

*COMPREHENSIVE
ANNUAL FINANCIAL REPORT*

of the

CITY OF WEBSTER, TEXAS

Year Ended
September 30, 2005

Official Issuing Report:

Terry L. Knudsen
Director of Finance

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CITY OF WEBSTER, TEXAS

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INTRODUCTORY SECTION

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January 25, 2006

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

The Comprehensive Annual Financial Report (CAFR) of the City of Webster, Texas (the “City”), for the fiscal year ended September 30, 2005, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations 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 Comprehensive Annual Financial Report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires governments to present certain basic financial statements as well as a management’s discussion and analysis (MD&A) and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

- The government–wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results and financial position of the government as an economic entity.
- Following the government–wide statements are fund financial statements for the primary government (City) and proprietary fund.
- The notes to the financial statements disclose information essential for the fair presentation of the basic statements that is not displayed in the financial statements.
- The management discussion and analysis (MD&A) gives an objective and easily readable analysis of the City’s financial activities based on currently known facts, decisions or conditions. It presents short and long-term analysis of the City’s activities. The City of Webster’s MD&A can be found immediately following the independent auditors’ report.
- Required supplementary information (RSI) is financial information that GASB standards require to be presented with, but outside of, the financial statements. The RSI that GASB Statement No. 34 requires is the MD&A (noted above), budgetary comparison schedules for the general fund and hotel and motel tax funds and schedules of funding progress.

PROFILE OF THE CITY

The City of Webster was considered a village from 1879 until 1958, the year it was incorporated. Webster's population has grown from 329 in 1960 to a little under 10,000 today. The City adopted a council-manager form of government in 1994. Policymaking and legislative authority are vested in the City Council consisting of the mayor and six council members, who are elected at large to serve staggered three-year terms. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring the City Manager. The City Manager is responsible for carrying out the policies of the City Council, for overseeing the day-to-day operations of the City and for hiring the department directors, subject to Council approval.

The City of Webster provides the full range of municipal services contemplated by ordinance and the City Charter. This includes general administrative services, police and fire protection, street construction and maintenance, planning and zoning, recreational activities, a water distribution system, wastewater collection and treatment. Sanitation services and emergency medical services are provided under contracts with private firms. The financial reporting units of the City are funds. The Webster Economic Development Corporation is reported as a Component Unit for which the City is financially accountable.

BUDGET

The budget is required by City Charter, which controls many facets of the budgeting process. The budget is used to plan for the use of funds generated through a variety of revenue sources to provide services for the benefit of citizens in the community. The budget text provides the following:

- a.) Identify revenue sources and amounts to provide for services delivered during the next fiscal year (October through September).
- b.) Approve the expenditure of monies to deliver the services provided by each of the respective operating divisions.
- c.) Provide a basis for financial recording and control of the approved revenue and expenditure dollars.

The budget process is a systematic approach to plan for the New Year. The process is established to gain input by the citizens, the City Council, and the City Staff. The budget process initially begins with an evaluation by Council and staff of programs, projects, services, and policies of the City. These programs, projects, services and policies may be new or existing. Critical in the process is to determine at what level the programs, projects, services, and policies will serve. Also considered is not only the impact on the budget being formulated, but on the City and its budget in the future for the next several years. These considerations are balanced by the City's ability to pay for each, in essence, how much revenue can be generated through taxes, fees, etc., putting the least amount of burden on the citizens.

The City Manager shall submit to the City Council a proposed budget for the next fiscal year by July 30th of the current year. The budget shall provide a complete financial plan of all City funds and activities. A budget message explaining the budget both in monetary (\$) terms and in terms of the work programs involved shall be included. It will indicate any major changes from the current year in revenue and expenditures with reasons for such changes. The budget will provide a clear summary, shall detail income and expense items, and summarize the City's position. The budget will list itemized revenue sources and an itemized estimate of each department or division. Tasks, goals, and objectives for each division will be included. The budget will provide a capital improvements program with cost estimates.

The City Manager at any time may transfer any unused balance of a line item of a department to another line item within the same department or division. At the request of the City Manager, City Council may, by ordinance, transfer any unused balance of a department to another department; City Council may also amend the budget by increasing a departmental budget appropriation. The City Manager shall ascertain that income is available for amendment.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriate annual budget has been adopted. For the general fund and hotel and motel tax (major special revenue fund), these comparisons are in the Required Supplementary Information (RSI). For governmental funds, other than the general fund and hotel and motel tax, those comparison schedules are presented in the combining statements and schedules subsection of this report.

ECONOMIC CONDITON AND OUTLOOK

The City of Webster, Texas, is the “Gateway to the Bay Area,” located 25 miles from downtown Houston. The City is ideally situated approximately halfway between Houston and Galveston on Interstate 45. Accordingly, the economy of the City is directly tied to activity in the Greater Bay Area Houston region. Houston’s Hobby Airport and Ellington Field Airport are just 15 and 10 miles away, respectively. In addition, the City of Webster is rapidly developing as a center of excellence within the medical care community. A number of new medical facilities were recently completed (Surgical Arts Center of Clear Lake, Bay Area Houston Medical Plaza, Webster Medical Enclave) and several others are under construction (Medistar Clear Lake, Best Care Medical Square), and the major expansion (heart hospital) to Clear Lake Regional Hospital recently broke ground. These not only significantly contribute to the property tax base, but also bring new jobs. All this increases the City’s retail tax base as these new day citizens enjoy the fine dining and shopping experience offered in Webster. Directly to the east of the City lies NASA’s Johnson Space Center, a major employer of the area and a popular tourist destination.

The Houston region as a whole has enjoyed a robust economy over the last several years. The economic growth has brought about rapid commercial development throughout the area and the City has particularly benefited from this development activity. The City’s intrastate corridor leading to two major metropolitan areas, as well as its entryway to the Bay Area, has provided an excellent location for retail business. The City enjoys a greater density of retail business than many other communities and has the highest per capita collection of sales tax for all of Harris County. The city is optimistic for continued expansion of the sales tax base, notably the planned 4th quarter opening of Academy Sports and Outdoors. An additional 400 jobs will be created with planned expansion in the medical community. The restaurateurs and other hospitality venues enjoy a favorable economic environment with continued stability. The highly diverse business community provides a strong economic base resulting in low taxes and excellent services for its citizens. The continued emphasis on beautification, landscaping, and increased mobility makes the City an excellent community to live in and an excellent area in which to establish a new business. New construction values of \$153,058,989 were filed during the year.

The economic vitality of Webster continues with a resurgence of retail sales led by Fry’s Electronics. Sales tax revenues for the current year are 16% (\$1,233,013) greater than last year. This growth is expected to continue with the scheduled opening of Academy, Cheddars, Borders and other retail outlets. The completion of three new apartment complexes will bring a significant increase to our retail potential. The location of an ITT Technical Institute to Webster will add 500 students to our daily shoppers. The addition of one hotel during the year and another planned for next year (total of 12) brings additional vitality to Webster.

The versatile Webster environment is evident with the potential to develop over 500 acres as a planned multi-use development of the Texas Genco tract by Cherokee Investment Partners.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

For the Year

With the rebound of sales tax, coupled with new growth, came a resurgence of activity to support our commercial constituents and enhance services provided to our citizens. Many of the notable achievements during the year reflect this focus.

- At a special election, the citizens of Webster approved sixteen amendments to the City Charter. The amendments are characterized as general house-keeping and procedural, not substantive changes.
- Implemented publishing of Council agenda packets on the City’s website

- Trained 80% of personnel on principle – centered leadership and behavior (Covey’s 7 Habits)
- Resumed residential billing for water and sewer services
- Awarded GFOA Certificate of Achievement for Excellence in Financial Reporting
- Received GFOA Distinguished Budget Presentation Award
- Applied \$643,000 in savings from a bond refunding to the issuance of Certificates of Obligation used to purchase 7-8 police patrol units and a fire “Quint” apparatus with no increase to the property tax rate
- Upgraded financial software applications
- Instituted credit card payments for permits and utility bills
- Adopted a new City Logo which will aid in establishing a unique brand for the City of Webster
- Continued upgrades to server network and personal computers throughout the City
- Initiated Retirement Health Savings Program
- Reaffirmed the City’s compensation philosophy to manage employees: at market value, around the midpoint, and to continue the pay for performance (merit) program
- Added supplement GIS information to the City’s website including maps, development procedures and applications
- Adopted and implemented the 2003 International Building, Plumbing, Mechanical, Gas, Energy Conservation and Fire Codes
- Adopted and implemented the 2005 National Electrical Code
- Revised permit fee schedule
- Revised recreation program fee schedule
- Created a 2nd motorcycle traffic unit
- Initiated regional dispatching plan with central jail facilities
- Responded successfully to Hurricane Rita’s aftermath with full mobilization of police personnel

CAPITAL IMPROVEMENT PROGRAM (CIP)

A capital improvement program (CIP) is a fiscal planning tool that identifies capital improvement projects, prioritizes these projects, and schedules them for funding and implementation. Capital improvement programming provides the decision makers in Webster with the ability to gain an overall perspective on new development in the City and to coordinate governmental capital improvement and outlay plans with general community growth and expansion. This enables the City to foresee repair and replacement needs. A CIP helps to assure logical development of public facilities and helps to avoid concentrating too much on certain types of projects to the exclusion or detriment of other public facility and capital needs.

A capital improvement program is an important capital and fiscal planning tool. The CIP, if exercised skillfully and with good judgment, will help Webster to:

1. Select projects which address the most pressing need(s).
2. Eliminate projects that are favored by one or more groups in the community but have a low overall priority.
3. Prevent projects from being undertaken either too soon, causing unnecessary carrying costs, or too late, after the need for the project is upon the City and planning must be done in a crisis situation.

The capital budget is only as good as the plan for financing the proposed projects. The number of public improvements a municipality can finance generally depends on:

1. The level of recurring future operating expenditures.
2. The current level of debt (bonded indebtedness).
3. The legal limit of debt it may incur (bonded capacity).
4. Any potential sources of additional revenue available for capital improvement financing (sales tax).

Financial analysis and planning are needed for intelligent capital improvement programming. The three elements that must be clearly understood are:

1. The relationship between the revenue program (based on the economic vitality of the community) and the operating budget (based on a program of public services), with the resulting cash funds available to pay in whole or in part for capital improvements or to meet the obligations of debt service.
2. The new debt structure of the community and its ability to incur new debt.
3. Policies and legal mandates dealing with revenues, operating expenditures, capital improvements, bonds, and the relations among and between them.

The following benefits should accrue to the City of Webster:

Planning/Policy Making/Priority Setting Benefits

1. Identifies needs and directs attention to community deficiencies and stimulates action to correct them.
2. Enables policymakers and citizens to gain a long-range picture of future activities and responsibilities.
3. Evaluates and refines comprehensive plan proposals and program improvements outlined in the plan.
4. Provides safeguards against public improvements becoming problems or liabilities to the City as opposed to assets.
5. Designs a program based on a comprehensive plan to give justification to needed projects. Coordinates and describes work activities with developers, other governmental agencies, public utilities, and the public to assure appropriate services are rendered when and where necessary.
6. Assures that maximum benefit is derived from available funds since needs would be planned in advance, in a logical manner and on an impartial basis for the entire community.
7. Assists City Council in making decisions relative to capital expenditures. Capital expenditure decisions are critical because they are generally irreversible for an extended period of time. Mistakes in such circumstances are long lasting and likely to be very costly.

Programming Benefits

1. Helps schedule projects over time so the different steps in the development of an area logically follow each other (e.g., the sewer line is replaced and then the street is repaved).
2. Allows adequate lead time to schedule the various tasks needed to plan, design, and build new facilities.
3. Reduces project's implementation problems due to inadequate planning and design time, which can lead to building facilities which do not meet the community needs as well as they might.
4. Enables the City to more fully participate in Federal and State Grant programs where plans are made in advance to take advantage of anticipated or unanticipated fund openings.
5. Allows for advance acquisition of land which can greatly reduce the land costs for a project.

Fiscal Management Benefits

1. Defines the limits of the local government's financial capability through financial analysis.
2. Develops a major policy setting tool as well as a financial management tool to bring together the needs and desires for facilities with the financial capacity of the City.
3. Coordinates the level of capital expenditures from year to year in an effort to stabilize the tax rate.
4. Coordinates capital costs with revenue sources to avoid increasing the debt service demands on the budget.

A list of major capital improvement projects completed during the current year can be found in the MD&A under the capital assets section and, in the notes to financial statements, a list of construction in progress and remaining commitments related to construction contracts can be found.

