information showing how the City's net assets changed during the most recent year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The statement of net assets and the statement of activities divide the City into two classes of activities:

1. Governmental Activities - Most of the City's basic services are reported here including police and fire protection, municipal court, streets, garage, sanitation, community services and general administrative services. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. Business-Type Activities - Services involving a fee for those services are reported here. These services include the City's water, sewer, and gas services.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The two categories of City funds are governmental and proprietary.

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 year. Such information may be useful in evaluating the City'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*.

CITY OF TOMBALL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2007

The City maintains nine 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, which is considered to be a major fund. The City adopts an annual appropriated budget for its general fund and debt service fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its water distribution, wastewater collection/treatment, and natural gas operations. The proprietary fund financial statements provide separate information for the water distribution, wastewater collection/treatment, and gas operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain required supplementary information (RSI). The RSI that GASB Statement No. 34 requires includes budgetary comparison schedules for the general fund, schedule of funding progress for Texas Municipal Retirement System and schedule of funding progress for Texas Emergency Services Retirement System. RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$62,162,180 as of September 30, 2007, in the primary government. As required by GASB Statement No. 34, a comparative analysis of government-wide data has been presented as a component of the MD&A for the year ending September 30, 2007. A portion of the City's net assets (48.0%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF TOMBALL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2007

Statement of Net Assets:

The following table reflects the condensed statement of net assets:

SUMMARY OF STATEMENT OF NET ASSETS

	Governmental		Business-type		Total	
	Activities		Activities		Primary	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 25,469,778	\$ 24,840,329	\$ 11,266,768	\$ 9,857,361	\$ 36,736,546	\$ 34,697,690
Capital assets, net	23,714,353	22,089,223	37,301,827	38,563,699	61,016,180	60,652,922
Total Assets	49,184,131	46,929,552	48,568,595	48,421,060	97,752,726	95,350,612
Long-term liabilities	17,305,353	18,064,793	13,298,442	14,151,000	30,603,795	32,215,793
Other liabilities	3,132,361	2,948,124	1,854,390	2,099,260	4,986,751	5,047,384
Total Liabilities	20,437,714	21,012,917	15,152,832	16,250,260	35,590,546	37,263,177
Net Assets:						
Invested in capital assets, net of related debt	7,175,862	2,886,256	25,045,502	23,478,199	32,221,364	26,364,455
Restricted	3,686,000	2,323,077	876,468	2,305,729	4,562,468	4,628,806
Unrestricted	17,884,555	20,707,302	7,493,793	6,386,872	25,378,348	27,094,174
Total Net Assets	\$ 28,746,417	\$ 25,916,635	\$ 33,415,763	\$ 32,170,800	\$ 62,162,180	\$ 58,087,435

A portion of the primary government's net assets, \$4,562,468 or 7.3%, represents resources that are subject to external restriction on how they may be used. This is a decrease of 1.4%, primarily as a result of the City utilizing these restricted funds to continue construction projects. The remaining balance of unrestricted net assets, \$25,378,348 or 40.8%, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net assets increased by \$4,074,745 during the current fiscal year, an increase of 7.0% in comparison to the prior year. This increase is largely the result of an increase in utility billing revenues.

CITY OF TOMBALL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2007

Statement of Activities:

The following table provides a summary of the City's changes in net assets:

	Governmental		Business-Type		Total	
	Activities		Activities		Primary	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for services	\$ 3,291,194	\$ 3,192,763	\$ 8,285,790	\$ 7,089,911	\$ 11,576,984	\$ 10,282,674
Operating grants and contributions	135,750	93,042	-	137,444	135,750	230,486
General revenues:						
Property taxes	2,467,835	2,239,366	-	-	2,467,835	2,239,366
Sales taxes	7,304,280	7,491,415	-	-	7,304,280	7,491,415
Franchise taxes	1,140,734	1,069,381	-	-	1,140,734	1,069,381
Other taxes	181,503	112,527	-	-	181,503	112,527
Contributions	6,000	114,909	720,000	2,570,000	726,000	2,684,909
Investment earnings	1,222,817	988,431	452,098	477,600	1,674,915	1,466,031
Other revenues	223,643	84,961	-	236	223,643	85,197
Total Revenues	15,973,756	15,386,795	9,457,888	10,275,191	25,431,644	25,661,986
Expenses						
General government	1,438,117	1,235,779	2,744,139	1,309,655	4,182,256	2,545,434
Public safety	5,449,912	5,360,659	-	-	5,449,912	5,360,659
Public works	5,076,429	4,403,201	-	-	5,076,429	4,403,201
Community services	355,348	169,299	-	-	355,348	169,299
Interest and fiscal agent fees on long-term debt	824,168	873,033	630,735	-	1,454,903	873,033
Water	-	-	1,259,961	1,488,771	1,259,961	1,488,771
Sewer	-	-	1,081,343	2,575,820	1,081,343	2,575,820
Gas	-	-	2,496,747	2,048,247	2,496,747	2,048,247
Total Expenses	13,143,974	12,041,971	8,212,925	7,422,493	21,356,899	19,464,464
Change in Net Assets	2,829,782	3,344,824	1,244,963	2,852,698	4,074,745	6,197,522
Net assets, beginning of year	25,916,635	22,571,811	32,170,800	29,318,102	58,087,435	51,889,913
Net Assets, End of Year	\$ 28,746,417	\$ 25,916,635	\$ 33,415,763	\$ 32,170,800	\$ 62,162,180	\$ 58,087,435

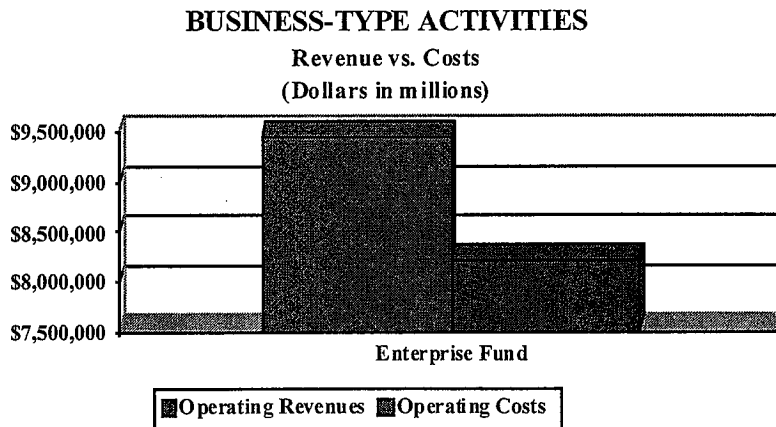
CITY OF TOMBALL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2007

For the year ended September 30, 2007, revenues from governmental activities totaled \$15,973,756. Sales tax revenues are the City's largest revenue source. Property tax revenue increased by 10% because of the increase in assessed property values in the prior year. Investment earnings were also up in comparison to the prior year, a dramatic 24% due to interest rates increasing nationwide. The City is continuing to invest in U.S. Agencies as well as TexPool, accounting for these strong investment earnings.

Franchise fees collected from electric, gas, cable and telephone/telecommunications utilities, totaled \$1,140,734 for the year ended September 30, 2007, an increase of 7% from the prior year.

For the year ended September 30, 2007, expenses for governmental activities totaled \$13,143,974. This represents an increase of \$1,102,003 from last year. A contributing factor in the increase of this expense is the additional personnel and services in public safety and public works.

Business-type activities are shown comparing operating costs to revenues generated by related services.



Operating revenues and expenses for business-type activities were comparable to those of the prior year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City'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's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$23,824,810. Of this \$2,161,179 is reserved for debt service, \$162,173 for court security, and \$84,204 for court technology.

There was a decrease in the combined fund balance of \$108,408 over the prior year. The decrease is nominal and shows the City's excellent ability to disburse as much as is received during the year.

CITY OF TOMBALL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2007

The general fund is the chief operating fund of the City. At the end of the current year, unreserved, undesignated fund balance of the general fund was \$21,199,234. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved, undesignated fund balance represents over 100% of total general fund expenditures.

The debt service fund has a total fund balance of \$2,161,179, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$955,630. This increase can be attributed to the growth in property tax revenues as well as investment earnings.

GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned decrease in budgeted fund balance in the amount of \$9,666,789 in the general fund. However, the net change in fund balance decreased by \$1,495,345 resulting in a positive variance of \$8,171,444 from final budgeted over actual.

Final budgeted revenues exceeded actual revenues by \$1,125,417 during 2007. This variance includes a negative variance of \$1,669,075 for intergovernmental revenue and positive variances of \$666,019 for investment revenue and \$58,197 for property taxes.

Final budgeted expenditures exceeded actual amounts by \$9,527,214 for the fiscal year, which is a positive variance. The City did not expend as much as expected in the streets department as evidenced by the positive variance of \$6,647,997.

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

CAPITAL ASSETS

At the end of year 2007, the City's governmental activities funds had invested \$23,714,353 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$1,625,130. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34 with an increase in depreciation expense of \$1,308,326.

Major capital asset events during the current year include the following:

- Radio communication system for \$606,263

More detailed information about the City's capital assets is presented in note III. C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total certificates of obligation outstanding of \$17,774,000 in governmental activities and \$14,151,000 in business-type activities.

During the year, the City had a net reduction in the long-term debt of \$2,121,100.

More detailed information about the City's long-term liabilities is presented in note III. D to the financial statements.

CITY OF TOMBALL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2007

Current underlying ratings on debt issues are as follows:

	<u>Moody's Investors Service</u>	<u>Standard and Poor's</u>
Tax supported debt	A2	A

ECONOMIC FACTORS

The City's tax revenue continues to increase. A warrant service is being used to collect on delinquent traffic fines in the court department. The City has also seen an increase in franchise fees this year. The City is experiencing a continued increase in sales tax revenue. The City continues to experience growth due to new homes and new commercial entities within City limits.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City. Questions concerning this report or requests for additional financial information should be directed to, Finance Department, 501 James Street, Tomball, Texas, 77375, telephone 281.351.5484, or for general City information, visit the City's website at www.ci.tomball.tx.us.

BASIC FINANCIAL STATEMENTS

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CITY OF TOMBALL, TEXAS

STATEMENT OF NET ASSETS

September 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and cash equivalents	\$ 10,410,734	\$ 4,812,818	\$ 15,223,552	\$ 3,540,823
Investments	9,497,276	4,390,839	13,888,115	1,788,513
Receivables, net	2,133,755	682,505	2,816,260	441,617
Internal balances	(258,627)	258,627	-	-
Inventory	-	103,405	103,405	-
Prepaid expenses	640	-	640	-
Investments restricted for:				
Construction	1,526,302	-	1,526,302	-
Debt service	2,159,698	-	2,159,698	-
Capital assets:				
Nondepreciable	5,850,190	1,018,574	6,868,764	-
Depreciable capital assets, net	17,864,163	37,301,827	55,165,990	-
Total Assets	49,184,131	48,568,595	97,752,726	5,770,953
<u>Liabilities</u>				
Account payable and other current liabilities	1,346,975	393,949	1,740,924	150
Accrued interest payable	96,265	75,917	172,182	-
Customer deposits	-	335,498	335,498	-
Noncurrent liabilities:				
Due within one year	1,689,121	1,049,026	2,738,147	-
Due in more than one year	17,305,353	13,298,442	30,603,795	-
Total Liabilities	20,437,714	15,152,832	35,590,546	150
<u>Net Assets</u>				
Invested in capital assets, net of related debt	7,175,862	25,045,502	32,221,364	-
Restricted for:				
Debt service	2,159,698	-	2,159,698	-
Construction	1,526,302	876,468	2,402,770	-
Unrestricted	17,884,555	7,493,793	25,378,348	5,770,803
Total Net Assets	\$ 28,746,417	\$ 33,415,763	\$ 62,162,180	\$ 5,770,803

See Notes to Financial Statements.