FINANCIAL INFORMATION

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

We believe that the City's accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented, or would be detected within a timely period by employees in the normal course of performing their assigned functions.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General, Special Revenue, Debt Service, and Enterprise Funds are included in the annual appropriated budget. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is the total approved budget for each department. 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. Budgetary control for Capital Projects Funds is achieved through legally binding construction contracts and project budgets, as modified on an annual basis.

The City of Webster's financial statements have been audited by Sandersen Knox & Belt, L.L.P., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Webster for the fiscal year ended September 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Webster's financial statements for the fiscal year ended September 30, 2005, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Awards

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Webster for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2004. This was the 19th consecutive year that the City of Webster has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP, applicable legal requirements, and was prepared as compliant with GASB 34.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Programs' requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City of Webster also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning October 1, 2004. In order to qualify for the Distinguished Budget Presentation Award, the City of Webster's budget document was judged to be proficient as a policy document, a financial plan, an operating guide, and a communications device.

Acknowledgements

The preparation of this report was accomplished with the efficient and dedicated services of the entire staff of the Finance Department with actual GASB 34 compilation by Sandersen Knox and Belt, L.L.P., CPAs. We would like to express our appreciation to all members of the departments who assisted and contributed to its preparation. We would also like to thank the Mayor, members of the City Council, and the City Manager for their interest and support in planning and conducting the financial operations of the City in a responsible and prudent manner.

Respectfully submitted,

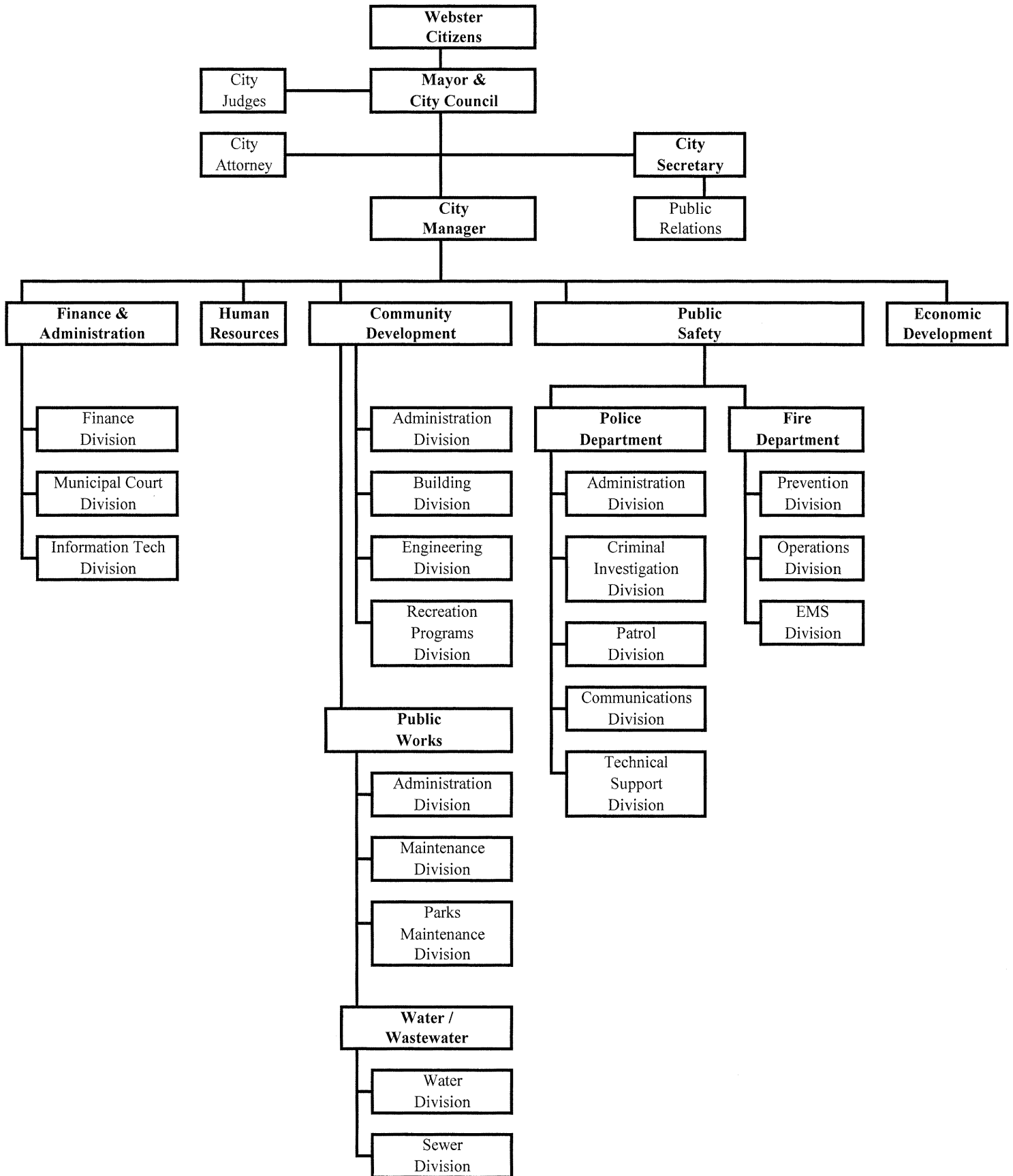
A handwritten signature in cursive script that reads "Terry L. Knudsen".

Terry L. Knudsen
Director of Finance

CITY OF WEBSTER, TEXAS

Organization Chart

September 30, 2005



CITY OF WEBSTER, TEXAS
*CERTIFICATE OF ACHIEVEMENT FOR
EXCELLENCE IN FINANCIAL REPORTING*
September 30, 2005

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Webster,
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

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



Nancy L. Zielle

President

Jeffrey R. Emer

Executive Director

CITY OF WEBSTER, TEXAS

PRINCIPAL OFFICIALS

September 30, 2005

| City Officials | Elective Position | Term Expires |
|-----------------------|---|---------------------|
| Donna Rogers | Mayor | 05/2008 |
| Steve Waltz | Council Member – Position No. 1 | 05/2006 |
| Mel Donehue | Council Member – Position No. 2 | 05/2006 |
| Natalie Dolan | Council Member – Position No. 3 | 05/2007 |
| Jack Temple | Council Member – Position No. 4 | 05/2007 |
| Carlos Villagomez | Council Member – Position No. 5 | 05/2007 |
| Floyd Myers | Council Member – Position No. 6/Mayor Pro-Tem | 05/2008 |

| Key Staff | Position |
|-------------------|-----------------------------------|
| Michael W. Jez | City Manager |
| Terry L. Knudsen | Director of Finance |
| Pauline Small | City Secretary |
| Dick Gregg, III | City Attorney/Prosecutor |
| Glenn Chaney | City Judge |
| Raymond J. Smiley | Police Chief |
| James E. Williams | Director of Community Development |
| Sara S. Gallagher | Director of Human Resources |
| Jamie Galloway | Fire Chief |
| Betsy Giusto | Director of Economic Development |

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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


We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Webster, Texas (the "City"), as of September 30, 2005, and for the year then 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 opinions 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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2005, 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 19 through 30, budgetary comparison information on pages 76 through 79, and pension information on pages 80 through 81 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 opinions on the financial statements that collectively comprise 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.



December 8, 2005

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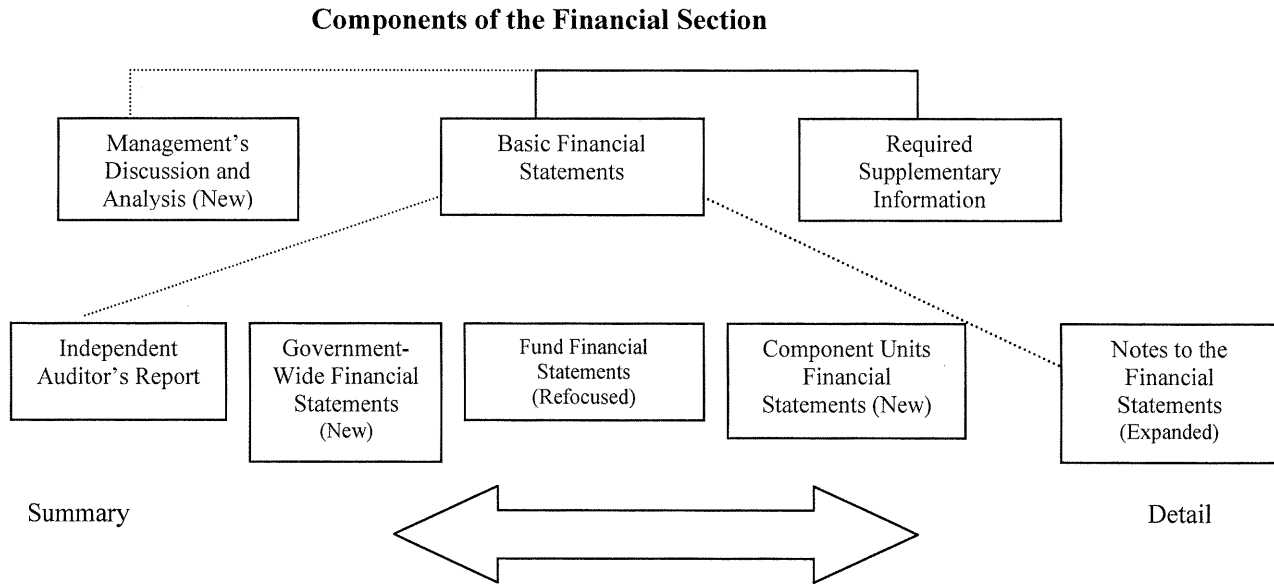
***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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CITY OF WEBSTER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
 September 30, 2005

The purpose of the management's discussion and analysis (MD&A), is to give the readers an objective and easily readable analysis of the City of Webster's financial activities for the year ending September 30, 2005. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. GASB Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The Comprehensive Annual Financial Report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. This financial reporting model requires governments to present certain basic financial statements as the MD&A and certain other required supplementary information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The statement of net assets and the statement of activities, which appear first in the City's financial statements report information on the City's activities that enable the reader to understand the financial condition of the City of Webster. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

CITY OF WEBSTER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2005

The statement of net assets presents information on all of the City of Webster'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 of Webster 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 three classes of activities:

1. Governmental activities - Most of the City's basic services are reported here, including public safety (police, fire, EMS), public works (streets and parks maintenance), community development (building permits/inspection), code compliance, recreation, project engineering, and general administration (City Manager, City Secretary, Finance, Human Resources, Information Technology). 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. These services, the City's water distribution and wastewater collection/treatment, are reported here.
3. Component units - The City of Webster itself is the primary government. The Webster Economic Development Corporation (WEDC) is established as a separate legal entity. The City maintains financial accountability, thus WEDC is reported as a *component unit*, separate from the financial transactions of the City.

The government-wide financial statements can be found after the MD&A on pages 32 through 35.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City of Webster. They are usually segregated for specific activities or objectives. The City of Webster 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.

CITY OF WEBSTER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2005

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

The City of Webster maintains 14 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, the debt service fund, the street construction fund, and the certificates of obligation series 2005 fund, which are considered to be major funds. Management has elected to present the hotel and motel tax fund as a major fund with singular presentation rather than aggregated with the other special revenue funds. Data from the other 9 governmental funds are combined into a single, aggregated presentation.

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

Proprietary Funds

The City maintains one type of 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 an enterprise fund to account for its water distribution, wastewater collection/treatment, water and sewer impact (CIP), and water construction operations. Management would note that sanitary collection services are provided by a third party contract, which provides their own billing function. The proprietary fund financial statements provide separate information for the water distribution and wastewater collection/treatment fund. 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, starting at page 49.

Other Information

In addition to 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 and hotel and motel tax fund and schedule of funding progress for Texas Municipal Retirement System and Texas Statewide Service Personnel Retirement Funds. 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 of Webster, assets exceed liabilities by \$58,050,236 as of September 30, 2005, in the primary government.

CITY OF WEBSTER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2005

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, 2005.

The largest portion of the City's net assets (71.6%) reflects its investments in capital assets (e.g., land, city hall, police station, fleet equipment, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are 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 can not be used to liquidate these liabilities.

Statement of Net Assets:

The following table reflects the condensed statement of net assets:

SUMMARY OF STATEMENT OF NET ASSETS

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|----------------------------|----------------------|-----------------------------|----------------------|--------------------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Current and other assets | \$ 15,666,104 | \$ 12,024,109 | \$ 3,705,633 | \$ 3,085,634 | \$ 19,371,737 | \$ 15,109,743 |
| Capital assets, net | 50,190,354 | 50,196,032 | 13,018,963 | 13,113,572 | 63,209,317 | 63,309,604 |
| Total Assets | 65,856,458 | 62,220,141 | 16,724,596 | 16,199,206 | 82,581,054 | 78,419,347 |
| Long-term liabilities | 22,617,031 | 20,844,146 | 553,279 | 516,941 | 23,170,310 | 21,361,087 |
| Other liabilities | 1,016,795 | 2,134,846 | 343,713 | 400,863 | 1,360,508 | 2,535,709 |
| Total Liabilities | 23,633,826 | 22,978,992 | 896,992 | 917,804 | 24,530,818 | 23,896,796 |
| Net Assets: | | | | | | |
| Invested in capital assets, net of related debt | 28,559,397 | 29,047,446 | 13,018,963 | 13,113,572 | 41,578,360 | 42,161,018 |
| Restricted | 3,909,606 | 2,145,738 | - | - | 3,909,606 | 2,145,738 |
| Unrestricted | 9,753,629 | 8,047,965 | 2,808,641 | 2,167,830 | 12,562,270 | 10,215,795 |
| Total Net Assets | \$ 42,222,632 | \$ 39,241,149 | \$ 15,827,604 | \$ 15,281,402 | \$ 58,050,236 | \$ 54,522,551 |

A portion of the primary government's net assets, \$3,909,606 or 6.73%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$12,562,270 or 21.6%, may be used to meet the City's ongoing obligation to citizens and creditors.

CITY OF WEBSTER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2005

Statement of Activities:

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

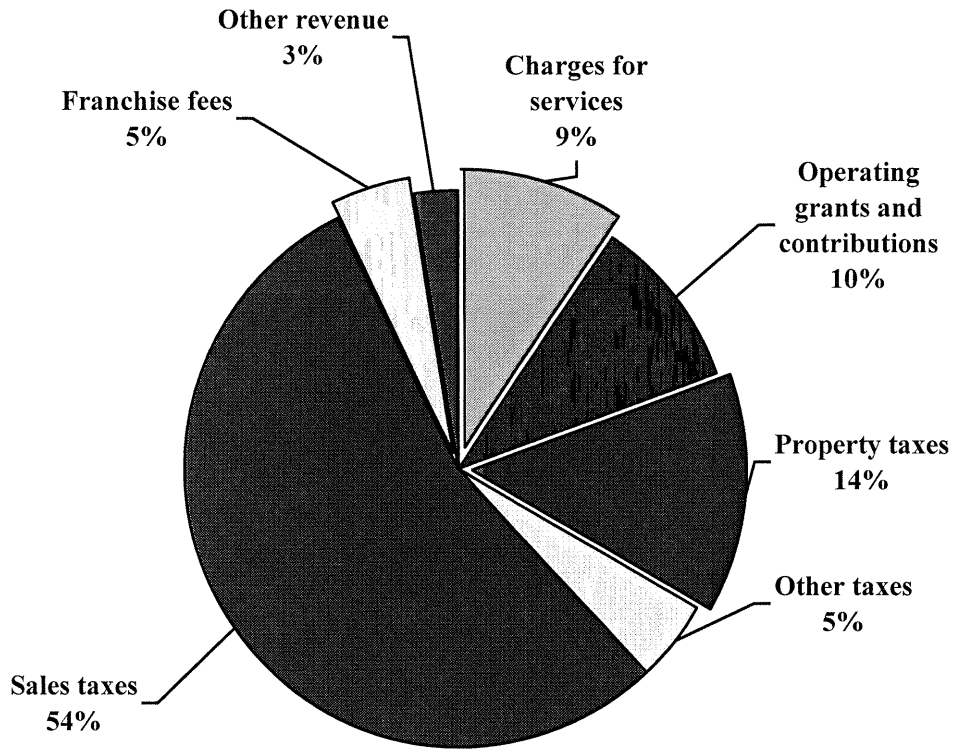
CHANGES IN NET ASSETS

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|----------------------------|----------------------|-----------------------------|----------------------|--------------------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,535,244 | \$ 1,168,932 | \$ 2,355,534 | \$ 2,055,225 | \$ 3,890,778 | \$ 3,224,157 |
| Operating grants and contributions | 1,664,269 | 1,074,146 | - | - | 1,664,269 | 1,074,146 |
| General revenues: | | | | | | |
| Ad valorem taxes | 2,274,512 | 1,979,032 | - | - | 2,274,512 | 1,979,032 |
| Sales taxes | 8,972,603 | 7,739,590 | - | - | 8,972,603 | 7,739,590 |
| Franchise and local taxes | 777,018 | 740,553 | - | - | 777,018 | 740,553 |
| Other taxes | 748,656 | 677,721 | - | - | 748,656 | 677,721 |
| Other revenues | 426,897 | 256,534 | 998,876 | 309,438 | 1,425,773 | 565,972 |
| Total Revenues | <u>16,399,199</u> | <u>13,636,508</u> | <u>3,354,410</u> | <u>2,364,663</u> | <u>19,753,609</u> | <u>16,001,171</u> |
| Expenses | | | | | | |
| General government | 3,266,448 | 3,319,970 | - | - | 3,266,448 | 3,319,970 |
| Public safety | 6,436,542 | 6,105,672 | - | - | 6,436,542 | 6,105,672 |
| Community development | 3,817,687 | 3,505,191 | - | - | 3,817,687 | 3,505,191 |
| Interest and fiscal agent fees on long-term debt | 1,165,289 | 1,121,506 | - | - | 1,165,289 | 1,121,506 |
| Water | - | - | 1,331,436 | 1,343,896 | 1,331,436 | 1,343,896 |
| Sewer | - | - | 1,181,352 | 1,168,643 | 1,181,352 | 1,168,643 |
| Total Expenses | <u>14,685,966</u> | <u>14,052,339</u> | <u>2,512,788</u> | <u>2,512,539</u> | <u>17,198,754</u> | <u>16,564,878</u> |
| Increase (Decrease) in Net Assets | | | | | | |
| Before Transfers | 1,713,233 | (415,831) | 841,622 | (147,876) | 2,554,855 | (563,707) |
| Transfers | 295,420 | 270,420 | (295,420) | (270,420) | - | - |
| Capital contributions from component unit | 972,830 | 717,841 | - | - | 972,830 | 717,841 |
| Change in Net Assets | 2,981,483 | 572,430 | 546,202 | (418,296) | 3,527,685 | 154,134 |
| Net assets, beginning of year | <u>39,241,149</u> | <u>38,668,719</u> | <u>15,281,402</u> | <u>15,699,698</u> | <u>54,522,551</u> | <u>54,368,417</u> |
| Net Assets, End of Year | <u>\$ 42,222,632</u> | <u>\$ 39,241,149</u> | <u>\$ 15,827,604</u> | <u>\$ 15,281,402</u> | <u>\$ 58,050,236</u> | <u>\$ 54,522,551</u> |

CITY OF WEBSTER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2005

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

GOVERNMENTAL REVENUES



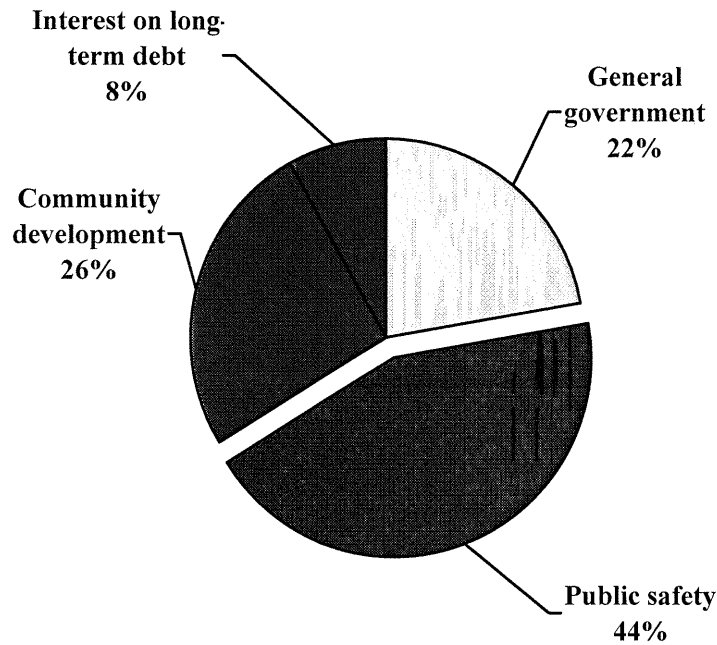
For the year ended September 30, 2005, revenues from governmental activities totaled \$16,399,199. Property and sales tax revenues are the City's largest revenue sources. Sales tax revenue increased by \$1,233,013 because of the economic vitality of the City and the completion of Webster Plaza in the prior year. The City's assessed property tax base for 2005 increased over the prior year along with a small increase in the total tax rate of .017 causing an increase of 15% in the ad valorem taxes collected over last year. Charges for services increased by \$366,312 over the last year with the largest factors being the increase attributed to adding a second motorcycle traffic unit and revising the fee schedules for recreation programs. Also, permits issued increased by 109% over last year causing an increase of \$334,368 in total permit revenue.

Franchise fees, collected from electric, gas, cable and telephone/telecommunications utilities, totaled \$777,018 for the year ended September 30, 2005, a modest increase from the prior year of 5%.

CITY OF WEBSTER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2005

This graph shows the governmental function expenses of the City, excluding payments to component units in order to reflect the functional nature of the City's expenses.

GOVERNMENTAL FUNCTIONAL EXPENSES



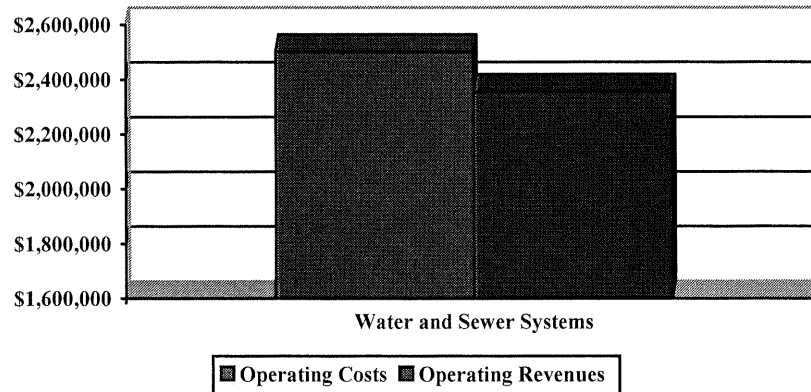
For the year ended September 30, 2005, expenses for governmental activities totaled \$14,685,966. This represents an increase of \$633,627 over last year. The increase was due to several factors. During the year, the City added an additional motorcycle traffic unit for the police department. In addition, the City incurred substantial expenses in mobilizing the City in preparation for Hurricane Rita. Expenses per capita were \$1,617, up from last year.

CITY OF WEBSTER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2005

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

BUSINESS-TYPE ACTIVITIES

Revenue vs. Costs
(Dollars in millions)



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 \$14,307,693. Of this, \$3,566,423 is designated for capital projects and equipment replacement, and \$4,641,369 is reserved by outside restrictions.

There was an increase in the combined fund balance of \$3,300,217 over the prior year. This is largely attributable to the refunding of some outstanding debt and applying a portion of the savings to the issuance of new certificates of obligation. In addition, each fund as presented on the governmental funds statement of revenues, expenditures, and changes in fund balances experienced a positive net change in fund balance. There had been a planned decrease in budgeted fund balance in the amount of \$758,380 in the general fund. However, the net change in fund balance increased by \$302,914 with a positive variance of \$1,061,294 from budgeted as amended over actual. The City's fund balance policy for the general fund is a 3-month reserve. The general fund's fund balance of \$6,685,279 is estimated to be \$3,746,192 over policy.

There was also an increase of \$486,446 in the debt service fund balance to \$852,624, as compared to a budgeted increase of \$53,200. Principal debt service payments totaled \$819,689 for the year, down from the prior year by \$180,961 due to the 2003 and 2005 refunding.