CITY OF TOMBALL, TEXAS

STATEMENT OF ACTIVITIES

For the year ended September 30, 2007

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 1,438,117	\$ 86,208	\$ -
Public safety	5,449,912	763,148	135,750
Public works	5,076,429	2,425,463	-
Community services	355,348	16,375	-
Interest on long-term debt	824,168	-	-
Total Governmental Activities	13,143,974	3,291,194	135,750
Business-Type Activities			
General government	2,744,139	169,715	-
Water	1,259,961	3,038,683	-
Sewer	1,081,343	1,401,640	-
Gas	2,496,747	3,675,752	-
Interest on long-term debt	630,735	-	-
Total Business-Type Activities	8,212,925	8,285,790	-
Total Primary Government	\$ 21,356,899	\$ 11,576,984	\$ 135,750
Component Unit			
Tomball Industrial Development Corporation	\$ 1,728,934	\$ -	\$ -

General Revenues

- Property taxes
- Sales taxes
- Franchise taxes
- Other taxes
- Contributions
- Miscellaneous
- Unrestricted investment earnings

Total General Revenues and Transfers

Change in Net Assets

Beginning Net Assets

Ending Net Assets

See Notes to Financial Statements.

Net Revenue (Expense) and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (1,351,909)	\$ -	\$ (1,351,909)	\$ -
(4,551,014)	-	(4,551,014)	-
(2,650,966)	-	(2,650,966)	-
(338,973)	-	(338,973)	-
(824,168)	-	(824,168)	-
<u>(9,717,030)</u>	<u>-</u>	<u>(9,717,030)</u>	<u>-</u>
-	(2,574,424)	(2,574,424)	-
-	1,778,722	1,778,722	-
-	320,297	320,297	-
-	1,179,005	1,179,005	-
-	(630,735)	(630,735)	-
<u>-</u>	<u>72,865</u>	<u>72,865</u>	<u>-</u>
<u>(9,717,030)</u>	<u>72,865</u>	<u>(9,644,165)</u>	<u>-</u>
-	-	-	(1,728,934)
2,467,835	-	2,467,835	-
7,304,280	-	7,304,280	2,418,690
1,140,734	-	1,140,734	-
181,503	-	181,503	-
6,000	720,000	726,000	-
223,643	-	223,643	-
1,222,817	452,098	1,674,915	266,885
<u>12,546,812</u>	<u>1,172,098</u>	<u>13,718,910</u>	<u>2,685,575</u>
2,829,782	1,244,963	4,074,745	956,641
<u>25,916,635</u>	<u>32,170,800</u>	<u>58,087,435</u>	<u>4,814,162</u>
<u>\$ 28,746,417</u>	<u>\$ 33,415,763</u>	<u>\$ 62,162,180</u>	<u>\$ 5,770,803</u>

CITY OF TOMBALL, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2007

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 9,943,644	\$ 1,481	\$ 465,609	\$ 10,410,734
Investments	9,497,276	-	-	9,497,276
Receivables, net	1,954,843	178,912	-	2,133,755
Restricted investments for:				
Debt service	-	2,159,698	-	2,159,698
Construction	1,526,302	-	-	1,526,302
Prepaid costs	640	-	-	640
Total Assets	\$ 22,922,705	\$ 2,340,091	\$ 465,609	\$ 25,728,405
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 1,345,763	\$ -	\$ 1,212	\$ 1,346,975
Due to other funds	258,627	-	-	258,627
Deferred revenue	119,081	178,912	-	297,993
Total Liabilities	1,723,471	178,912	1,212	1,903,595
Fund Balances:				
Reserved for:				
Debt service	-	2,161,179	-	2,161,179
Court security	-	-	162,173	162,173
Court technology	-	-	84,204	84,204
Unreserved, undesignated reported in:				
General fund	21,199,234	-	-	21,199,234
Special revenue funds	-	-	138,137	138,137
Capital projects funds	-	-	79,883	79,883
Total Fund Balances	21,199,234	2,161,179	464,397	23,824,810
Total Liabilities and Fund Balances	\$ 22,922,705	\$ 2,340,091	\$ 465,609	
Amounts reported for governmental activities in the statement of net assets are different, because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
Nondepreciable capital assets				5,850,190
Depreciable capital assets, net				17,864,163
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.				
				297,993
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.				
Accrued interest payable				(96,265)
Noncurrent liabilities due in one year				(1,689,121)
Noncurrent liabilities due in more than one year				(17,305,353)
Net Assets of Governmental Activities				\$ 28,746,417

See Notes to Financial Statements

CITY OF TOMBALL, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the year ended September 30, 2007

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 982,197	\$ 1,328,065	\$ -	\$ 2,310,262
Sales, franchise and other taxes	8,452,080	-	174,437	8,626,517
Permits and licenses	414,713	-	-	414,713
Fines and forfeitures	681,467	-	46,681	728,148
Service revenue	2,059,958	-	-	2,059,958
Public rights of way	72,000	-	-	72,000
Intergovernmental	90,750	-	45,000	135,750
Contributions from component unit	6,000	-	-	6,000
Interest on investments	1,116,019	96,069	10,729	1,222,817
Other revenue	85,724	-	82,492	168,216
Total Revenues	<u>13,960,908</u>	<u>1,424,134</u>	<u>359,339</u>	<u>15,744,381</u>
Expenditures				
Current:				
Administrative	1,477,570	-	19,798	1,497,368
Police	4,990,981	-	-	4,990,981
Fire	1,293,405	-	-	1,293,405
Court	319,875	-	-	319,875
Public works	923,703	-	-	923,703
Sanitation	1,858,788	-	-	1,858,788
Streets	1,725,926	-	-	1,725,926
Permits	407,851	-	-	407,851
Garage	71,063	-	-	71,063
Parks	511,779	-	-	511,779
Community services	159,758	-	195,590	355,348
Debt service:				
Principal	-	1,138,174	-	1,138,174
Interest and fiscal agent fees	-	830,330	-	830,330
Total Expenditures	<u>13,740,699</u>	<u>1,968,504</u>	<u>215,388</u>	<u>15,924,591</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>220,209</u>	<u>(544,370)</u>	<u>143,951</u>	<u>(180,210)</u>
Other Financing Sources (Uses)				
Sale of capital assets	71,802	-	-	71,802
Transfers in (out)	(1,787,356)	1,500,000	287,356	-
Total Other Financing Sources (Uses)	<u>(1,715,554)</u>	<u>1,500,000</u>	<u>287,356</u>	<u>71,802</u>
Net Change in Fund Balance	<u>(1,495,345)</u>	<u>955,630</u>	<u>431,307</u>	<u>(108,408)</u>
Beginning fund balances	<u>22,694,579</u>	<u>1,205,549</u>	<u>33,090</u>	<u>23,933,218</u>
Ending Fund Balances	<u>\$ 21,199,234</u>	<u>\$ 2,161,179</u>	<u>\$ 464,397</u>	<u>\$ 23,824,810</u>

See Notes to Financial Statements.

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CITY OF TOMBALL, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the year ended September 30, 2007

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

Net changes in fund balances - total governmental funds	\$ (108,408)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	
Capital outlay	2,933,456
Depreciation	(1,308,326)
<p>The issuance of long-term debt (e.g., bonds, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.</p>	
Principal payments	1,138,174
<p>Revenue in the statement of activities that does not provide current financial resources are not reported as revenue in the funds.</p>	
	157,573
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
	<u>17,313</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 2,829,782</u></u>

See Notes to Financial Statements.

CITY OF TOMBALL, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUND

September 30, 2007

	<u>Business - Type</u> <u>Activities</u> <u>Enterprise Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 4,812,818
Investments	4,390,839
Accounts receivable, net	682,505
Due from other funds	258,627
Inventory	103,405
Total Current Assets	<u>10,248,194</u>
Noncurrent assets:	
Nondepreciable capital assets	1,018,574
Depreciable capital assets	50,852,070
Less: accumulated depreciation	<u>(13,550,243)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>38,320,401</u>
Total Noncurrent Assets	<u>38,320,401</u>
Total Assets	<u>\$ 48,568,595</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 393,949
Customer deposits	335,498
Current portion of bonds and other debt	1,049,026
Accrued interest payable	<u>75,917</u>
Total Current Liabilities	<u>1,854,390</u>
Noncurrent liabilities:	
Long-term portion of bonds payable	<u>13,298,442</u>
Total Noncurrent Liabilities	<u>13,298,442</u>
Total Liabilities	<u>15,152,832</u>
Net Assets	
Invested in capital assets, net of related debt	25,045,502
Restricted for:	
Construction	876,468
Unrestricted	<u>7,493,793</u>
Total Net Assets	<u>\$ 33,415,763</u>

See Notes to Financial Statements.

CITY OF TOMBALL, TEXAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND

For the year ended September 30, 2007

	Business - Type Activities
	Enterprise Fund
<u>Operating Revenues</u>	
Water, sewer, and gas billings	\$ 7,507,513
Taps and connections	132,385
Penalties	59,066
Capital recovery fees	477,420
Miscellaneous	109,406
Total Operating Revenues	8,285,790
 <u>Operating Expenses</u>	
Maintenance and operating expenses	6,238,127
Depreciation	1,344,063
Total Operating Expenses	7,582,190
Operating Income	703,600
 <u>Non-operating Revenues (Expenses)</u>	
Investment income	444,721
Unrealized gain on investments	7,377
Interest expense	(630,735)
Contribution from component unit	720,000
Total Nonoperating Revenues (Expenses)	541,363
Change in Net Assets	1,244,963
Beginning net assets	32,170,800
Ending Net Assets	\$ 33,415,763

See Notes to Financial Statements.