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

CITY OF WEBSTER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2005

GENERAL FUND BUDGETARY HIGHLIGHTS - YEAR 2005

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> |
|--|------------------------|-----------------------|-------------------|
| <u>Revenues</u> | | | |
| Taxes | \$ 9,440,210 | \$ 10,216,700 | \$ 10,367,828 |
| Other | 1,969,640 | 1,969,640 | 2,481,244 |
| Total | <u>11,409,850</u> | <u>12,186,340</u> | <u>12,849,072</u> |
| <u>Expenditures</u> | | | |
| Expenditures | <u>11,720,440</u> | <u>12,154,920</u> | <u>11,756,348</u> |
| <u>Other Financing Sources/(Uses)</u> | | | |
| Sales of capital assets | 10 | 10 | - |
| Transfers in | 310,830 | 310,830 | 310,830 |
| Transfers (out) | - | (1,100,640) | (1,100,640) |
| Total | <u>310,840</u> | <u>(789,800)</u> | <u>(789,810)</u> |
| Change in Fund Balance | <u>\$ 250</u> | <u>\$ (758,380)</u> | <u>\$ 302,914</u> |

Revenue and other financing sources exceeded expenditures and other financing uses by \$302,914 in the general fund for year 2005.

Actual general fund revenues exceeded original and amended budgeted revenues by \$662,732 during 2005. This increase is attributable to the positive variances of \$420,558 for licenses and permit and \$65,778 for investment income. General fund expenditures were under the amended budget by \$398,572 due to controls for over spending in every department.

During the 2005 year, City Council amended the budget for the following purposes:

- To re-appropriate monies to pay for merit pay and market adjustments for payroll
- To provide additional funds for the equipment replacement fund
- To appropriate additional monies in various departments and funds based on an increase in budgeted sales tax revenue

CITY OF WEBSTER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2005

CAPITAL ASSETS

At the end of year 2005, the City's governmental activities funds had invested \$66,420,484 in a variety of capital assets and infrastructure. This represents an increase of \$1,779,697. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. with an increase in the amount of \$1,785,375.

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

- Completion of the Professional Park Water Line for a total cost of \$191,092
- Completion of the FM 270 Screening Wall, Phases I and II, in the amount of \$921,019

Construction in progress at year end represents numerous ongoing projects, the largest of which relates to the NASA Road 1 Bypass Phase 2, Police Department/EOC Expansion, Texas Avenue North Phase II, Texas Avenue Park, and the Beamer Road Water Line.

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

LONG-TERM DEBT

At the end of the current year, the City had total bonds, certificates of obligation, and obligations to the State outstanding of \$23,224,361. Of this amount, \$18,551,445 was general obligation debt, and certificates of obligation account for \$4,355,000.

During the year the City had a net addition in the long-term debt of \$593,797. The City opted to take advantage of low interest rates and partially refunded certificates of obligation, series 2000A and public improvement and refunding bonds, series 2000B. In addition, the City issued \$1,405,000 in new certificates of obligation to purchase vehicles.

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

Current underlying ratings on debt issues are as follows:

| | Moody's Investors Service | Standard and Poors |
|--------------------------|--|-------------------------------|
| General obligation bonds | A3 | A |

The City's most current bond issue has been successful in qualifying for bond insurance resulting in ratings of "Aaa" and "AAA" rating from Moody's and Standard and Poors, respectively.

CITY OF WEBSTER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2005

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Webster City Council approved an \$18.7 million budget for the 2006 year, including the component unit. This is a 7.5% increase which includes implementing City Council directives and organizational strategies adopted in the past year. The budget incorporates a property tax rate decrease of 4.2% from \$.26800 to \$.25750 per \$100 of assessed value. The City has one of the lowest tax rates in the Houston Metropolitan Statistical Area. Taxable assessed valuations increased 16.0% to \$915 million. Budgeted sales tax receipts comprise 59% of all city-wide revenue sources and 68% of general fund revenue. Water and wastewater billings were resumed for single family residential customers in October 2004 as a result of the cost of service and rate design study performed in the previous year.

Building permits remain strong. \$119.0 million in construction value was generated by 155 commercial permits, and \$34.0 million valuation by 21 residential permits in the 2005 fiscal year. The occupancy rate based on square footage for retail centers was 83.3% as of September 30, 2005.

Transportation corridors through the City remain a high priority as evident with the Texas Avenue North, Live Oak, Orchard Street, and Bay Drive extension projects. The economic viability of the City is maintained by the Webster Economic Development Corporation, which fosters the creation of new and expanded commercial and medical development.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Webster's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to Terry L. Knudsen, Director of Finance, City Hall, 101 Pennsylvania, Webster, TX, telephone 281.316.4102, or for general City information, visit the City's website at www.cityofwebster.com.

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BASIC FINANCIAL STATEMENTS

CITY OF WEBSTER, TEXAS

STATEMENT OF NET ASSETS

September 30, 2005

| | Primary Government | | |
|--|----------------------------|-----------------------------|---------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 8,435,253 | \$ 2,939,919 | \$ 11,375,172 |
| Investments | 3,630,510 | 550,000 | 4,180,510 |
| Receivables (net of allowance for uncollectible) | 2,664,269 | 212,609 | 2,876,878 |
| Prepaid items | 601,993 | 3,105 | 605,098 |
| Deferred charges | 334,079 | - | 334,079 |
| Capital assets: | | | |
| Non-depreciable | 7,133,214 | 516,558 | 7,649,772 |
| Net depreciable capital assets | 43,057,140 | 12,502,405 | 55,559,545 |
| Total Assets | \$ 65,856,458 | \$ 16,724,596 | \$ 82,581,054 |
| Liabilities | | | |
| Accounts payable and accrued liabilities | \$ 851,477 | \$ 138,872 | \$ 990,349 |
| Customer deposits | 11,425 | 204,841 | 216,266 |
| Accrued interest payable | 153,893 | - | 153,893 |
| Noncurrent liabilities: | | | |
| Long-term liabilities due within one year | 1,471,547 | 89,892 | 1,561,439 |
| Long-term liabilities due in more than one year | 21,145,484 | 463,387 | 21,608,871 |
| Total Liabilities | 23,633,826 | 896,992 | 24,530,818 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 28,559,397 | 13,018,963 | 41,578,360 |
| Restricted for: | | | |
| Debt service | 706,239 | - | 706,239 |
| Special projects | 1,595,643 | - | 1,595,643 |
| Capital projects | 1,607,724 | - | 1,607,724 |
| Economic development | - | - | - |
| Unrestricted | 9,753,629 | 2,808,641 | 12,562,270 |
| Total Net Assets | \$ 42,222,632 | \$ 15,827,604 | \$ 58,050,236 |

See Notes to Financial Statements.

**Component
Unit**

| | |
|-----------|------------------|
| \$ | 5,251,195 |
| | 2,183,170 |
| | 464,501 |
| | - |
| | - |
| | - |
| | - |
| <u>\$</u> | <u>7,898,866</u> |

| | |
|-----------|-------------------|
| \$ | 134,635 |
| | - |
| | 28,888 |
| | 642,450 |
| | 12,249,364 |
| <u>\$</u> | <u>13,055,337</u> |

(12,820,000)

| | |
|-----------|--------------------|
| | 1,372,736 |
| | - |
| | 3,803,922 |
| | 2,486,871 |
| | - |
| <u>\$</u> | <u>(5,156,471)</u> |

CITY OF WEBSTER, TEXAS

STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

| Functions/Programs | Expenses | Program Revenues | |
|---|---------------|-------------------------|--|
| | | Charges for Services | Operating Grants and Contributions |
| Primary Government | | | |
| Governmental Activities | | | |
| General government | \$ 3,266,448 | \$ 53,809 | \$ 1,530,030 |
| Public safety | 6,436,542 | 841,367 | 134,239 |
| Community development | 3,817,687 | 640,068 | - |
| Interest and fiscal agent fees on long-term debt | 1,165,289 | - | - |
| Total Governmental Activities | 14,685,966 | 1,535,244 | 1,664,269 |
| Business-type Activities | | | |
| Water | 1,331,436 | 1,298,509 | - |
| Sewer | 1,181,352 | 1,057,025 | - |
| Total Business-type Activities | 2,512,788 | 2,355,534 | - |
| Total Primary Government | \$ 17,198,754 | \$ 3,890,778 | \$ 1,664,269 |
| Component Units | | | |
| Webster Economic Development Corporation | \$ 3,287,268 | \$ - | \$ - |
| Total Component Units | \$ 3,287,268 | \$ - | \$ - |

General Revenues:

| |
|---|
| Taxes |
| Ad valorem taxes |
| Sales taxes |
| Franchise and local taxes |
| Other taxes |
| Investment income |
| Other revenues |
| Capital contributions from component unit |
| Transfers |
| Total General Revenues and Transfers |
| Change in Net Assets |
| Net Assets, beginning of year |
| Net Assets, End of Year |

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

| Primary Government | | | |
|------------------------------------|-------------------------------------|----------------------|---------------------------|
| Governmental Activities | Business-Type Activities | Total | Component Unit |
| \$ (1,682,609) | \$ - | \$ (1,682,609) | \$ - |
| (5,460,936) | - | (5,460,936) | - |
| (3,177,619) | - | (3,177,619) | - |
| <u>(1,165,289)</u> | <u>-</u> | <u>(1,165,289)</u> | <u>-</u> |
| <u>(11,486,453)</u> | <u>-</u> | <u>(11,486,453)</u> | <u>-</u> |
| - | (32,927) | (32,927) | - |
| - | (124,327) | (124,327) | - |
| - | (157,254) | (157,254) | - |
| <u>(11,486,453)</u> | <u>(157,254)</u> | <u>(11,643,707)</u> | <u>-</u> |
| - | - | - | (3,287,268) |
| - | - | - | (3,287,268) |
| 2,274,512 | - | 2,274,512 | - |
| 8,972,603 | - | 8,972,603 | 2,990,867 |
| 777,018 | - | 777,018 | - |
| 748,656 | - | 748,656 | - |
| 299,161 | 82,182 | 381,343 | 207,181 |
| 127,736 | 916,694 | 1,044,430 | - |
| 972,830 | - | 972,830 | - |
| 295,420 | (295,420) | - | - |
| <u>14,467,936</u> | <u>703,456</u> | <u>15,171,392</u> | <u>3,198,048</u> |
| 2,981,483 | 546,202 | 3,527,685 | (89,220) |
| 39,241,149 | 15,281,402 | 54,522,551 | (5,067,251) |
| <u>\$ 42,222,632</u> | <u>\$ 15,827,604</u> | <u>\$ 58,050,236</u> | <u>\$ (5,156,471)</u> |

CITY OF WEBSTER, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2005

| | General | Debt Service | Hotel and Motel Tax Special Revenue | Street Construction Capital Project |
|---|---------------------|-------------------|--|---|
| Assets | | | | |
| Cash and cash equivalents | \$ 2,543,582 | \$ 726,335 | \$ 804,960 | \$ 1,203,786 |
| Investments | 2,400,423 | - | 472,457 | 757,630 |
| Receivables (net of allowance for uncollectible) | 1,818,562 | 269,962 | 62,860 | 3,348 |
| Deposits | 200 | - | - | - |
| Advances to other funds | 509,537 | - | - | - |
| Prepaid items | 129,460 | - | - | - |
| Total Assets | \$ 7,401,764 | \$ 996,297 | \$ 1,340,277 | \$ 1,964,764 |
| Liabilities | | | | |
| Accounts payable and accrued liabilities | \$ 698,728 | \$ - | \$ 19,472 | \$ 66,220 |
| Customer deposits | - | - | 11,425 | - |
| Matured interest payable | - | 7,508 | - | - |
| Deferred revenue | 17,757 | 136,165 | - | - |
| Total Liabilities | 716,485 | 143,673 | 30,897 | 66,220 |
| Fund Balances | | | | |
| Reserved for: | | | | |
| Prepaid items | 129,460 | - | - | - |
| Debt service | - | 852,624 | - | - |
| Special revenue | - | - | 1,309,380 | - |
| Capital projects | - | - | - | - |
| Advances | 455,918 | - | - | - |
| Unreserved and designated | | | | |
| Capital projects funds | - | - | - | 1,898,544 |
| Special revenue funds | - | - | - | - |
| Unreserved and undesignated | 6,099,901 | - | - | - |
| Total Fund Balances | 6,685,279 | 852,624 | 1,309,380 | 1,898,544 |
| Total Liabilities and Fund Balances | \$ 7,401,764 | \$ 996,297 | \$ 1,340,277 | \$ 1,964,764 |

Adjustments for the Statement of Net Assets:

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

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

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Net Assets of Governmental Activities

See Notes to Financial Statements.