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CITY OF TOMBALL, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the year ended September 30, 2007

	Business-Type Activities
	Enterprise Fund
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 8,474,871
Payments to suppliers	(4,740,270)
Payments to employees	(1,873,184)
Net Cash Provided by Operating Activities	1,861,417
 <u>Cash Flows from Noncapital Financing Activities</u>	
Contribution from component unit	720,000
Net Cash Provided by Noncapital Financing Activities	720,000
 <u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(1,108,827)
Principal paid on capital debt	(966,779)
Interest paid on capital debt	(630,735)
Net Cash (Used) by Capital and Related Financing Activities	(2,706,341)
 <u>Cash Flows from Investing Activities</u>	
Purchase of investments	(2,027,467)
Interest received	452,098
Net Cash (Used) by Investing Activities	(1,575,369)
 Net Increase (Decrease) in Cash and Cash Equivalents	 (1,700,293)
Beginning Cash and Cash Equivalents	6,513,111
Ending Cash and Cash Equivalents	\$ 4,812,818
 Reconciliation of Operating Income	
to Net Cash Provided by Operating Activities	
Operating income	\$ 703,600
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	1,344,063
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Current Assets:	
Accounts receivable	147,853
Inventory	14,737
Due from other funds	(218,187)
Increase (Decrease) in Current Liabilities:	
Accounts payable and accrued liabilities	(171,877)
Customer deposits	41,228
Net Cash Provided by Operating Activities	\$ 1,861,417

See Notes to Financial Statements.

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CITY OF TOMBALL, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Tomball, Texas (the "City"), was incorporated on July 18, 1933. The City has operated under a "Home Rule Charter" which provides for a Council-City Manager form of government since 1987. The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for the appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: public safety to include police and fire services; municipal court; streets; drainage; water and sewer services; solid waste collection and disposal; community development; and general administration.

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. The Tomball Industrial Development Corporation, although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

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.

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 any time 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

CITY OF TOMBALL, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2007

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City’s activities.
- A change in the fund financial statements to focus on the major funds.

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

- **Invested in capital assets, net of related debt**—This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**—This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. 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 about the City as a whole. These statements include all activities of the primary government and its component units. 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.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

CITY OF TOMBALL, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2007

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. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include administrative, police, fire, municipal court, public works, sanitation, streets, permits, garage, parks, and community services.

Special Revenue Funds

The special revenue funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds include Court Security Fund, Court Technology Fund, Housing Trust Fund, Hotel Occupancy Tax Fund, and the Special General Fund. The special revenue funds are considered nonmajor funds for reporting purposes.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Fund

The capital projects funds are used to account for the expenditures of resources accumulated from sales tax revenues and the sale of bonds and related interest earnings for capital improvement projects. The capital projects fund is considered a nonmajor fund for reporting purposes.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow generally accepted accounting principles (GAAP) prescribed by the GASB and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB.

CITY OF TOMBALL, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
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The proprietary fund types used by the City include the following:

Enterprise Fund

The enterprise fund is used to account for the operations that provide water and wastewater collection, wastewater treatment operations, and solid waste collection and disposal. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses 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 enterprise fund is considered a major fund for reporting purposes.

D. Measurement Focus and Basis of Accounting

The government-wide statements of net assets and statements of activities and all proprietary funds are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Proprietary fund equity consists of net assets. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and component units are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental fund type and component units. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

The accrual basis of accounting is used for the proprietary fund types. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable.

The statements of net assets, statements of activities, and financial statements of proprietary fund types are presented on the accrual basis of accounting. Under this method of accounting, revenues

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are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

E. Assets, Liabilities, and Net Assets or Fund Equity

1. Deposits and Investments

The City maintains a pooled cash and investments account. Each fund whose monies are deposited in the pooled cash and investment account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest-bearing accounts and other investments are displayed on the combined balance sheet as "Cash and cash equivalents."

In accordance with GASB Statement No. 31 *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Money market mutual funds that meet certain criteria
- Statewide investment pools

2. Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the 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 noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

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

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Property taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20 to 50 years
Machinery and equipment	3 to 10 years
Vehicles	5 years
Water, sewer, and gas system	20 to 30 years
Infrastructure	40 to 50 years

5. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits, and compensatory time. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

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NOTES TO FINANCIAL STATEMENTS, Continued
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6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund. Though a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

7. Landfill Post-Closure 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 Post-Closure Care Costs." The liability for landfill post-closure costs is reported in long-term debt.

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.

CITY OF TOMBALL, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
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9. Estimates

The preparation of financial statements, in conformity with GAAP, 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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with GAAP for the general fund and debt service fund. All other adopted budgets are used as a management tool. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the charter in the approved budget is the department level in the general fund and all others are the fund level. The City Manager may transfer appropriations between divisions within a department without seeking the approval of City Council. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year ended.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of year end, market values of pledged securities and FDIC coverage exceeded bank balances for the City and the component unit.

As of year end, the City and component unit had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Risk</u>
City			
U.S. agencies	\$ 8,902,374	0.5	AAA
TexPool	6,243,665	0.0	AAAM
Total fair value	<u>\$ 15,146,039</u>		
Portfolio weighted average maturity		0.5	
Component Unit			
U.S. agencies	\$ 1,788,513	0.5	AAA
TexPool	3,536,316	0.0	AAAM
Total fair value	<u>\$ 5,324,829</u>		
Portfolio weighted average maturity		0.5	

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of

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both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's as well as to the office of the Comptroller of Public Accounts for review.

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

Interest rate risk. In compliance with the City's Investment Policy, as of year end, the City minimized the interest rate risk, related to the decline in market value of securities due to rising interest rates in the portfolio by limiting the effective duration of security types not to exceed two years with the exception of securities purchased related to reserve funds; structuring the investment portfolio so that securities matured to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity; monitoring credit ratings of portfolio positions to assure compliance with rating requirements imposed by the Public Funds Investment Act; and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar government investment pools.

B. Receivables

The following comprise receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Enterprise</u>
Property taxes	\$ 136,331	\$ 209,925	\$ -
Sales taxes	1,272,807		
Other taxes	192,972	-	-
Accounts	256,127	-	728,725
Interest	106,726	-	46,243
Other	7,130		3,272
Less allowance	(17,250)	(31,013)	(95,735)
	<u>\$ 1,954,843</u>	<u>\$ 178,912</u>	<u>\$ 682,505</u>

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C. Capital Assets

A summary of changes in capital assets for the year end were as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 3,785,175	\$ 182,845	\$ -	\$ 3,968,020
Construction in progress	539,235	1,342,935	-	1,882,170
Total capital assets not being depreciated	<u>4,324,410</u>	<u>1,525,780</u>	<u>-</u>	<u>5,850,190</u>
Other capital assets:				
Buildings and improvements	9,258,678	367,739	-	9,626,417
Machinery and equipment	5,664,550	782,274	(60,000)	6,386,824
Vehicles	2,820,560	242,663	(170,404)	2,892,819
Infrastructure	11,385,763	74,493	-	11,460,256
Total other capital assets	<u>29,129,551</u>	<u>1,467,169</u>	<u>(230,404)</u>	<u>30,366,316</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,370,642)	(245,320)	-	(1,615,962)
Machinery and equipment	(3,822,321)	(576,754)	60,000	(4,339,075)
Vehicles	(2,458,046)	(172,627)	110,911	(2,519,762)
Infrastructure	(3,713,729)	(313,625)	-	(4,027,354)
Total accumulated depreciation	<u>(11,364,738)</u>	<u>(1,308,326)</u>	<u>170,911</u>	<u>(12,502,153)</u>
Other capital assets, net	17,764,813	158,843	(59,493)	17,864,163
Totals	<u>\$ 22,089,223</u>	<u>\$ 1,684,623</u>	<u>\$ (59,493)</u>	<u>\$ 23,714,353</u>
				Less associated debt (18,064,793)
				Plus unexpended proceeds of debt <u>1,526,302</u>
				Invested in Capital Assets, Net of Related Debt
				<u>\$ 7,175,862</u>

All capital assets constructed or paid for with funds of the component units are titled in the City's name. Accordingly, component unit capital assets and construction in progress are recorded in the governmental activities totals.

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Depreciation was charged to governmental functions as follows:

Administrative	\$	118,858
Police		111,300
Fire		232,126
Municipal court		4,661
Sanitation		5,882
Streets		740,507
Parks		86,890
Permits		2,220
Community center		<u>5,882</u>
Total Governmental Activities Depreciation Expense	\$	<u>1,308,326</u>

The following is a summary of changes in capital assets for business-type activities for the year ended:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)/ Reclassifications</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 624,322	\$ 170,883	\$ -	\$ 795,205
Construction in progress	5,180,630	25,005	(4,982,266)	223,369
Total capital assets not being depreciated	<u>5,804,952</u>	<u>195,888</u>	<u>(4,982,266)</u>	<u>1,018,574</u>
Other capital assets:				
Gas system	5,065,681	564,963	-	5,630,644
Water and sewer system	35,834,932	5,071,374	-	40,906,306
Machinery and equipment	4,099,606	258,868	(43,353)	4,315,121
Total other capital assets	<u>45,000,219</u>	<u>5,895,205</u>	<u>(43,353)</u>	<u>50,852,071</u>
Less accumulated depreciation for:				
Gas system	(1,607,488)	(135,680)	-	(1,743,168)
Water and sewer system	(9,235,786)	(936,427)	-	(10,172,213)
Machinery and equipment	(1,406,627)	(271,956)	43,353	(1,635,230)
Total accumulated depreciation	<u>(12,249,901)</u>	<u>(1,344,063)</u>	<u>43,353</u>	<u>(13,550,611)</u>
Other capital assets, net	32,750,318	4,551,142	-	37,301,460
Totals	<u>\$ 38,555,270</u>	<u>\$ 4,747,030</u>	<u>\$ (4,982,266)</u>	<u>\$ 38,320,034</u>
				(14,151,000)
				876,468
Invested in Capital Assets, Net of Related Debt				<u><u>\$ 25,045,502</u></u>

CITY OF TOMBALL, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
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Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 1,208,383
Gas	<u>135,680</u>
Total Business-Type Activities Depreciation Expense	<u>\$ 1,344,063</u>

D. Long-Term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities					
Bonds, notes and other payables:					
Certificates of obligation	\$ 18,839,500	\$ -	\$ 1,065,500	\$ 17,774,000 *	\$ 1,085,500
Capital leases	<u>363,467</u>	<u>-</u>	<u>72,674</u>	<u>290,793 *</u>	<u>72,674</u>
	<u>19,202,967</u>		<u>1,138,174</u>	<u>18,064,793</u>	<u>1,158,174</u>
Other liabilities:					
Compensated absences	730,308	417,913	331,574	816,647	417,913
Landfill postclosure costs	<u>215,520</u>		<u>102,486</u>	<u>113,034</u>	<u>113,034</u>
Total Governmental Activities	<u>\$ 20,148,795</u>	<u>\$ 417,913</u>	<u>\$ 1,572,234</u>	<u>\$ 18,994,474</u>	<u>\$ 1,689,121</u>
Long-term debt due in more than one year				<u>\$ 17,305,353</u>	
Business-Type Activities					
Revenue bonds	\$ 15,085,500	\$ -	\$ 934,500	\$ 14,151,000 **	\$ 944,500
Compensated absences	<u>228,747</u>	<u>104,526</u>	<u>136,805</u>	<u>196,468</u>	<u>104,526</u>
Total Business-Type Activities	<u>\$ 15,314,247</u>	<u>\$ 104,526</u>	<u>\$ 1,071,305</u>	<u>\$ 14,347,468</u>	<u>\$ 1,049,026</u>
Long-term debt due in more than one year				<u>\$ 13,298,442</u>	
*Debt associated with governmental activity capital assets				<u>\$ 18,064,793</u>	
**Debt associated with business-type activity capital assets				<u>\$ 14,151,000</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities compensated absences are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