| Certificates of Obligation Series 2005 Capital Project | Nonmajor Governmental Funds | Total Governmental Funds |
|---|--|---|
| \$ 880,383 | \$ 2,276,207 | \$ 8,435,253 |
| - | - | 3,630,510 |
| - | - | 2,154,732 |
| - | - | 200 |
| - | - | 509,537 |
| 472,333 | - | 601,793 |
| <u>\$ 1,352,716</u> | <u>\$ 2,276,207</u> | <u>\$ 15,332,025</u> |

| | | |
|---------------|---------------|------------------|
| \$ 55,156 | \$ 11,901 | \$ 851,477 |
| - | - | 11,425 |
| - | - | 7,508 |
| - | - | 153,922 |
| <u>55,156</u> | <u>11,901</u> | <u>1,024,332</u> |

| | | |
|---------------------|---------------------|-------------------|
| - | - | 129,460 |
| - | - | 852,624 |
| - | 286,263 | 1,595,643 |
| 1,297,560 | 310,164 | 1,607,724 |
| - | - | 455,918 |
| - | 319,078 | 2,217,622 |
| - | 1,348,801 | 1,348,801 |
| - | - | 6,099,901 |
| <u>1,297,560</u> | <u>2,264,306</u> | <u>14,307,693</u> |
| <u>\$ 1,352,716</u> | <u>\$ 2,276,207</u> | |

50,190,354

153,922

(22,429,337)

\$ 42,222,632

CITY OF WEBSTER, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year Ended September 30, 2005

| | General | Debt Service | Hotel and Motel Tax Special Revenue | Street Construction Capital Project |
|--|---------------------|-------------------|--|---|
| Revenues | | | | |
| Property taxes | \$ 443,624 | \$ 1,831,868 | \$ - | \$ - |
| Sales taxes | 8,800,250 | - | - | - |
| Franchise fees | 777,018 | - | - | - |
| Other taxes | 346,936 | - | 401,720 | - |
| Licenses and permits | 640,068 | - | - | - |
| Fines and forfeitures | 765,873 | - | - | - |
| Charges for services | 27,673 | - | 26,136 | - |
| Other revenue | 68,979 | 56,304 | 2,208 | - |
| Investment income | 151,078 | 19,373 | 29,914 | 47,750 |
| Contributions | 700,000 | 330,030 | - | 500,000 |
| Intergovernmental | 127,573 | - | - | - |
| Total Revenues | 12,849,072 | 2,237,575 | 459,978 | 547,750 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 2,459,912 | - | 37,068 | - |
| Public safety | 6,131,500 | - | - | - |
| Community development | 3,164,936 | - | 258,123 | - |
| Capital outlay | - | - | - | 113,875 |
| Debt Service: | | | | |
| Principal | - | 819,689 | - | - |
| Interest and fiscal charges | - | 1,143,918 | - | - |
| Total Expenditures | 11,756,348 | 1,963,607 | 295,191 | 113,875 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,092,724 | 273,968 | 164,787 | 433,875 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 310,830 | 212,478 | - | 121,000 |
| Transfers out | (1,100,640) | - | (37,930) | - |
| Issuance of debt | - | - | - | - |
| Premium on debt | - | - | - | - |
| Discount on debt | - | - | - | - |
| Payment to refunded bond escrow agent | - | - | - | - |
| Total Other Financing Sources (Uses) | (789,810) | 212,478 | (37,930) | 121,000 |
| Net Change in Fund Balances | 302,914 | 486,446 | 126,857 | 554,875 |
| Fund balances, beginning of year | 6,382,365 | 366,178 | 1,182,523 | 1,343,669 |
| Fund Balances, End of Year | \$ 6,685,279 | \$ 852,624 | \$ 1,309,380 | \$ 1,898,544 |

See Notes to Financial Statements.

| Certificates of Obligation Series 2005 Capital Project | Nonmajor Governmental Funds | Total Governmental Funds |
|---|--|---|
| \$ - | \$ - | \$ 2,275,492 |
| - | - | 8,800,250 |
| - | - | 777,018 |
| - | - | 748,656 |
| - | - | 640,068 |
| - | 75,494 | 841,367 |
| - | - | 53,809 |
| - | 245 | 127,736 |
| 5,567 | 45,479 | 299,161 |
| - | - | 1,530,030 |
| - | 6,666 | 134,239 |
| <u>5,567</u> | <u>127,884</u> | <u>16,227,826</u> |
| - | 12,142 | 2,509,122 |
| - | 34,968 | 6,166,468 |
| - | - | 3,423,059 |
| 58,007 | 351,369 | 523,251 |
| - | - | 819,689 |
| 59,470 | 191,684 | 1,395,072 |
| <u>117,477</u> | <u>590,163</u> | <u>14,836,661</u> |
| <u>(111,910)</u> | <u>(462,279)</u> | <u>1,391,165</u> |
| - | 1,025,060 | 1,669,368 |
| - | (235,378) | (1,373,948) |
| 1,405,000 | 10,300,000 | 11,705,000 |
| 4,470 | - | 4,470 |
| - | (46,545) | (46,545) |
| - | (10,049,293) | (10,049,293) |
| <u>1,409,470</u> | <u>993,844</u> | <u>1,909,052</u> |
| 1,297,560 | 531,565 | 3,300,217 |
| - | 1,732,741 | 11,007,476 |
| <u>\$ 1,297,560</u> | <u>\$ 2,264,306</u> | <u>\$ 14,307,693</u> |

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CITY OF WEBSTER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
Year Ended September 30, 2005

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

Net changes in fund balances - total governmental funds \$ 3,300,217

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 depreciation (\$1,785,375) exceeded capital outlay (\$806,867) in the current period. (978,508)

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (980)

Capital contributions from component units are not reported as revenues in the governmental funds. 972,830

The issuance of long-term debt (e.g., bonds, leases, 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 it is first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (288,881)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. (23,195)

Change in Net Assets of Governmental Activities \$ 2,981,483

See Notes to Financial Statements.

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CITY OF WEBSTER, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUND

September 30, 2005

| | <u>Business-Type Activities Enterprise Fund</u> |
|--|---|
| <u>Assets</u> | |
| <u>Current Assets</u> | |
| Cash and cash equivalents | \$ 2,939,919 |
| Investments | 550,000 |
| Receivables, net | 212,609 |
| Prepaid expenses | 3,105 |
| Total Current Assets | <u>3,705,633</u> |
| <u>Noncurrent Assets</u> | |
| Capital assets: | |
| Land | 102,269 |
| Building and improvements | 11,164,878 |
| Furniture and equipment | 337,097 |
| Vehicles | 210,441 |
| Water and sewer system | 8,970,551 |
| Construction in progress | 414,289 |
| Less: accumulated depreciation | <u>(8,180,562)</u> |
| Total Capital Assets, Net of Accumulated Depreciation | <u>13,018,963</u> |
| Total Noncurrent Assets | <u>13,018,963</u> |
| Total Assets | <u>16,724,596</u> |
| <u>Liabilities</u> | |
| <u>Current Liabilities</u> | |
| Accounts payable and accrued liabilities | 138,872 |
| Current portion of advances from other funds | 53,619 |
| Compensated absences | 43,742 |
| Customer deposits | 204,841 |
| Total Current Liabilities | <u>441,074</u> |
| <u>Noncurrent Liabilities</u> | |
| Advances from other funds | <u>455,918</u> |
| Total Noncurrent Liabilities | <u>455,918</u> |
| Total Liabilities | <u>896,992</u> |
| <u>Net Assets</u> | |
| Invested in capital assets | 13,018,963 |
| Unrestricted | 2,808,641 |
| Total Net Assets | <u>\$ 15,827,604</u> |

See Notes to Financial Statements.

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CITY OF WEBSTER, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended September 30, 2005

| | Business-Type Activities |
|--|-------------------------------------|
| | Enterprise Fund |
| <u>Operating Revenues</u> | |
| Water charges | \$ 1,201,425 |
| Sewer charges | 988,697 |
| Penalties and reconnect fees | 28,755 |
| Other revenue | 136,657 |
| Total Operating Revenues | 2,355,534 |
| <u>Operating Expenses</u> | |
| Personnel | 809,470 |
| Supplies | 405,212 |
| Maintenance | 409,929 |
| Services | 342,354 |
| Depreciation | 534,430 |
| Total Operating Expenses | 2,501,395 |
| Operating (Loss) | (145,861) |
| <u>Nonoperating Revenues (Expenses)</u> | |
| Investment income | 82,182 |
| Interest expense | (11,393) |
| Impact fees | 916,694 |
| Total Nonoperating Revenues | 987,483 |
| Income Before Transfers | 841,622 |
| Transfers (out) | (295,420) |
| Change in Net Assets | 546,202 |
| Net assets, beginning of year | 15,281,402 |
| Net Assets, End of Year | \$ 15,827,604 |

See Notes to Financial Statements.

CITY OF WEBSTER, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 1 of 2)

Year Ended September 30, 2005

| | <u>Business-Type Activities</u> <u>Enterprise Fund</u> |
|--|---|
| <u>Cash Flows from Operating Activities</u> | |
| Receipts from customers | \$ 1,998,287 |
| Payments to suppliers | (793,922) |
| Payments to employees | (804,517) |
| Net Cash Provided by Operating Activities | <u>399,848</u> |
| <u>Cash Flows from Noncapital Financing Activities</u> | |
| Impact fees | 916,694 |
| Transfers (out) to other funds | (295,420) |
| Net Cash Provided by Noncapital Financing Activities | <u>621,274</u> |
| <u>Cash Flows from Capital and Related Financing Activities</u> | |
| Interfund loan payments | (52,507) |
| Acquisition and construction of capital assets | (439,821) |
| Interest paid on debt | (11,393) |
| Net Cash (Used) by Capital and Related Financing Activities | <u>(503,721)</u> |
| <u>Cash Flows from Investing Activities</u> | |
| Purchase of investments | (300,000) |
| Interest on investments | 82,182 |
| Net Cash (Used) by Investing Activities | <u>(217,818)</u> |
| Net Increase in Cash and Equivalents | 299,583 |
| Cash and cash equivalents, beginning of year | <u>2,640,336</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 2,939,919</u> |

CITY OF WEBSTER, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 2 of 2)

Year Ended September 30, 2005

| | <u>Business-Type Activities</u> <u>Enterprise</u> <u>Fund</u> |
|--|---|
| Reconciliation of Operating (Loss) | |
| to Net Cash Provided by Operating Activities | |
| Operating (Loss) | \$ (145,861) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: | |
| Depreciation | 534,430 |
| Changes in Operating Assets and Liabilities: | |
| (Increase) Decrease in: | |
| Accounts receivable | (22,368) |
| Due from other funds | 4,571 |
| Prepaid expenses | (2,619) |
| Increase (Decrease) in: | |
| Accounts payable and accrued liabilities | 23,838 |
| Due to other funds | |
| Compensated absences | 382 |
| Customer deposits | 7,475 |
| Net Cash Provided by Operating Activities | <u>\$ 399,848</u> |

See Notes to Financial Statements.

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CITY OF WEBSTER, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Webster, Texas (the "City"), was incorporated under the laws of the State of Texas in 1959. The City has operated under a "Home Rule Charter" which provides for a Council-Manager form of government since January 15, 1994.

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, fire, and emergency medical services; parks; streets; sanitation; water and sewer services; recreation; public improvements; planning and zoning; 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 Webster Economic 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 Units

Webster Economic Development Corporation

Webster Economic Development Corporation (WEDC) has been included in the reporting entity as a discretely presented component unit. In 1999, the City of Webster formed WEDC, which was created by voters approving an additional sales tax. State law allows the WEDC to collect sales tax to assist in the promotion and development activities of the City. The WEDC began receiving sales tax in March 2000.

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

The WEDC was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net assets of WEDC shall be conveyed to the City. The operations of the WEDC are presented as a governmental fund type. Separate financial statements of the WEDC may be obtained from the Finance Department of the City.

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.

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

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.

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 general government, public safety, and community development.

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 Public safety fund, hotel and motel tax fund, municipal court program fund, and equipment replacement fund. The special revenue funds are considered nonmajor funds for reporting purposes; however, the City has chosen to report the hotel and motel tax fund as a major fund.

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.

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

Capital Projects Funds

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 building construction capital project fund is considered a major fund for reporting purposes with the parks and landscape, drainage improvement, street construction, general obligation bonds 2000, certificates of obligation series 2000, and general obligation refunding bonds fund 2003 reported as nonmajor funds.

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 GAAP prescribed by the Governmental Accounting Standards Board (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.

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, and wastewater treatment operations. 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.

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

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 resources) 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 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's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

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 and TexSTAR, 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
- Fully collateralized certificates of deposit and money market accounts
- 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 non-current 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 receivable 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.

Property taxes

Property taxes are levied during September of each year, are due upon receipt of the City’s tax bill, and become delinquent on February 1 of the following year. The City’s tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action. The interest continues to accumulate on the account at 1% per month, but the penalty remains at a maximum of 12% until paid.

A penalty of 6% and interest of 1% is added to delinquent taxes on February 1. The penalty amount increases to a maximum of 12% on July 1 of each year, with interest continuing to increase at 1% per month until the account is paid. An additional penalty of 15% is added in July for attorney costs. There are no discounts allowed on taxes.

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
 September 30, 2005

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 four years. 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> |
|----------------------------|------------------------------|
| Vehicles | 4 to 20 years |
| Furniture and equipment | 5 to 20 years |
| Infrastructure | 20 to 50 years |
| Water and sewer system | 20 to 50 years |
| Buildings and improvements | 20 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 may be paid to employees upon termination of employment or during employment in accordance with the City's personnel policy. 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.

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

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 general 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. 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.

8. Estimates

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

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

9. Comparative data

Comparative total data for the prior year have been presented only for schedules of revenues, expenditures, and changes in fund balance-budget and actual in order to provide an understanding of the changes in the financial position and operations of these funds.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

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

| | | | |
|--|----|-------------|----------------------|
| Long-term Debt | | | |
| Bonds payable | \$ | 18,551,445 | |
| Certificates of Obligations | | 4,355,000 | |
| Less: Deferred charges | | (1,275,488) | |
| Obligation to state | | 215,441 | |
| Compensated absences | | 436,554 | |
| | | 22,282,952 | Total Long-term Debt |
| Accrued interest payable | | 146,385 | |
| Net adjustment to reduce fund balance-total governmental funds to arrive at net assets-governmental activities | \$ | 22,429,337 | |

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental states that, “the issuance of long-term debt (e.g., bonds) 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. 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.” The details of this difference are as follows:

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

| | |
|--|---------------------|
| Principal repayments: | |
| General obligation debt | \$ 742,590 |
| Payments on capital leases | 158,655 |
| Payment obligation to state | 172,353 |
| Debt issued or incurred: | |
| Issuance of refunding bonds | (10,300,000) |
| Issuance of certificates of obligation | (1,405,000) |
| Premium on certificates issued | (4,470) |
| Discount on refunding bonds issued | 46,545 |
| Payment to escrow agent | 10,049,293 |
| Bond issuance costs | 251,153 |
| | |
| Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities | <u>\$ (288,881)</u> |

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

| | |
|--|--------------------|
| Compensated absences | \$ (1,825) |
| Accrued interest | (233) |
| Amortization of deferred charges | <u>(21,137)</u> |
| | |
| Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities | <u>\$ (23,195)</u> |

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except the capital projects funds, which adopt a project length budget. 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 within a department without seeking the approval of City Council. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended.

Encumbrances represent the estimated amount of expenditures ultimately to result when unperformed contracts (in progress at year-end) are completed. Such encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

A. Excess of Expenditures Over Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control as follows:

| | |
|------------------------|----------|
| General Fund: | |
| City Secretary | \$11,612 |
| Information Technology | \$5,062 |

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2005, the City had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> |
|-------------------------------------|----------------------|--|
| U.S. Agencies | \$ 3,474,869 | 0.31 |
| Certificates of Deposit | 705,641 | 0.11 |
| External Investment Pools | 8,592,762 | 0.00 |
| Total fair value | <u>\$ 12,773,272</u> | |
| Portfolio weighted average maturity | | 0.09 |

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Credit risk. The City's investment policy limits investments in money market mutual funds rated as to investment quality not less than AAA by Standard & Poor's. As of September 30, 2005, the City's investment in TexPool was rated AAAM by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuer U.S. agency.

Concentration of credit risk. The City's investment policy does not allow for an investment in any one issuer that is in excess of seventy-five percent of the portfolio's total 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 with a collective market value of at least 100 percent. As of September 30, 2005, market values of pledged securities were \$11,183,036 and bank balances were \$3,852,117.

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

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 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 & Poors rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as to the office of the Comptroller of Public Accounts for review.

TexSTAR

The Texas Short Term Asset Reserve Fund ("TexSTAR") is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

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

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

B. Receivables

The following comprise receivable balances at year end:

| | General | Debt Service | Hotel and Motel Tax Special Revenue | Street Construction Capital Project | Enterprise | Component Unit |
|-------------------|---------------------|-------------------|--|--|-------------------|-------------------|
| Ad Valorem taxes | \$ 17,950 | \$ 270,327 | \$ - | \$ - | \$ - | \$ - |
| Other taxes | 1,675,284 | - | 61,769 | - | - | 460,604 |
| Accounts | 4,200 | - | - | 3,348 | 208,529 | - |
| Intergovernmental | 100,000 | - | - | - | - | - |
| Accrued interest | 20,204 | - | 1,091 | - | 4,080 | 3,897 |
| Other | 1,117 | - | - | - | - | - |
| Less allowance | (193) | (365) | - | - | - | - |
| | <u>\$ 1,818,562</u> | <u>\$ 269,962</u> | <u>\$ 62,860</u> | <u>\$ 3,348</u> | <u>\$ 212,609</u> | <u>\$ 464,501</u> |

C. Capital assets

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

| | Primary Government | | | |
|--|----------------------|--------------------|---------------------|----------------------|
| | Beginning Balance | Increases | (Decreases) | |
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,136,659 | \$ - | \$ - | \$ 2,136,659 |
| Construction in progress | 3,743,865 | 1,583,783 | (331,093) | 4,996,555 |
| Total capital assets not being depreciated | <u>5,880,524</u> | <u>1,583,783</u> | <u>(331,093)</u> | <u>7,133,214</u> |
| Other capital assets: | | | | |
| Infrastructure | 34,932,836 | 73,290 | (34,409) | 34,971,717 |
| Buildings and improvements | 16,818,905 | 232,710 | - | 17,051,615 |
| Furniture and equipment | 7,008,522 | 255,416 | - | 7,263,938 |
| Total other capital assets | <u>58,760,263</u> | <u>561,416</u> | <u>(34,409)</u> | <u>59,287,270</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (5,698,848) | (841,830) | - | (6,540,678) |
| Buildings and improvements | (4,056,036) | (500,168) | - | (4,556,204) |
| Furniture and equipment | (4,689,871) | (443,377) | - | (5,133,248) |
| Total accumulated depreciation | <u>(14,444,755)</u> | <u>(1,785,375)</u> | <u>-</u> | <u>(16,230,130)</u> |
| Other capital assets, net | 44,315,508 | (1,223,959) | (34,409) | 43,057,140 |
| Totals | <u>\$ 50,196,032</u> | <u>\$ 359,824</u> | <u>\$ (365,502)</u> | <u>\$ 50,190,354</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.

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

Depreciation was charged to governmental functions as follows:

| | | |
|---|-----------|-------------------------|
| General government | \$ | 843,674 |
| Public safety | | 557,978 |
| Community development | | <u>383,723</u> |
| Total Governmental Activities Depreciation Expense | \$ | <u>1,785,375</u> |

Construction in progress and remaining commitments under related construction contracts for general government construction projects at year end were as follows:

Governmental Activities:

| Project Description | Authorized Contract | Contract Expenditures | Remaining Commitment |
|--|------------------------|--------------------------|-------------------------|
| Recreation Building Renovation | \$ 150,000 | \$ 150,000 | \$ - |
| McWhirter Mini Park | 15,000 | 13,621 | 1,379 |
| Webster Plaza Sidewalks | 66,000 | - | 66,000 |
| NASA Road 1 Bypass Phase 2 | 1,419,290 | 113,875 | 1,305,415 |
| Bay Area Blvd Traffic Study | 35,000 | - | 35,000 |
| Recreation Building Renovation Phase 2 | 140,000 | - | 140,000 |
| Police Department/EOC Expansion | 4,738,670 | 4,670,905 | 67,765 |
| Totals | <u>\$ 6,563,960</u> | <u>\$ 4,948,401</u> | <u>\$ 1,615,559</u> |

WEDC:

| | | | |
|------------------------------|---------------------|---------------------|---------------------|
| Texas Avenue North Phase 2 | 1,050,950 | 963,407 | 87,543 |
| NASA Road 1 Bypass Extension | 142,300 | 50,612 | 91,688 |
| Live Oak Thru Extension | 751,340 | 43,016 | 708,324 |
| Orchard Street Extension | 1,441,650 | 261,285 | 1,180,365 |
| Traffic Signal-Blossom St. | 74,010 | 73,290 | 720 |
| NASA Road 1 Bypass Phase 2 | 500,000 | 500,000 | - |
| NASA Road 1 Bypass | 2,107,320 | 1,949,229 | 158,091 |
| Texas Avenue Park | 1,520,920 | 332,599 | 1,188,321 |
| Magnolia Median Cut | 59,180 | - | 59,180 |
| Magnolia Offsite Drainage | 70,000 | 1,684 | 68,316 |
| Totals | <u>\$ 7,717,670</u> | <u>\$ 4,175,122</u> | <u>\$ 3,542,548</u> |

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

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

| | Beginning Balance | Increases | (Decreases)/ Reclassifications | Ending Balance |
|--|----------------------|--------------------|-----------------------------------|----------------------|
| Business-type Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 99,269 | \$ - | \$ 3,000 | \$ 102,269 |
| Construction in progress | 29,127 | 385,162 | - | 414,289 |
| Total capital assets not being depreciated | <u>128,396</u> | <u>385,162</u> | <u>3,000</u> | <u>516,558</u> |
| Other capital assets: | | | | |
| Building and improvements | 11,164,878 | - | - | 11,164,878 |
| Furniture and equipment | 281,284 | - | 55,813 | 337,097 |
| Vehicles | 210,441 | - | - | 210,441 |
| Water and sewer system | 8,974,705 | 54,659 | (58,813) | 8,970,551 |
| Total other capital assets | <u>20,631,308</u> | <u>54,659</u> | <u>(3,000)</u> | <u>20,682,967</u> |
| Less accumulated depreciation for: | | | | |
| Building and improvements | (2,504,034) | (241,303) | - | (2,745,337) |
| Furniture and equipment | (256,525) | (18,941) | (40,634) | (316,100) |
| Vehicles | (134,748) | (27,374) | - | (162,122) |
| Water and sewer system | (4,750,825) | (246,812) | 40,634 | (4,957,003) |
| Total accumulated depreciation | <u>(7,646,132)</u> | <u>(534,430)</u> | <u>-</u> | <u>(8,180,562)</u> |
| Other capital assets, net | 12,985,176 | (479,771) | (3,000) | 12,502,405 |
| Totals | <u>\$ 13,113,572</u> | <u>\$ (94,609)</u> | <u>\$ -</u> | <u>\$ 13,018,963</u> |

Depreciation was charged to business-type functions as follows:

| | |
|--|-------------------|
| Water | \$ 231,591 |
| Sewer | <u>302,839</u> |
| Total Business-type Activities Depreciation Expense | <u>\$ 534,430</u> |

Construction in progress and remaining commitments under related construction contracts for enterprise fund projects at year end were as follows:

| Project Description | Authorized Contract | Contract Expenditures | Remaining Commitment |
|-----------------------------|------------------------|--------------------------|-------------------------|
| E Commerce Water/Sewer Line | \$ 183,710 | \$ 8,696 | \$ 175,014 |
| CLWA Service Area | 404,490 | 208,975 | 195,515 |
| SEWPP/Beamer Rd Water Line | 1,677,000 | - | 1,677,000 |
| Magnolia WWTP Expansion | 246,950 | 5,527 | 241,423 |
| Total | <u>\$ 2,512,150</u> | <u>\$ 223,198</u> | <u>\$ 2,288,952</u> |

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

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>Due within One Year</u> |
|---------------------------------------|------------------------------|----------------------|----------------------|---------------------------|--------------------------------|
| Governmental Activities: | | | | | |
| Bonds, notes and other payables: | | | | | |
| General obligation bonds | \$ 12,659,035 | \$ 10,300,000 | \$ 4,407,590 | \$ 18,551,445 | \$ 795,182 |
| Certificates of obligation | 8,500,000 | 1,405,000 | 5,550,000 | 4,355,000 | 145,000 |
| Less deferred charges | (169,104) | (858,483) | 86,178 | (941,409) | - |
| Obligations under capital leases | 158,655 | - | 158,655 | - | - |
| Obligation to state | 387,794 | - | 172,353 | 215,441 | 172,350 |
| | <u>21,536,380</u> | <u>10,846,517</u> | <u>10,374,776</u> | <u>22,180,477</u> | <u>1,112,532</u> |
| Other liabilities: | | | | | |
| Compensated absences | 434,729 | 359,339 | 357,514 | 436,554 | 359,015 |
| Total Governmental Activities | <u>\$ 21,971,109</u> | <u>\$ 11,205,856</u> | <u>\$ 10,732,290</u> | <u>\$ 22,617,031</u> | <u>\$ 1,471,547</u> |
| Business-type Activities: | | | | | |
| Interfund loan payable | \$ 562,044 | \$ - | \$ 52,507 | \$ 509,537 | \$ 53,619 |
| Compensated absences | 43,360 | 7,786 | 7,404 | 43,742 | 36,273 |
| Total Business-type Activities | <u>\$ 605,404</u> | <u>\$ 7,786</u> | <u>\$ 59,911</u> | <u>\$ 553,279</u> | <u>\$ 89,892</u> |
| WEDC | | | | | |
| Bonds payable | \$ 13,375,000 | \$ - | \$ 555,000 | \$ 12,820,000 | \$ 585,000 |
| Obligation to state | 129,264 | - | 57,450 | 71,814 | 57,450 |
| | <u>\$ 13,504,264</u> | <u>\$ -</u> | <u>\$ 612,450</u> | <u>\$ 12,891,814</u> | <u>\$ 642,450</u> |

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

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.