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NOTES TO FINANCIAL STATEMENTS, Continued
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Long-term debt at year end was comprised of the following debt issues:

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
Governmental Activities		
Certificates of Obligation		
Series 1995	4.6-5.125%	\$ 400,000
Series 1998	4.75-6.3%	2,650,000
Series 2002	4.125-5.125%	7,344,000
Series 2003	1-4.5%	7,380,000
Total Certificates of Obligation		<u>17,774,000</u>
Capital Leases		
Fire truck	5.69%	290,793
Total Capital Leases		<u>290,793</u>
Total Governmental Activities Long-Term Debt		<u>\$ 18,064,793</u>
Business-Type Activities		
Revenue Bonds		
Series 1999	2.9-4.1%	\$ 5,175,000
Series 2002	4.125-5.125%	8,976,000
Total Business-Type Activities Long-Term Debt		<u>\$ 14,151,000</u>

The annual requirements to amortize bond and certificate debt issues outstanding at year ending were as follows:

<u>Year Ending Sep 30</u>	<u>Governmental Activity</u>		<u>Business-Type Activity</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 1,085,500	\$ 755,906	\$ 944,500	\$ 589,361
2009	1,110,500	707,835	959,500	552,996
2010	1,135,500	659,984	969,500	515,480
2011	1,165,500	612,038	984,500	476,034
2012	1,090,500	565,297	999,500	435,673
2013-2017	5,965,250	2,093,661	5,259,750	1,531,466
2018-2022	5,566,250	777,748	4,033,750	415,684
2023	655,000	14,737	-	-
Total	<u>\$ 17,774,000</u>	<u>\$ 6,187,206</u>	<u>\$ 14,151,000</u>	<u>\$ 4,516,694</u>

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City. The City also issued bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The City is not obligated in any manner for special assessment debt.

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations

CITY OF TOMBALL, TEXAS
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deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS's rules and regulations.

Capital Leases

The City has entered into a lease agreement for financing the acquisition of a fire truck. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The fire truck is included in machinery and equipment at an original cost of \$726,738 less accumulated depreciation of \$335,107. The annual requirements to amortize capital leases outstanding at year end were as follows:

Year Ending Sep 30	Governmental Activity		
	Principal	Interest	Total
2008	\$ 72,674	\$ 14,502	\$ 87,176
2009	72,674	10,321	82,995
2010	72,674	6,186	78,860
2011	72,771	2,051	74,822
Total	\$ 290,793	\$ 33,060	\$ 323,853

E. Interfund Transactions

The composition of interfund balances as of year end was as follows:

Due To:	Due From:	Amounts
Water and Sewer	General	\$ 258,627

Amounts recorded as "due to/from" are considered to be temporary loans and will be repaid during the following year.

Transfers between the primary government funds during the year were as follows:

Transfer Out	Transfer In	Amounts
General	Debt Service	\$ 1,500,000
	Nonmajor governmental funds	287,356
		\$ 1,787,356

Transfers to the debt service fund were for payment of debt service. Other amounts transferred between funds related to the creation of new special revenue funds.

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September 30, 2007

F. Landfill Post-Closure Liability

State and federal regulations required the City to place a final cover on the City's landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site until determined by the State. The \$113,034 reported as accrued landfill post-closure costs at year end represent the remaining estimated post-closure costs. These amounts are based on what it would cost to perform all post-closure care. 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, post-closure, 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.

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 participates along with 2,539 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). 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 years.

B. Contingent Liabilities

The City is a defendant in several lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that resolution of these matters will not have a material adverse effect on the financial condition of the City.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plans

1. Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 811 currently 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 at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage (100%, 150%, or 200%) of the

CITY OF TOMBALL, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2007

employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after five 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.

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/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly.

Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2006 valuation is effective for rates beginning January 2008).

All assumptions for the 12/31/06 valuations are contained in the 2006 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153. The following is a summary of the actuarial assumptions:

Actuarial Cost Method	Unit Credit
Amortization Method	Level % of Payroll
Remaining Amortization Period	25 Years - Open period
Asset Valuation Method	Amortized cost
Investment Rate of Return	7%
Projected Salary Increases	None
Includes Inflation at	3.5%
Cost of Living Adjustments	None

CITY OF TOMBALL, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2007

Future Funding Requirements

In early December 2007 the TMRS Board of Trustees met and adopted actuarial changes that include a change from the Unit Credit actuarial cost method to the Projected Unit Credit actuarial cost method for all TMRS city plans as well as a closed amortization period of 30 years. The effect of these changes will result in an increase in city contribution rates for most Texas cities. Cities will have the option to increase their contributions over an eight-year phase-in period. All cities will receive their 2009 contribution rate letter in May 2008 that will specify exactly how these changes will affect the future annual required contribution rate upon completion of an actuarial valuation to be performed as of 12/31/07. These changes are intended to help the TMRS system remain well-funded, to preserve members' benefits, and to give cities a more complete picture of the cost of benefits currently adopted. While the impact of TMRS changes is not presently known, the City's contribution rate is expected to increase significantly. Tentative estimates of the City's future contribution rate show an increase from 11.00 to 14.00. Management believes that while these possible increases will present additional challenges to the City during the budget process the City will be able to make necessary changes to mitigate any adverse financial impact to the City.

Three-Year Contribution Information

Fiscal year	Annual Pension Percentage of ARC		Net Pension Obligation
	Cost (ARC)	Contributions	
2005	\$ 587,980	100%	\$ -
2006	\$ 617,905	100%	\$ -
2007	\$ 683,317	100%	\$ -

2. Texas Emergency Services Retirement System

Plan Description

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2006, there were 181 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is

CITY OF TOMBALL, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2007

increased at the rate of 6.2% compounded annually. On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contribution provisions were established by S.B. 411, 65th Legislature, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up a limited amount to make TESRS actuarially sound.

Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2006, total contributions (dues and prior service) of \$2,077,728 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. In addition, the state appropriated \$675,307 for the fiscal year ending August 31, 2006. Total contributions made were equal to the contributions required by the state statute and were equal to the contributions required based on the revised August 31, 2004 actuarial valuation.

The purpose of the biennial actuarial valuation is to test the adequacy of the financing arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2006 revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2007 (\$709,613 as the maximum state contribution according to state law plus approximately \$400,000 to help pay for the System's administrative expenses), and with the assumed continuation of legislative appropriations of (1) the maximum state contribution amount in future years for up to 30 years as is necessary for the System to have a 30-year amortization period and (2) approximately \$400,000 each year to help pay for the System's administrative expenses. Expected contributions for the fiscal year ending August 31, 2007, are equal to the contributions required.

The following is a summary of the actuarial assumptions:

Actuarial Cost Method	Entry Age
Amortization Method	Level dollar, open
Remaining Amortization Period	30 years
Asset Valuation Method	Market value smoothed
Investment Rate of Return	8%
Projected Salary Increases	None
Includes Inflation at	3.75%
Cost of Living Adjustments	None

CITY OF TOMBALL, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2007

Three-Year Contribution Information

Fiscal year	Annual Pension Percentage of ARC		Net Pension Obligation
	Cost (ARC)	Contributions	
2005	\$ 2,744	100%	\$ -
2006	\$ 3,708	100%	\$ -
2007	\$ 5,072	100%	\$ -

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF TOMBALL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the year ended September 30, 2007

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 924,000	\$ 924,000	\$ 982,197	\$ 58,197
Sales, franchise, and other taxes	8,886,500	8,741,500	8,452,080	(289,420)
Permits and licenses	369,500	399,500	414,713	15,213
Fines and forfeitures	730,000	678,500	681,467	2,967
Services revenue	1,995,500	1,995,500	2,059,958	64,458
Public rights-of-way	72,000	72,000	72,000	-
Intergovernmental	1,759,825	1,759,825	90,750	(1,669,075)
Contributions	6,000	6,000	6,000	-
Interest on investments	450,000	450,000	1,116,019	666,019
Other revenues	59,500	59,500	85,724	26,224
Total Revenues	<u>15,252,825</u>	<u>15,086,325</u>	<u>13,960,908</u>	<u>(1,125,417)</u>
Expenditures				
Administrative	1,692,801	1,685,881	1,477,570	208,311
Police	5,430,192	5,685,649	4,990,981	694,668
Fire	2,325,063	2,368,557	1,293,405	1,075,152
Court	370,130	563,463	319,875	243,588
Public works	917,454	970,691	923,703	46,988
Sanitation	1,916,000	2,012,800	1,858,788	154,012
Streets	8,165,682	8,373,923	1,725,926	6,647,997
Permits	420,740	479,390	407,851	71,539
Garage	82,918	82,918	71,063	11,855
Parks	842,038	842,038	511,779	330,259
Community services	202,603	202,603	159,758	42,845
Total Expenditures	<u>22,365,621</u>	<u>23,267,913</u>	<u>13,740,699</u>	<u>9,527,214</u>
Excess of Revenues Over (Under) Expenditures	<u>(7,112,796)</u>	<u>(8,181,588)</u>	<u>220,209</u>	<u>8,401,797</u>
Other Financing Sources				
Transfers (out)	(1,500,000)	(1,500,000)	(1,787,356)	(287,356)
Sale of capital assets	14,799	14,799	71,802	57,003
Debt proceeds	1,175,000	-	-	-
Total Other Financing Sources	<u>(310,201)</u>	<u>(1,485,201)</u>	<u>(1,715,554)</u>	<u>(230,353)</u>
Net Change in Fund Balance	<u>\$ (7,422,997)</u>	<u>\$ (9,666,789)</u>	<u>(1,495,345)</u>	<u>\$ 8,171,444</u>
Beginning fund balance			<u>22,694,579</u>	
Ending Fund Balance			<u>\$ 21,199,234</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF TOMBALL, TEXAS
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
September 30, 2007

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Fiscal Year	2007	2006	2005	2004	2003
Actuarial Valuation Date	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002
Actuarial Value of Assets	\$ 9,557,364	\$ 8,738,552	\$ 7,757,000	\$ 6,607,279	\$ 5,669,871
Actuarial Accrued Liability	\$ 11,949,758	\$ 10,737,581	\$ 9,547,034	\$ 8,454,808	\$ 7,467,661
Percentage Funded	80.0%	81.4%	81.3%	78.1%	75.9%
Unfunded Actuarial					
Accrued Liability	\$ 2,392,394	\$ 1,999,029	\$ 1,790,034	\$ 1,847,529	\$ 1,797,790
Annual Covered Payroll	\$ 5,500,061	\$ 5,270,959	\$ 5,088,456	\$ 3,924,520	\$ 3,788,913
Unfunded Actuarial Accrued Liability					
(UAAL) % of Covered Payroll	43.5%	37.9%	35.2%	47.1%	47.4%
Net Pension Obligation (NPO)					
at the Beginning of Period	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	\$ 683,317	\$ 617,905	\$ 587,980	\$ 525,782	\$ 477,379
Contributions Made	\$ 683,317	\$ 617,905	\$ 587,980	\$ 525,782	\$ 477,379
NPO at the End of Period	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF TOMBALL, TEXAS
SCHEDULE OF FUNDING PROGRESS
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
September 30, 2007

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Fiscal Year	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarial Valuation Date	8/31/2006	8/31/2004	8/31/2004
Actuarial Value of Assets	\$ 42,268,305	\$ 38,140,501	\$ 38,140,501
Actuarial Accrued Liability	\$ 58,082,828	\$ 51,567,426	\$ 51,567,426
Percentage Funded	72.8%	74.0%	74.0%
Unfunded Actuarial			
Accrued Liability	\$ 15,814,523	\$ 13,426,925	\$ 13,426,925
Total Members Covered	8,061	7,994	7,994
Unfunded Actuarial Accrued Liability			
(UAAL) Per Member Covered	\$ 1,962	\$ 1,680	\$ 1,680
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	\$ 5,072	\$ 3,708	\$ 2,744
Contributions Made	\$ 5,072	\$ 3,708	\$ 2,744
NPO at the End of Period	\$ -	\$ -	\$ -

An actuarial valuation is performed every two years.

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***COMBINING STATEMENTS
AND SCHEDULES***

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CITY OF TOMBALL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND

For the year ended September 30, 2007

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Property taxes	\$ 1,288,000	\$ 1,328,065	\$ 40,065
Interest on investments	22,500	96,069	73,569
Total Revenues	<u>1,310,500</u>	<u>1,424,134</u>	<u>113,634</u>
<u>Expenditures</u>			
Debt service:			
Principal	1,138,174	1,138,174	-
Interest and fiscal agent fees	833,818	830,330	3,488
Total Expenditures	<u>1,971,992</u>	<u>1,968,504</u>	<u>3,488</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(661,492)</u>	<u>(544,370)</u>	<u>110,146</u>
<u>Other Financing Sources (Uses)</u>			
Transfer in	<u>1,500,000</u>	<u>1,500,000</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ 838,508</u>	<u>955,630</u>	<u>\$ 117,122</u>
Beginning fund balance		<u>1,205,549</u>	
Ending Fund Balance		<u>\$ 2,161,179</u>	

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CITY OF TOMBALL, TEXAS

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2007

SPECIAL REVENUE FUNDS

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

CAPITAL PROJECTS FUNDS

Capital Projects Fund is used to account for resources used in the acquisition or construction of major general capital assets.

CITY OF TOMBALL, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2007

	<u>Special General</u>	<u>Capital Projects</u>	<u>Court Security</u>	<u>Court Technology</u>
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 26,783	\$ 79,883	\$ 162,173	\$ 84,204
Total Assets	\$ 26,783	\$ 79,883	\$ 162,173	\$ 84,204
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 1,212	\$ -	\$ -	\$ -
Fund balances:				
Reserved for court security	-	-	162,173	-
Reserved for court technology	-	-	-	84,204
Unreserved	25,571	79,883	-	-
Total Fund Balances	25,571	79,883	162,173	84,204
Total Liabilities and Fund Balances	\$ 26,783	\$ 79,883	\$ 162,173	\$ 84,204

<u>Housing Trust</u>	<u>Hotel Occupancy Tax</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 39,076	\$ 73,490	\$ 465,609
<u>\$ 39,076</u>	<u>\$ 73,490</u>	<u>\$ 465,609</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,212</u>
-	-	162,173
-	-	84,204
<u>39,076</u>	<u>73,490</u>	<u>218,020</u>
<u>39,076</u>	<u>73,490</u>	<u>464,397</u>
<u>\$ 39,076</u>	<u>\$ 73,490</u>	<u>\$ 465,609</u>

CITY OF TOMBALL, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2007

	<u>Special General</u>	<u>Capital Projects</u>	<u>Court Security</u>	<u>Court Technology</u>
<u>Revenues</u>				
Other taxes	\$ -	\$ -	\$ -	\$ -
Interest on investments	1,195	1,301	4,278	2,084
Fines and forfeitures	-	-	20,045	26,636
Intergovernmental	-	-	-	-
Other	13,667	68,825	-	-
Total Revenue	14,862	70,126	24,323	28,720
<u>Expenditures</u>				
Current:				
Administrative	12,624	-	-	-
Community services	-	-	-	-
Total Expenditures	12,624	-	-	-
Revenues Over (Under) Expenditures	2,238	70,126	24,323	28,720
Other Financing Sources (Uses)				
Transfer in	-	-	137,850	55,484
Total Other Financing Sources (Uses)	-	-	137,850	55,484
Net Change in Fund Balances	2,238	70,126	162,173	84,204
Beginning fund balances	23,333	9,757	-	-
Ending Fund Balances	\$ 25,571	\$ 79,883	\$ 162,173	\$ 84,204

<u>Housing Trust</u>	<u>Hotel Occupancy Tax</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 174,437	\$ 174,437
1,250	621	10,729
-	-	46,681
45,000	-	45,000
-	-	82,492
<u>46,250</u>	<u>175,058</u>	<u>359,339</u>
7,174	-	19,798
-	195,590	195,590
<u>7,174</u>	<u>195,590</u>	<u>215,388</u>
<u>39,076</u>	<u>(20,532)</u>	<u>143,951</u>
-	94,022	287,356
-	94,022	287,356
39,076	73,490	431,307
-	-	33,090
<u>\$ 39,076</u>	<u>\$ 73,490</u>	<u>\$ 464,397</u>

CITY OF TOMBALL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended September 30, 2007

COURT SECURITY

	<u>Original Budget Amounts</u>	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Fines and forfeitures	\$ -	\$ 20,500	\$ 20,045	\$ (455)
Interest on investments	-	-	4,278	4,278
Total Revenues	<u>-</u>	<u>20,500</u>	<u>24,323</u>	<u>3,823</u>
Other Financing Sources				
Transfers in	-	137,850	137,850	-
Total Other Financing Sources	<u>-</u>	<u>137,850</u>	<u>137,850</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 158,350</u>	<u>162,173</u>	<u>\$ 3,823</u>
Beginning fund balance			<u>-</u>	
Ending Fund Balance			<u>\$ 162,173</u>	

COURT TECHNOLOGY

	<u>Original Budget Amounts</u>	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Fines and forfeitures	\$ -	\$ 31,000	\$ 26,636	\$ (4,364)
Interest on investments	-	-	2,084	2,084
Total Revenues	<u>-</u>	<u>31,000</u>	<u>28,720</u>	<u>(2,280)</u>
Other Financing Sources				
Transfers in	-	55,483	55,484	1
Total Other Financing Sources	<u>-</u>	<u>55,483</u>	<u>55,484</u>	<u>1</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 86,483</u>	<u>84,204</u>	<u>\$ (2,279)</u>
Beginning fund balance			<u>-</u>	
Ending Fund Balance			<u>\$ 84,204</u>	

CITY OF TOMBALL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended September 30, 2007

HOTEL OCCUPANCY TAX				
	<u>Original Budget Amounts</u>	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>				
Other taxes	\$ -	\$ 145,000	\$ 174,437	\$ 29,437
Interest on investments	-	2,000	621	(1,379)
Total Revenues	<u>-</u>	<u>147,000</u>	<u>175,058</u>	<u>28,058</u>
<u>Expenditures</u>				
Community services	-	196,000	195,590	410
Total Expenditures	<u>-</u>	<u>196,000</u>	<u>195,590</u>	<u>410</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>(49,000)</u>	<u>(20,532)</u>	<u>28,468</u>
<u>Other Financing Sources</u>				
Transfers in	-	94,022	94,022	-
Total Other Financing Sources	<u>-</u>	<u>94,022</u>	<u>94,022</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 45,022</u>	<u>73,490</u>	<u>\$ 28,468</u>
Beginning fund balance			<u>-</u>	
		Ending Fund Balance	<u>\$ 73,490</u>	

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STATISTICAL SECTION

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

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Financial Trends	93
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These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity	104
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These schedules contain information to help the reader assess the City's most significant local revenue source, property tax.

Debt Capacity	112
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These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information	120
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These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information	122
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These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

CITY OF TOMBALL, TEXAS

NET ASSETS BY COMPONENT

Last Five Years (1)
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 1,181,805	\$ 4,441,423	\$ 4,007,407	\$ 2,886,256
Restricted	8,853,454	7,957,216	4,802,952	2,323,077
Unrestricted	14,288,573	8,565,864	13,761,452	20,707,302
Total governmental activities net assets	\$ 24,323,832	\$ 20,964,503	\$ 22,571,811	\$ 25,916,635
Business-type activities				
Invested in capital assets, net of related debt	\$ 6,353,013	\$ 10,928,309	\$ 16,178,138	\$ 23,478,199
Restricted	10,045,644	10,409,786	7,760,255	2,305,729
Unrestricted	4,857,704	5,055,643	5,379,709	6,386,872
Total business-type activities net assets	\$ 21,256,361	\$ 26,393,738	\$ 29,318,102	\$ 32,170,800
Primary government				
Invested in capital assets, net of related debt	\$ 7,534,818	\$ 15,369,732	\$ 20,185,545	\$ 26,364,455
Restricted	18,899,098	18,367,002	12,563,207	4,628,806
Unrestricted	19,146,277	13,621,507	19,141,161	27,094,174
Total primary government net assets	\$ 45,580,193	\$ 47,358,241	\$ 51,889,913	\$ 58,087,435

(1) The requirement for statistical data is ten years; only five years are available at this time.