Long-term debt at year end was comprised of the following debt issues:

| <u>Description</u> | <u>Interest Rates</u> | <u>Balance</u> |
|--|-----------------------|----------------------|
| Public Improvement Refunding Bonds Series 1996 | 4.25-5.05 % | \$ 1,131,445 |
| Public Improvement Refunding Bonds Series 2000B | 5.35-6.0 % | 2,710,000 |
| Total Public Improvement Bonds | | <u>3,841,445</u> |
| General Obligation Refunding Bonds Series 2003 | 2.50-3.25% | 4,410,000 |
| General Obligation Refunding Bonds Series 2005 | 3.00-4.125% | 10,300,000 |
| Total General Obligation Bonds | | <u>14,710,000</u> |
| Total Bonds | | <u>18,551,445</u> |
| Tax and Revenue Certificates of Obligation Series 2000A | 5.90-6.00 % | 2,950,000 |
| Tax and Revenue Certificates of Obligation Series 2005 | 3.25-4.125% | 1,405,000 |
| Total Certificates of Obligation | | <u>4,355,000</u> |
| Total General Long-Term Debt | | <u>\$ 22,906,445</u> |
| <u>WEDC</u> | | |
| Sales Tax Revenue Bonds Series 2000 | 5.2-5.75 % | <u>\$ 12,820,000</u> |

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

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

| Year Ending Sept. 30 | <u>Governmental Activity</u> | | | | |
|----------------------------|------------------------------|----------------------|----------------------|---------------------|----------------------|
| | City of Webster | | WEDC | | Total |
| | Principal | Interest | Principal | Interest | |
| 2006 | \$ 940,182 | \$ 1,149,188 | \$ 585,000 | \$ 697,159 | \$ 3,371,529 |
| 2007 | 1,010,265 | 1,107,865 | 610,000 | 667,909 | 3,396,039 |
| 2008 | 860,998 | 1,447,633 | 645,000 | 637,104 | 3,590,735 |
| 2009 | 1,210,000 | 857,974 | 675,000 | 604,209 | 3,347,183 |
| 2010 | 1,135,000 | 804,078 | 710,000 | 569,615 | 3,218,693 |
| 2011-2015 | 6,475,000 | 3,350,355 | 4,155,000 | 2,244,444 | 16,224,799 |
| 2016-2021 | 11,275,000 | 1,673,945 | 5,440,000 | 958,750 | 19,347,695 |
| Total | <u>\$ 22,906,445</u> | <u>\$ 10,391,038</u> | <u>\$ 12,820,000</u> | <u>\$ 6,379,190</u> | <u>\$ 52,496,673</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 is not obligated in any manner for special assessment debt.

Advance Refunding

The City issued \$10,300,000 of general obligation refunding bonds to provide resources to purchase direct obligations of the United States of America that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments in the amount of \$9,215,000 for portions of the City's outstanding Tax and Revenue Certificates of Obligation, Series 2000A and the City's Public Improvement and Refunding Bonds, Series 2000B. As a result, the refunded portions of the certificates and bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$834,293. This amount is being netted against the new debt and amortized over the life of the new debt, which is equal to the life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next sixteen years by \$876,396 and resulted in an economic gain of \$643,091.

In 2003, the City defeased certain public improvement bonds, series 1992 in the amount of \$1,360,000 and public improvement bonds, series 1993 in the amount of \$4,100,000 by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2005, \$1,125,000 of public improvement bonds, series 1992 and \$3,750,000 of public improvement bonds, series 1993 outstanding were considered defeased related to the 2003 refunding.

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

Obligations to State – Refund of Sales Tax

During the year 2003, the Texas State Comptroller of Public Accounts notified the City that the State had remitted \$919,209 in sales tax receipts to the City, which was not collected within the City. The terms of the settlement required the City to repay the State in 48 monthly non-interest installments of \$19,150 being withheld from the sales tax remittance each month from the Texas State Comptroller of Public Accounts. Accordingly, this liability has been allocated between the City and WEDC, the balance due as of September 30, 2005 is \$287,255 and of this amount \$215,441 has been allocated to the City and \$71,814 to the WEDC.

E. Interfund Transactions

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

| Transfer Out | Transfer In | Amounts |
|---|-----------------------|--------------|
| General Fund | Street Construction | \$ 121,000 |
| General Fund | Nonmajor Governmental | 979,640 |
| Hotel and Motel Tax-Special Revenue | General Fund | 37,930 |
| Nonmajor Governmental Funds | | |
| Municipal Court Programs-Special Revenue | General Fund | 22,900 |
| Certificates of Obligation, Series 2000 | Debt Service | 200,000 |
| General Obligation Refunding, Series 2005 | Debt Service | 12,478 |
| Enterprise Fund | General Fund | 250,000 |
| Enterprise Fund | Nonmajor Governmental | 45,420 |
| | | \$ 1,669,368 |

Capital assets related to the component unit in the amount of \$972,830 were transferred to governmental funds. No amounts were reported in the governmental funds. Other amounts transferred between funds related to amounts collected by general, enterprise, hotel and motel tax-special revenue, and other nonmajor governmental funds for various governmental expenditures and debt payments.

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

The advance loan from the general fund to the enterprise fund is a ten-year note for the painting of the Magnolia and Blossom/Plumley water plant. The loan bears interest at the rate of 2.1 percent per annum and is payable in quarterly installments. The following is the repayment schedule:

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

| Years | Principal | Interest | Annual Requirement |
|-------|-------------------|------------------|--------------------|
| 2006 | \$ 53,619 | \$ 10,281 | \$ 63,900 |
| 2007 | 54,753 | 9,147 | 63,900 |
| 2008 | 55,913 | 7,987 | 63,900 |
| 2009 | 57,096 | 6,804 | 63,900 |
| 2010 | 58,305 | 5,595 | 63,900 |
| 2011 | 59,539 | 4,361 | 63,900 |
| 2012 | 60,799 | 3,101 | 63,900 |
| 2013 | 62,087 | 1,813 | 63,900 |
| 2014 | 47,426 | 488 | 47,914 |
| | <u>\$ 509,537</u> | <u>\$ 49,577</u> | <u>\$ 559,114</u> |

F. Fund Equity

The City records fund balance reserves on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of fund balances reserved or designated recognized by the City:

| | | |
|---|-----------|------------------|
| General Fund | | |
| Reserved for prepaid items | \$ | 129,460 |
| Reserved for advances | | 455,918 |
| Debt Service Fund | | |
| Reserved for debt service | \$ | 852,624 |
| Hotel and Motel Tax | | |
| Reserved for enhancement and promotion of tourism | \$ | 1,309,380 |
| Street Construction | | |
| Designated for construction | \$ | 1,898,544 |
| Certificates of Obligation, Series 2005, Capital Project | | |
| Reserved for construction | | 1,297,560 |
| Nonmajor Other Governmental Funds | | |
| Reserved for public safety | \$ | 37,018 |
| Reserved for municipal court programs | | 249,245 |
| Reserved for capital projects | | 310,164 |
| Designated for equipment replacement | | 1,348,801 |
| Designated for construction | | 319,078 |
| | <u>\$</u> | <u>2,264,306</u> |
| Component Unit - WEDC | | |
| Reserved for debt service | \$ | 1,401,624 |
| Reserved for capital projects | | 3,803,922 |
| Reserved for economic development | | 2,558,685 |
| | <u>\$</u> | <u>7,764,231</u> |

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

V. 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 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

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in a lawsuit. Although the outcome of this lawsuit is not presently determinable, it is the opinion of the City's management that resolution of this matter will not have a material adverse effect of 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 Systems

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 801 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

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 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

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 is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2004, valuation is effective for rates beginning January 2006).

All assumptions for the 12/31/04 valuations are contained in the 2004 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 WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

Three-Year Contribution Information

| Fiscal year | Annual Pension Percentage of ARC | | Net Pension Obligation |
|-------------|----------------------------------|---------------|---------------------------|
| | Cost (ARC) | Contributions | |
| 2003 | \$ 761,737 | 100% | \$ - |
| 2004 | 808,259 | 100% | - |
| 2005 | 935,036 | 100% | - |

2. Texas Statewide Emergency Services Personnel Retirement Fund

The Texas Statewide Emergency Services Personnel Retirement Fund (the "Fund") year is from September 1 through the following August 31. Actuarial Valuations are performed biennially in even numbered years. The following is the latest information available on the Fund as of August 31, 2004.

Plan Description and Contribution Information

The Fire Fighters' Pension Commission is the administrator of the Texas Statewide Emergency Services Personnel Retirement Fund, 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 monetary remuneration. The Texas Statewide Emergency Services Personnel Retirement Fund 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, 2004, there were 177 member departments participating in the pension system.

The table below summarizes the pension system membership as of August 31, 2004:

| | |
|--|-------|
| Retirees and beneficiaries currently receiving benefits | 1,557 |
| Terminated members entitled to benefits but not yet receiving them | 1,827 |
| Active participants (vested and nonvested) | 4,610 |

The above membership count does not include retirees and beneficiaries who have been in the H.B. 258 Texas Local Fire Fighters Retirement Act (TLFFRA) fund before merging in S.B. 411. Of the 4,610 current members, 10 were covered by the City of Webster.

The pension system was created by Senate Bill 411, 65th Legislature, Regular Session (1977), and it established the applicable benefit provisions. These benefit provisions include retirement benefits, as well as death and disability benefits.

Eligible members include emergency services personnel who provide services related to fire, rescue and emergency medical services and who serve without remuneration while members in the good standing of a participating department. In addition, eligible members include auxiliary employees who receive limited compensation from a political subdivision of Texas and who are certified by the political subdivision as being regularly engaged in the performance of duties for a participating department. Members are vested beginning with the fifth year of service at 5% per year of service for the first ten years and 10% for each of the next five years of service.

Upon reaching age 55, a vested member may retire and receive a monthly pension equal to his vested percentage 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 increased at the rate of 7% compounded annually.

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

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 and disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

Contribution requirements were established by S.B. 411, 65th Legislature, Regular Session (1977). No contributions are required by volunteer emergency services personnel. The governing bodies of participating department members are required to contribute at least \$12 per month for each active member. Additional contributions may be required by a governing body to pay for unfunded prior service costs and buybacks of up to 15 years of qualified service. The State may also be required to make annual contributions of a limited amount to make the fund actuarially sound.

Funding Status and Progress

The "actuarial accrued liability" represents the value of the portion of the member's anticipated retirement, death, disability and termination benefits accrued as of the valuation date. The entry age actuarial cost method is used for determining the actuarial accrued liability. Projected salary increases and any step rate benefits are not applicable. Benefits are not based on salaries of the member. The actuarial accrued liability is intended to help users assess the pension system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparison among public employee retirement systems. This measure is the same as the actuarial funding method used to perform the actuarial valuation.

The last actuarial valuation was conducted on August 31, 2004. Significant actuarial assumptions used included (a) of return on the investment of present and future assets of 8.00% per year, and (b) the future contribution level will increase at the same rate as the average increases in dues over the last five years for the plan in total.