Fiscal Year

2007

\$ 5,649,560
3,686,000
19,410,857
\$ 28,746,417

\$ 24,169,034
876,648
8,370,261
\$ 33,415,943

\$ 29,818,594
4,562,648
27,781,118
\$ 62,162,360

CITY OF TOMBALL, TEXAS

CHANGES IN NET ASSETS

Last Five Years (1)
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities				
General government	\$ 1,609,976	\$ 1,808,900	\$ 1,878,285	\$ 1,889,935
Public safety	3,674,996	4,248,752	5,053,045	5,057,268
Public works	2,923,519	3,326,545	3,435,589	3,709,054
Community services	366,273	394,829	510,454	512,679
Interest and fiscal agent fees on long-term debt	711,446	984,989	938,772	873,035
Total governmental activities expenses	<u>9,286,210</u>	<u>10,764,015</u>	<u>11,816,145</u>	<u>12,041,971</u>
Business-type activities				
Administration	895,288	1,038,905	1,670,035	1,309,655
Water	1,273,146	1,520,015	1,742,380	1,488,771
Wastewater	1,376,314	1,620,045	2,089,770	2,575,820
Gas	1,888,619	1,955,713	1,223,218	2,048,247
Interest and fiscal agent fees on long-term debt	-	-	-	-
Total business-type activities expenses	<u>5,433,367</u>	<u>6,134,678</u>	<u>6,725,403</u>	<u>7,422,493</u>
Total primary government expenses	<u>\$ 14,719,577</u>	<u>\$ 16,898,693</u>	<u>\$ 18,541,548</u>	<u>\$ 19,464,464</u>
Program Revenues				
Governmental activities				
Charges for services				
General government	\$ 984,789	\$ 1,027,034	\$ 1,203,548	\$ 1,443,068
Solid waste	1,584,663	1,689,041	1,787,578	1,749,695
Operating grants and contributions	57,371	96,279	93,897	93,042
Total governmental activities program revenues	<u>2,626,823</u>	<u>2,812,354</u>	<u>3,085,023</u>	<u>3,285,805</u>
Business-type activities				
Charges for services				
Water	2,018,000	2,363,284	2,637,614	3,041,240
Wastewater	1,261,810	1,259,970	1,309,939	1,587,786
Gas	1,787,152	2,110,902	2,173,694	2,460,885
Capital grants and contributions	-	280,785	2,439,084	137,444
Total business-type activities program revenues	<u>5,066,962</u>	<u>6,014,941</u>	<u>8,560,331</u>	<u>7,227,355</u>
Total primary government program revenues	<u>\$ 7,693,785</u>	<u>\$ 8,827,295</u>	<u>\$ 11,645,354</u>	<u>\$ 10,513,160</u>
Net (Expense)/Revenue				
Governmental activities	\$ (6,659,387)	\$ (7,951,661)	\$ (8,731,122)	\$ (8,756,166)
Business-type activities	(366,405)	(119,737)	1,834,928	(195,138)
Total primary government net expense	<u>\$ (7,025,792)</u>	<u>\$ (8,071,398)</u>	<u>\$ (6,896,194)</u>	<u>\$ (8,951,304)</u>

Fiscal Year

2007

\$ 1,437,117
5,130,493
4,389,756
676,230
824,168
12,457,764

2,744,139
1,259,961
1,081,343
2,496,747
630,735
8,212,925
\$ 20,670,689

\$ 1,352,444
1,938,750
135,750
3,426,944

3,208,398
1,401,640
3,675,752
-
8,285,790
\$ 11,712,734

\$ (9,030,820)
72,865
\$ (8,957,955)

CITY OF TOMBALL, TEXAS

CHANGES IN NET ASSETS, Continued

Last Five Years (1)

(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets				
Governmental activities				
Taxes				
Property taxes, levied for general purposes	\$ 101,356	\$ 721,527	\$ 805,285	\$ 952,673
Property taxes, levied for debt service	1,721,414	1,243,803	1,238,004	1,286,693
Sales taxes	5,134,332	5,556,890	6,479,974	7,491,415
Franchise and local taxes	1,011,342	1,020,001	1,067,621	1,069,381
Other taxes	50,312	95,995	100,056	112,527
Contributions	1,113,313	34,052	36,320	114,909
Investment earnings	402,958	291,197	558,759	988,431
Other revenues	159,714	119,949	43,774	62,362
Gain (loss) on sale of capital assets	25,581	8,920	8,637	22,599
Transfers	-	(4,500,000)	-	-
Total governmental activities	9,720,322	4,592,334	10,338,430	12,100,990
Business-type activities				
Investment earnings	231,462	175,176	366,816	477,600
Other revenues	869,862	760,976	722,620	2,570,236
Transfers	-	4,500,000	-	-
Total business-type activities	1,101,324	5,436,152	1,089,436	3,047,836
Total primary government	\$ 10,821,646	\$ 10,028,486	\$ 11,427,866	\$ 15,148,826
Change in Net Assets				
Governmental activities	\$ 3,060,935	\$ (3,359,327)	\$ 1,607,308	\$ 3,344,824
Business-type activities	734,919	5,316,415	2,924,364	2,852,698
Total primary government	\$ 3,795,854	\$ 1,957,088	\$ 4,531,672	\$ 6,197,522

(1) The requirement for statistical data is ten years; only five years are available at this time.

Fiscal Year

2007

\$ 1,043,894
1,423,941
7,304,280
1,140,734
181,503
6,000
1,222,816
223,644
-
-
12,546,812

452,098
720,000
-
1,172,098
\$ 13,718,910

\$ 3,515,992
1,244,963
\$ 4,760,955

CITY OF TOMBALL, TEXAS
FUND BALANCES, GOVERNMENTAL FUNDS
 Last Ten Years
 (modified accrual basis of accounting)

	Fiscal Year			
	1998	1999	2000	2001
General Fund				
Reserved	\$ 325,000	\$ 325,000	\$ -	\$ -
Unreserved	7,673,397	8,050,859	11,734,819	11,998,860
Total general fund	<u>\$ 7,998,397</u>	<u>\$ 8,375,859</u>	<u>\$ 11,734,819</u>	<u>\$ 11,998,860</u>
All Other Governmental Funds				
Reserved	\$ 3,351,916	\$ 3,340,033	\$ 1,370,026	\$ 1,609,563
Unreserved, reported in:				
Capital project funds	-	-	-	-
Special revenue funds	29,264	32,663	25,805	14,107
Total all other governmental funds	<u>\$ 3,381,180</u>	<u>\$ 3,372,696</u>	<u>\$ 1,395,831</u>	<u>\$ 1,623,670</u>

Fiscal Year

2002	2003	2004	2005	2006	2007
\$ 3,314,775	\$ 7,877,234	\$ 7,274,055	\$ 4,268,304	\$ 1,646,027	\$ -
18,571,716	14,046,018	15,224,108	18,009,256	21,048,552	21,199,096
<u>\$ 21,886,491</u>	<u>\$ 21,923,252</u>	<u>\$ 22,498,163</u>	<u>\$ 22,277,560</u>	<u>\$ 22,694,579</u>	<u>\$ 21,199,096</u>
\$ 1,383,613	\$ 1,629,739	\$ 1,253,170	\$ 915,699	\$ 1,205,549	\$ 2,416,946
-	612	9,218	9,637	9,757	79,883
15,716	21,429	38,108	34,187	23,333	138,137
<u>\$ 1,399,329</u>	<u>\$ 1,651,780</u>	<u>\$ 1,300,496</u>	<u>\$ 959,523</u>	<u>\$ 1,238,639</u>	<u>\$ 2,634,966</u>

CITY OF TOMBALL, TEXAS
CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS

Last Ten Years
(modified accrual basis of accounting)

	Fiscal Year			
	1998	1999	2000	2001
Revenues				
Taxes	\$ 5,092,793	\$ 5,545,599	\$ 6,139,677	\$ 6,786,305
Permits, licenses, and fees	211,761	212,536	276,890	395,010
Fines and forfeitures	512,545	560,172	665,483	650,348
Charges for services	1,019,920	1,128,212	1,234,510	1,405,308
Intergovernmental	374,546	332,362	897,911	243,656
Contributions from Component Unit	-	-	-	-
Investment earnings	480,247	554,473	663,483	938,798
Other revenues	54,105	63,028	95,674	56,971
Total revenues	7,745,917	8,396,382	9,973,628	10,476,396
Expenditures				
General government	998,560	1,041,094	1,127,362	1,223,239
Public safety	2,120,018	2,256,594	2,582,371	2,867,985
Public works	1,277,374	1,453,209	1,556,792	1,757,733
Community services	268,482	451,667	651,088	514,182
Capital outlay	1,651,936	2,077,055	1,633,988	2,276,988
Debt service				
Principal	395,000	540,000	622,633	545,000
Interest and paying agent	277,301	405,785	348,893	341,127
Total expenditures	6,988,671	8,225,404	8,523,127	9,526,254
Excess of revenues over (under) expenditures	757,246	170,978	1,450,501	950,142
Other Financing Sources (Uses)				
Transfers in	215,763	180,000	-	-
Transfers out	-	-	(68,407)	(1,185,000)
Issuance of debt	3,116,600	-	-	726,738
Sale of capital assets	-	-	-	-
Total other financing sources	3,332,363	180,000	(68,407)	(458,262)
Net change in fund balances	\$ 4,089,609	\$ 350,978	\$ 1,382,094	\$ 491,880
Debt service as a percentage of noncapital expenditures	12.60%	15.38%	14.10%	12.22%

Fiscal Year						
2002	2003	2004	2005	2006	2007	
\$ 7,507,370	\$ 8,090,360	\$ 8,012,912	\$ 9,716,624	\$ 10,931,747	\$ 10,936,779	
495,521	372,621	317,369	331,660	409,694	414,713	
683,007	537,494	531,439	700,112	832,314	728,148	
1,577,404	1,626,644	1,749,537	1,850,595	1,850,925	2,059,958	
140,536	136,161	196,331	196,217	273,950	207,750	
-	1,106,523	6,000	6,000	6,000	6,000	
630,748	402,958	291,197	558,759	878,636	1,222,817	
77,525	121,119	187,369	81,671	98,866	168,216	
<u>11,112,111</u>	<u>12,393,880</u>	<u>11,292,154</u>	<u>13,441,638</u>	<u>15,282,132</u>	<u>15,744,381</u>	
1,259,828	1,366,138	1,628,722	1,727,172	1,800,747	1,837,112	
3,072,942	3,236,266	3,777,556	4,548,579	4,741,965	5,130,493	
2,170,635	2,095,207	2,764,994	2,734,706	2,856,974	3,112,853	
346,732	369,130	385,465	449,795	424,129	1,113,084	
3,026,723	4,466,088	4,850,051	2,236,496	2,814,130	2,762,545	
813,061	861,452	1,373,838	1,391,273	1,194,405	1,138,174	
437,206	719,307	949,814	948,260	891,842	830,330	
<u>11,127,127</u>	<u>13,113,588</u>	<u>15,730,440</u>	<u>14,036,281</u>	<u>14,724,192</u>	<u>15,924,591</u>	
(15,016)	(719,708)	(4,438,286)	(594,643)	557,940	(180,210)	
180,000	-	-	-	-	-	
-	-	(4,500,000)	-	-	-	
9,500,147	-	8,500,000	-	-	-	
-	42,972	23,413	33,064	28,399	-	
<u>9,680,147</u>	<u>42,972</u>	<u>4,023,413</u>	<u>33,064</u>	<u>28,399</u>	<u>-</u>	
<u>\$ 9,665,131</u>	<u>\$ (676,736)</u>	<u>\$ (414,873)</u>	<u>\$ (561,579)</u>	<u>\$ 586,339</u>	<u>\$ (180,210)</u>	
15.43%	18.28%	21.36%	19.83%	17.57%	15.45%	

CITY OF TOMBALL, TEXAS
TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
 Last Ten Years
 (modified accrual basis of accounting)

<u>Function</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Property	\$ 1,256,933	\$ 1,334,525	\$ 1,494,389	\$ 1,469,880	\$ 1,656,767
Sales	3,129,471	3,418,761	3,809,017	4,323,015	4,725,338
Franchise fee	664,024	730,434	772,295	929,450	1,060,206
Other taxes	42,365	61,879	63,976	63,960	65,059
	<u>\$ 5,092,793</u>	<u>\$ 5,545,599</u>	<u>\$ 6,139,677</u>	<u>\$ 6,786,305</u>	<u>\$ 7,507,370</u>

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Change 2006-2007</u>
\$	1,894,374	\$ 1,978,526	\$ 2,068,974	\$ 2,258,424	\$ 2,310,262	2.30%
	5,134,332	4,918,390	6,479,974	7,491,415	7,304,280	-2.50%
	1,011,342	1,020,001	1,067,620	1,069,381	1,140,734	6.67%
	50,312	95,995	100,056	112,527	181,503	61.30%
	<u>8,090,360</u>	<u>8,012,912</u>	<u>9,716,624</u>	<u>10,931,747</u>	<u>10,936,779</u>	0.05%

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CITY OF TOMBALL, TEXAS
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
 Last Four Years (2)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Residential Property	\$ 312,970,420	\$ 334,680,049	\$ 343,501,567	\$ 422,435,304
Commercial Property	349,489,260	395,746,976	625,559,210	777,622,563
Less: Tax Exempt Property	<u>(35,756,520)</u>	<u>(178,703,825)</u>	<u>(221,138,305)</u>	<u>(218,572,894)</u>
Total Taxable Assessed Value (1)	\$ 626,703,160	\$ 551,723,200	\$ 747,922,472	\$ 981,484,973
Total Direct Tax Rate	\$ 0.280000	\$ 0.280000	\$ 0.280000	\$ 0.251455

Source: Harris County Certified / Uncertified Tax Roll.

(1) Property is assessed at actual value; therefore, the assessed values are equal to actual value.

(2) The requirement for statistical data is ten years; only four years are available at this time.

Tax rates are per \$100 of assessed value.

CITY OF TOMBALL, TEXAS
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
 Last Ten Years

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
City of Tomball by fund:				
General	\$ 0.110370	\$ 0.113680	\$ 0.122770	\$ 0.117600
Debt service	0.232150	0.228840	0.219750	0.189240
Total Direct Rates	<u>0.342520</u>	<u>0.342520</u>	<u>0.342520</u>	<u>0.306840</u>
Tomball Independent School District	1.590000	1.590000	1.590000	1.650000
Harris County	0.427700	0.418700	0.394800	0.394800
Harris County Flood Control District	0.074200	0.074200	0.080000	0.080000
Port of Houston Authority	0.016000	0.019600	0.021300	0.020400
Harris County Hospital District	0.123800	0.123800	0.146500	0.146500
School Equalization	0.006110	0.006110	0.006290	0.006290
North Harris-Montgomery College District	0.001198	0.001198	0.001174	0.001100
Emergency Service District #8	-	-	-	-
Total Direct and Overlapping Rates (1)	<u>\$ 2.581528</u>	<u>\$ 2.576128</u>	<u>\$ 2.582584</u>	<u>\$ 2.605930</u>

Tax rates per \$100 of assessed valuation
 Source: Harris County Appraisal District

(1) Overlapping rates are those of local and county governments that apply within the City of Tomball.

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$ 0.114000	\$ 0.015410	\$ 0.100000	\$ 0.108000	\$ 0.116640	\$ 0.106468
0.166000	0.264590	0.180000	0.172000	0.163360	0.144987
<u>0.280000</u>	<u>0.280000</u>	<u>0.280000</u>	<u>0.280000</u>	<u>0.280000</u>	<u>0.251455</u>
1.680000	1.750000	1.730000	1.730000	1.710000	1.580000
0.359000	0.383900	0.388100	0.388000	0.399860	0.402390
0.061700	0.047600	0.041700	0.041700	0.033220	0.032410
0.018300	0.018300	0.019900	0.020000	0.014740	0.013020
0.202700	0.190200	0.190200	0.190200	0.192160	0.192160
0.006290	0.006290	0.006290	0.006290	0.006290	0.005853
0.001100	0.001055	0.001055	0.114500	0.120700	0.114400
-	-	-	0.030000	0.030000	0.030000
<u>\$ 2.609090</u>	<u>\$ 2.677345</u>	<u>\$ 2.657245</u>	<u>\$ 2.800690</u>	<u>\$ 2.786970</u>	<u>\$ 2.621688</u>

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CITY OF TOMBALL, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

Property Tax Payer	2007			1998		
	Taxable Assessed Value	Rank	% of Taxable Assessed Value	Taxable Assessed Value	Rank	% of Taxable Assessed Value
B. J. Services	\$ 128,950,029	1	13.14%	\$	n/a	
MSP TX Tomball LP	21,956,936	2	0.00%		n/a	
Wal-Mart	19,224,623	3	1.96%	11,730,290	1	3.31%
Centerpoint Energy	15,825,028	4	1.61%	10,497,590	2	2.80%
Lowe's	13,798,885	5	1.41%		n/a	
Target Corporation	11,752,609	6	1.20%		n/a	
HEB Grocery	9,197,229	7	0.94%		n/a	
MBS Fountains of Tomball	8,935,850	8	0.91%		n/a	
A S 62 HWY 249 & FM 2920	8,594,660	9	0.88%		n/a	
Southwestern Bell Telephone	7,756,661	10	0.79%	9,430,420	3	2.50%
Four Corners Equity Corp		n/a		5,688,460	5	1.50%
Center America Properties		n/a		5,741,040	4	1.50%
Bridge Water Partner		n/a		4,228,110	6	1.10%
Commonwealth SW		n/a		3,900,000	8	1.00%
KB Fund IV		n/a		4,150,270	7	1.10%
Heritage Mgmt.		n/a		3,739,000	9	1.00%
Alphil Investments		n/a		3,655,000	10	0.99%
Subtotal	\$ 245,992,510		22.83%	\$ 62,760,180		16.80%
Other Taxpayers	735,492,463		74.94%	259,155,830		80.50%
Total	\$ 981,484,973		97.76%	\$ 321,916,010		97.30%

Source: Harris County Tax Assessor-Collector's records.

CITY OF TOMBALL, TEXAS

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Years

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Tax levy	\$ 1,005,000	\$ 1,159,700	\$ 1,311,000	\$ 1,330,000
Current tax collected	\$ 920,604	\$ 1,042,988	\$ 1,154,230	\$ 1,249,890
Percent of current tax collections	91.60%	89.94%	88.04%	93.98%
Delinquent tax collections	\$ 197,102	\$ 196,120	\$ 243,005	\$ 153,558
Total tax collections	\$ 1,117,706	\$ 1,239,108	\$ 1,397,235	\$ 1,403,448
Total collections as a percentage of current levy	111.21%	106.85%	106.58%	105.52%
Outstanding delinquent taxes	\$ 316,942	\$ 484,905	\$ 203,774	\$ 237,298
Outstanding delinquent taxes as percentage of current levy	31.537%	41.813%	15.543%	17.842%

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$	1,549,800	\$ 1,600,000	\$ 1,915,562	\$ 2,013,497	\$ 1,993,481	\$ 2,130,000
\$	1,411,192	\$ 1,425,600	\$ 1,771,895	\$ 1,834,296	\$ 1,798,120	\$ 1,904,220
	91.06%	89.10%	92.50%	91.10%	90.20%	89.40%
\$	124,493	\$ 294,015	\$ 118,583	\$ 135,905	\$ 350,119	\$ 265,982
\$	1,535,685	\$ 1,719,615	\$ 1,890,478	\$ 1,970,201	\$ 2,148,239	\$ 2,170,202
	99.09%	107.48%	98.69%	97.85%	107.76%	101.89%
\$	217,429	\$ 195,650	\$ 274,597	\$ 254,685	\$ 208,636	\$ 346,256
	14.029%	12.228%	14.335%	12.649%	10.466%	16.256%

CITY OF TOMBALL, TEXAS

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Five Years (1)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
PRIMARY GOVERNMENT				
Governmental Activities:				
General obligation bonds	\$ 13,920,000	\$ 21,170,000	\$ 19,905,000	\$ 18,839,500
Certificates of obligation				
Capital leases	742,483	618,645	492,372	363,467
Subtotal	<u>\$ 14,662,483</u>	<u>\$ 21,788,645</u>	<u>\$ 20,397,372</u>	<u>\$ 19,202,967</u>
Business-Type Activities:				
Revenue bonds	\$ 17,110,000	\$ 16,590,000	\$ 16,005,000	\$ 15,085,500
TOTAL PRIMARY GOVERNMENT	<u>\$ 31,772,483</u>	<u>\$ 38,378,645</u>	<u>\$ 36,402,372</u>	<u>\$ 34,288,467</u>
PERSONAL INCOME	\$ 37,787	\$ 22,334	\$ 30,222	\$ 26,401
DEBT AS A PERCENTAGE OF PERSONAL INCOME	8.542%	17.387%	12.130%	12.224%
POPULATION	9,843	9,883	9,930	10,625
DEBT PER CAPITA	\$ 3,228	\$ 3,883	\$ 3,666	\$ 3,227

(1) The requirement for statistical data is ten years; only five years are available at this time.

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

2007

\$ 17,774,000

290,793
\$ 18,064,793

\$ 14,151,000
\$ 32,215,793

\$ 24,564

11.404%

11,500

\$ 2,801

CITY OF TOMBALL, TEXAS
RATIO OF NET BONDED DEBT TO ASSESSED VALUE,
NET BONDED DEBT PER CAPITA, AND ASSESSED
AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 Last Ten Years

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
NET TAXABLE ASSESSED VALUE				
All property	\$ 321,916,010	\$ 370,212,200	\$ 386,692,748	\$ 493,134,250
NET BONDED DEBT				
Gross bonded debt	\$ 9,475,000	\$ 16,160,000	\$ 14,750,000	\$ 13,780,000
Less debt service funds	-	-	-	-
Net Bonded Debt	<u>\$ 9,475,000</u>	<u>\$ 16,160,000</u>	<u>\$ 14,750,000</u>	<u>\$ 13,780,000</u>
RATIO OF NET BONDED DEBT TO ASSESSED VALUE	2.94%	4.37%	3.81%	2.79%
POPULATION	8,150	8,650	9,089	9,543
NET BONDED DEBT PER CAPITA	\$ 1,163	\$ 1,868	\$ 1,623	\$ 1,444

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$ 561,181,320	\$ 580,358,740	\$ 683,847,570	\$ 672,907,720	\$ 783,134,388	\$ 981,484,973
\$ 32,780,000	\$ 31,030,000	\$ 37,760,000	\$ 35,910,000	\$ 33,925,000	\$ 35,838,793
-	-	-	-	-	-
<u>\$ 32,780,000</u>	<u>\$ 31,030,000</u>	<u>\$ 37,760,000</u>	<u>\$ 35,910,000</u>	<u>\$ 33,925,000</u>	<u>\$ 35,838,793</u>
5.84%	5.35%	5.52%	5.34%	4.33%	3.65%
9,829	9,843	9,883	9,930	10,625	11,500
\$ 3,335	\$ 3,152	\$ 3,821	\$ 3,616	\$ 3,193	\$ 3,116

CITY OF TOMBALL, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

September 30, 2007

Governmental Unit	<u>Net Bonded Debt Outstanding</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Overlapping Debt</u>
Debt Repaid with Property Taxes			
Tomball ISD	\$ 136,925,000	24.830%	\$ 33,998,478
Harris County	2,540,545,971	0.390%	9,908,129
Harris Co. Flood Control District	115,924,985	0.390%	452,107
Harris Co. Toll Road	677,165,665	0.390%	2,640,946
North Harris Montgomery College District	175,531,414	1.030%	1,807,974
Port of Houston Authority	357,105,000	0.390%	<u>1,392,710</u>
Subtotal, overlapping debt			50,200,343
City Direct Debt	26,750,000	100.000%	<u>26,750,000</u>
Total Direct and Overlapping Debt			<u><u>\$ 76,950,343</u></u>

Source: First Southwest Company

CITY OF TOMBALL, TEXAS

LEGAL DEBT MARGIN INFORMATION

Last Five Years (1)

	Fiscal Year				
	2003	2004	2005	2006	2007
Debt limit	\$ 58,035,874	\$ 68,384,757	\$ 67,290,772	\$ 78,313,439	\$ 80,374,497
Total net debt applicable to limit	13,920,000	21,170,000	19,905,000	18,839,500	17,774,000
Legal debt margin	<u>\$ 44,115,874</u>	<u>\$ 47,214,757</u>	<u>\$ 47,385,772</u>	<u>\$ 59,473,939</u>	<u>\$ 62,600,497</u>
Total net debt applicable to the limit as a percentage of debt limit	23.99%	30.96%	29.58%	24.06%	22.11%

Legal Debt Margin Calculation for Fiscal Year 2007:

Assessed value	\$ 981,484,973
Debt limit (10% of assessed value)	98,148,497 (2)
Debt applicable to limit:	
General obligation bonds	17,774,000
Less: amount set aside for repayment of general obligation debt	
Total net debt applicable to limit	<u>17,774,000</u>
Legal debt margin	<u>\$ 80,374,497</u>

Note: The City's Home Rule Charter (1987), does not limit bonded debt.

(1) The requirement for statistical data is ten years; only five years are available at this time.

(2) According to the City Charter, the City has no legal debt limit.

CITY OF TOMBALL, TEXAS

PLEDGED-REVENUE COVERAGE

Last Ten Years

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Gross revenues	\$ 3,902,611	\$ 3,966,533	\$ 4,703,321	\$ 6,366,787
Operating expenses (1)	<u>1,947,442</u>	<u>1,943,010</u>	<u>2,279,247</u>	<u>3,579,876</u>
Net revenues available for Debt Service	\$ 1,955,169	\$ 2,023,523	\$ 2,424,074	\$ 2,786,911
DEBT SERVICE REQUIREMENTS (2)				
Principal & Interest	<u>\$ 514,326</u>	<u>\$ 583,239</u>	<u>\$ 602,736</u>	<u>\$ 575,996</u>
Coverage	3.80	3.47	4.02	4.84

(1) Total operating expenses less depreciation

(2) Includes revenue bonds only

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$ 5,748,215	\$ 6,204,814	\$ 7,005,922	\$ 9,637,212	\$ 7,014,177	\$ 8,260,468
<u>3,070,238</u>	<u>3,850,816</u>	<u>4,539,346</u>	<u>4,941,774</u>	<u>5,603,456</u>	<u>6,238,127</u>
\$ 2,677,977	\$ 2,353,998	\$ 2,466,576	\$ 4,695,438	\$ 1,410,721	\$ 2,022,341
<u>\$ 538,239</u>	<u>\$ 538,846</u>	<u>\$ 538,846</u>	<u>\$ 540,020</u>	<u>\$ 540,674</u>	<u>\$ 541,047</u>
4.98	4.37	4.58	8.69	2.61	3.74

CITY OF TOMBALL, TEXAS

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Years

Fiscal Year Ended Sept 30	Population(1)	Personal Income(2)	Per Capita Personal Income(6)	Median Age (2)	School Enrollment(3)	Unemployment Rate(4)
1998	8,150	\$ 157,832,900	\$ 19,366	33.1	6,372	5.50%
1999	8,650	173,095,150	20,011	33.1	6,680	5.20%
2000	9,089	222,198,783	24,447	33.5	6,982	4.80%
2001	9,543	399,469,980	41,860	36.3	7,775	5.60%
2002	9,829	321,418,129	32,701	36.3	8,048	6.50%
2003	9,843	371,937,441	37,787	34.6	8,394	6.90%
2004	9,883	220,726,922	22,334	34.6	8,730	5.50%
2005	9,930	300,104,460	30,222	36.3	8,968	5.30%
2006	10,625	280,510,625	26,401	34.1	9,075	4.70%
2007	11,500	282,486,000	24,564	35.6	9,358	4.30%

Data sources:

- (1) Estimated (2000 census adjusted for growth)
- (2) Tomball Chamber of Commerce
- (3) Tomball Independent School District
- (4) Texas Employment Commission, Houston Primary Metropolitan Statistical Area
- (5) Money Magazine Online
- (6) Tomball Economic Development Corporation

CITY OF TOMBALL, TEXAS

PRINCIPAL EMPLOYERS

Current Year and Nine Years ago

Employer	2007			1998	
	Employees	Rank	Percentage of Total City Employment	Employees	Rank
Tomball Regional Hospital	1700	1	35.85%	1200	1
Tomball ISD	1263	2	26.63%	985	2
Tomball College (NHMCCD)	745	3	15.71%	471	4
BJ Services Company, USA	600	4	12.65%	330	5
Wal-Mart	400	5	8.44%	500	3
HEB	215	6	4.53%	n/a	n/a
City of Tomball	168	7	3.54%	n/a	n/a
Target	120	8	2.53%	n/a	n/a
Lowe's	131	9	2.76%	n/a	n/a

Note: The residents of the City of Tomball are primarily employed outside of the City limits. Percentages are based on the labor force statistic from the 2000 census data (4742).

Sources:

- Tomball Area Chamber of Commerce
- Tomball Economic Development Corporation
- Tomball Independent School District
- Human Resource Department of Listed Companies

CITY OF TOMBALL, TEXAS

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM

Last Ten Years

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund:										
Administration	9.25	9.25	7.5	7.5	7.5	7.5	8	8.25	8.5	9.5
Permits & Inspection	1.25	1.25	2	2	3.5	3.5	4.5	4.5	5	6
Police Department	36	39	39	41.5	44	44	47.5	50.5	50.5	52.5
Municipal Court	4.1	5.1	6	6	7	6	5.5	4.5	4	4
Community Center	3.5	4	4	4	4	3	3	3	3	3
Fire Department	1	1	1	1	1.5	5.5	8.5	9	9	12
Public Works Admin.	2	3	3.5	3.5	4	4.5	4.5	6	5.5	6
Garage	1.5	1.5	1.5	1.5	1.5	1.5	1	1	1	1
Parks	2.5	2.5	2.5	3.5	3.5	3.5	3.2	4.2	4.2	4.2
Streets	7.3	7.3	7.3	7.3	7.3	8.3	10.2	9.2	9.2	7.2
General Fund Total	68.4	73.9	74.3	77.8	83.8	87.3	95.9	100.15	99.9	105.4
Enterprise Fund:										
Utility Administration	6.5	6.5	7.5	7.5	8.5	8.5	9	11.25	11.5	11.5
Water	4	4	4.08	4.42	5.76	5.92	6.82	6.83	8.2	7.2
Wastewater	5	5	5.96	6.29	7.62	7.79	9.64	9.64	10.2	10.2
Gas	4	4	3.96	4.29	4.62	5.29	7.14	7.14	6.2	7.2
Enterprise Fund Total	19.5	19.5	21.5	22.5	26.5	27.5	32.6	34.86	36.1	36.1
TOTAL CITY POSITIONS	87.9	93.4	95.8	100.3	110.3	114.8	128.5	135.01	136	141.5

NOTES:

Around 20-35 temporary and seasonal employees are hired during the summer months as camp counselors, pool personnel and front desk help. This count is not reflected above.
 Police reserves (25) are not included.
 Fire Department volunteers (60) not included.

CITY OF TOMBALL, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
 Last Five Years (1)

Function/Program	Fiscal Year				
	2003	2004	2005	2006	2007
Police					
Arrests	2,034	1,804	1,766	1,611	1,812
Accident reports	704	650	563	523	609
Citations	5,518	8,153	13,194	12,473	7,602
Offense reports	2,319	2,959	2,130	2,321	2,174
Calls for service	9,323	8,553	8,804	8,861	8,558
Fire					
Emergency responses	N/A	647	623	860	1,028
Fire incidents	N/A	113	170	278	170
Average response time	N/A	6:19	6:17	6:07	5:04
Water					
New accounts	597	639	674	875	719
Source:					
Water	597	639	674	875	719
Sewer	597	639	674	875	719
Average daily consumption (millions of gallons)	1,798	1,798	1,851	2,002	1,897
Total consumption (millions of gallons)	656,384	675,448	751,880	730,198	692,363
Peak daily consumption (millions of gallons)	3,492	3,492	3,322	3,395	3,241
Sewer					
Average daily sewage treatment (millions of gallons)	1.339	1.595	1.468	1.500	1.636
Total consumption (millions of gallons)	488.735	582.175	535.820	547.500	597.140
Peak daily consumption (millions of gallons)	3.30	4.50	4.30	4.50	3.80

Source: Various City departments

(1) The requirement for statistical data is ten years; only five years are available at this time.

CITY OF TOMBALL, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
 Last Five Years (1)

Function/Program	Fiscal Year				
	2003	2004	2005	2006	2007
Police					
Stations	1	1	1	1	1
Patrol units	26	26	27	31	32
Fire stations	2	2	2	2	2
Other public works					
Streets (miles - centerlines)	69.9	71.0	71.0	72.0	72.0
Streetlights	462	462	639	642	648
Parks and recreation					
Parks	4	4	4	4	4
Parks acreage	24 acres	24 acres	24 acres	24 acres	24 acres
Swimming pools	1	1	1	1	1
Baseball / softball diamonds	8	8	8	8	8
Tennis courts	4	4	4	4	4
Racquetball/handball courts	-	-	-	-	-
Gymnasiums	-	-	-	-	-
Basketball courts	1	1	1	1	1
Water					
Water mains (miles)	59	59	74	86	88
Fire hydrants	630	630	668	802	831
Storage capacity (millions of gallons)	N/A	N/A	N/A	N/A	1.85
Sewer					
Sanitary sewers (miles)	48.0	48.0	51.5	54.5	56.0
Storm sewers (miles)	15.0	16.2	16.9	16.9	16.9
Open ditch / creek / canal drainage (miles)	N/A	N/A	N/A	N/A	52.00
Treatment capacity (millions of gallons)	10,500	10,500	10,500	10,500	10,500

Source: Various City departments

(1) The requirement for statistical data is ten years; only five years are available at this time.