On August 31, 2004, the unfunded actuarial accrued liability was \$13,426,925. The "Required Supplementary Information" illustrates the funded status for the last three years' actuarial valuations from August 31, 2000 through August 31, 2004.

Contribution Required and Contribution Made

The contribution requirement of at least \$12 per member is not actuarially determined. Rather, the contribution amount was established by S.B. 411, 65th Legislature, Regular Session (1977). For the year ending August 31, 2004, contributions totaling \$1,891,243 for dues and prior service were paid into the fund by the governing bodies sponsoring the member participating departments. Contributions made were equal to the contributions required by the state statute but were equal to only 65% of the contributions required based on the August 31, 2002, actuarial valuation. For 2005, 2004, and 2003, \$11,650 or 0.62%, \$12,400 or 0.66%, and \$7,900 or 0.44%, respectively, of the contribution for dues and prior service was contributed by the City of Webster.

The purpose of the biennial actuarial valuation is to test the adequacy of the monthly contributions to determine if they fund the benefits that have been promised. The actuarial valuations as of August 31, 2004, revealed again the inadequacy of the expected contributions (dues and prior service contributions). The total contributions expected from the political subdivisions for the fiscal year ending August 31, 2005, are \$1,163,758 less than the required contribution for the year based on amortizing the unfunded actuarial accrued liability over 30 years. Expected contributions are equal to 64% of the contributions required.

CITY OF WEBSTER, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2005

In addition to the contributions for dues and prior service made to the Texas Statewide Emergency Services Personnel Retirement Fund, some cities are required to make additional deposits. The additional deposits are for retirees and beneficiaries who have been in the H.B. 258 Texas Local Fire Fighters Retirement Act (TLFFRA) fund before merging into S.B. 411 for Webster; this additional deposit was \$0.

Assumptions for the 08/31/04 valuations may be obtained by writing to Actuarial Business Consultants, Inc., P.O. Box 794295, Dallas, Texas 75379-4295. The following is a summary of the actuarial assumptions:

| | |
|-------------------------------|--|
| Valuation date | August 31, 2004 |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level dollar, open |
| Remaining Amortization Period | Infinity based on current financing Market value smoothed by a 5-year deferred recognition method with a |
| Asset Valuation Method | 90%/110% corridor on market value |
| Investment Rate of Return | 8% per year |
| Projected Salary Increases | N/A |
| Includes Inflation at | 4.00% |
| Cost of Living Adjustments | None |

D. Hurricane Rita

Prior to making landfall on September 24, 2005, the National Hurricane Center forecasted that Hurricane Rita, a category 5 hurricane and one of largest storms on record, would likely come ashore just west of the City, placing the City on the “dirty side” of the storm. This news came just one month after the devastating affects of Hurricane Katrina on New Orleans, Louisiana and the surrounding area. In the days leading up to landfall, revised forecasts placed the storm’s path directly across the City. The combination of these events prompted the region to undergo one of the largest evacuations on record. Actual landfall occurred east of the City, near the Texas/Louisiana border, and the damage results for the City were less than originally predicted.

Nonetheless, the City incurred substantial expenses: planning and preparing for the event; providing refuge and assistance to citizens of the area; manning emergency operations; and cleaning up debris. Many of these expenditures incurred by the City are expected to be reimbursed by the Federal Emergency Management Agency (FEMA). The City has estimated the amount it anticipates to recover from FEMA for the portion of expenditures incurred prior to year end. However, FEMA’s policies have and will likely change; therefore, the actual reimbursement could differ from the amount estimated based on the City’s current understanding and interpretation of FEMA’s policies.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WEBSTER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (Page 1 of 2)
GENERAL FUND

Year Ended September 30, 2005
 With Comparative Totals for the Year Ended September 30, 2004

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) | 2004 Actual |
|-------------------------------------|--------------------|----------------------|--------------|--|----------------|
| | Original Budget | Budget as Amended | | | |
| Revenues | | | | | |
| Property taxes | \$ 386,090 | \$ 386,090 | \$ 443,624 | \$ 57,534 | \$ 314,615 |
| Sales taxes | 7,985,300 | 8,761,790 | 8,800,250 | 38,460 | 7,567,240 |
| Franchise fees | 761,900 | 761,900 | 777,018 | 15,118 | 740,553 |
| Other taxes | 306,920 | 306,920 | 346,936 | 40,016 | 308,947 |
| Licenses and permits | 219,510 | 219,510 | 640,068 | 420,558 | 305,699 |
| Fines and forfeitures | 835,400 | 835,400 | 765,873 | (69,527) | 738,694 |
| Charges for services | 16,300 | 16,300 | 27,673 | 11,373 | 18,091 |
| Other | 71,730 | 71,730 | 68,979 | (2,751) | 74,256 |
| Investment income | 85,300 | 85,300 | 151,078 | 65,778 | 83,930 |
| Contributions | 700,000 | 700,000 | 700,000 | - | 700,000 |
| Intergovernmental | 41,400 | 41,400 | 127,573 | 86,173 | 40,540 |
| Total Revenues | 11,409,850 | 12,186,340 | 12,849,072 | 662,732 | 10,892,565 |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | | | | | |
| City Council | 180,690 | 190,690 | 179,265 | 11,425 | 194,571 |
| City Secretary | 260,450 | 267,490 | 279,102 | (11,612) * | 244,383 |
| Public Relations | 81,050 | 82,280 | 76,086 | 6,194 | 78,671 |
| City Manager | 165,880 | 167,320 | 159,808 | 7,512 | 157,035 |
| Finance | 523,570 | 554,260 | 547,297 | 6,963 | 518,339 |
| Municipal Court | 413,390 | 417,760 | 398,896 | 18,864 | 390,893 |
| Information Tech. | 240,050 | 242,510 | 247,572 | (5,062) * | 219,008 |
| Human Resources | 270,470 | 286,280 | 252,404 | 33,876 | 261,794 |
| Non departmental | 588,050 | 426,800 | 319,482 | 107,318 | 322,948 |
| Total General Government | 2,723,600 | 2,635,390 | 2,459,912 | 175,478 | 2,387,642 |
| Public safety | | | | | |
| Police | 4,783,430 | 5,002,710 | 4,923,893 | 78,817 | 4,662,080 |
| Fire | 1,049,910 | 1,214,260 | 1,207,607 | 6,653 | 961,022 |
| Total Public Safety | \$ 5,833,340 | \$ 6,216,970 | \$ 6,131,500 | \$ 85,470 | \$ 5,623,102 |

CITY OF WEBSTER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (Page 2 of 2)
GENERAL FUND

Year Ended September 30, 2005
 With Comparative Totals for the Year Ended September 30, 2004

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) | 2004 Actual |
|--|----------------------------|------------------------------|---------------------|--|-------------------|
| | <u>Original Budget</u> | <u>Budget as Amended</u> | <u>Actual</u> | | |
| Community Development | | | | | |
| Community Development: | | | | | |
| Administrative | \$ 435,500 | \$ 449,290 | \$ 436,367 | \$ 12,923 | \$ 426,988 |
| Building | 440,730 | 447,050 | 437,788 | 9,262 | 441,360 |
| Engineering | 151,320 | 153,660 | 151,046 | 2,614 | 144,824 |
| Recreational | 300,760 | 305,220 | 264,578 | 40,642 | 251,421 |
| Public Works: | | | | | |
| Administrative | 257,490 | 266,600 | 255,055 | 11,545 | 216,923 |
| Maintenance | 963,660 | 1,062,160 | 1,051,375 | 10,785 | 947,912 |
| Parks | 419,710 | 421,870 | 389,409 | 32,461 | 371,029 |
| Economic | | | | | |
| Development | 194,330 | 196,710 | 179,318 | 17,392 | 200,751 |
| Total Community Development | <u>3,163,500</u> | <u>3,302,560</u> | <u>3,164,936</u> | <u>137,624</u> | <u>3,001,208</u> |
| Total Expenditures | <u>11,720,440</u> | <u>12,154,920</u> | <u>11,756,348</u> | <u>398,572</u> | <u>11,011,952</u> |
| Revenues Over (Under) Expenditures | <u>(310,590)</u> | <u>31,420</u> | <u>1,092,724</u> | <u>1,061,304</u> | <u>(119,387)</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | 310,830 | 310,830 | 310,830 | - | 402,470 |
| Transfers out | - | (1,100,640) | (1,100,640) | - | (94,450) |
| Sale of capital assets | 10 | 10 | - | (10) | 17,454 |
| Total Other Financing Sources (Uses) | <u>310,840</u> | <u>(789,800)</u> | <u>(789,810)</u> | <u>(10)</u> | <u>325,474</u> |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses) | <u>\$ 250</u> | <u>\$ (758,380)</u> | <u>302,914</u> | <u>\$ 1,061,294</u> | <u>\$ 206,087</u> |
| Fund Balances, beginning of year | | | <u>6,382,365</u> | | |
| Fund Balances, End of Year | | | <u>\$ 6,685,279</u> | | |

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Expenditures exceeded appropriations at the legal level of control.

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CITY OF WEBSTER, TEXAS
SPECIAL REVENUE FUNDS-HOTEL AND MOTEL TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended September 30, 2005
With Comparative Totals for the Year Ended September 30, 2004

| | <u>2005</u> | | Variance with Final Budget Positive (Negative) | 2004 Actual |
|---|--|---------------------|---|------------------------|
| | Original and Final Budgeted Amounts | Actual | | |
| <u>Revenues</u> | | | | |
| Hotel and motel taxes | \$ 369,000 | \$ 401,720 | \$ 32,720 | \$ 368,774 |
| Charges for services - Civic Center | 21,000 | 26,136 | 5,136 | 25,162 |
| Other revenue | - | 2,208 | 2,208 | - |
| Investment income | 14,900 | 29,914 | 15,014 | 15,356 |
| Total Revenues | <u>404,900</u> | <u>459,978</u> | <u>55,078</u> | <u>409,292</u> |
| <u>Expenditures</u> | | | | |
| General government | 63,870 | 37,068 | 26,802 | 46,740 |
| Community services | 288,850 | 258,123 | 30,727 | 225,701 |
| Total Expenditures | <u>352,720</u> | <u>295,191</u> | <u>57,529</u> | <u>272,441</u> |
| Revenues Over Expenditures | <u>52,180</u> | <u>164,787</u> | <u>112,607</u> | <u>136,851</u> |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Transfers out | (37,930) | (37,930) | - | (33,380) |
| Total Other Financing (Uses) | <u>(37,930)</u> | <u>(37,930)</u> | <u>-</u> | <u>(33,380)</u> |
| Revenues and Other Financing Sources Over Expenditures and Other Financing Sources | <u>\$ 14,250</u> | 126,857 | <u>\$ 112,607</u> | <u>\$ 103,471</u> |
| Fund balance - beginning of year | | <u>1,182,523</u> | | |
| Fund Balance, End of Year | | <u>\$ 1,309,380</u> | | |

Note to Required Supplementary Information:

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

CITY OF WEBSTER, TEXAS

SCHEDULE OF FUNDING PROGRESS- TEXAS MUNICIPAL RETIREMENT SYSTEM

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>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Actuarial Valuation date | 12/31/2004 | 12/31/2003 | 12/31/2002 | 12/31/2001 | 12/31/2000 |
| Actuarial Value of Assets | \$ 13,197,647 | \$ 11,444,526 | \$ 9,901,914 | \$ 9,024,033 | \$ 8,075,271 |
| Actuarial Accrued Liability | \$ 16,969,658 | \$ 15,749,703 | \$ 13,314,651 | \$ 11,956,108 | \$ 10,647,193 |
| Percentage Funded | 77.8% | 72.7% | 74.4% | 75.5% | 75.8% |
| Unfunded Actuarial | | | | | |
| Accrued Liability | \$ 3,772,011 | \$ 4,305,177 | \$ 3,412,737 | \$ 2,932,075 | \$ 2,571,922 |
| Annual Covered Payroll | \$ 5,848,356 | \$ 5,796,429 | \$ 5,744,057 | \$ 5,606,027 | \$ 5,431,815 |
| Unfunded Actuarial Accrued Liability | | | | | |
| (UAAL) % of Covered Payroll | 64.5% | 74.3% | 59.4% | 52.3% | 47.3% |
| Net Pension Obligation (NPO) | | | | | |
| at the Beginning of Period | \$ - | \$ - | \$ - | \$ - | \$ - |
| Annual Req. Contrib. (ARC) | \$ 935,036 | \$ 808,259 | \$ 761,737 | \$ 701,280 | \$ 705,073 |
| Contributions Made | \$ 935,036 | \$ 808,259 | \$ 761,737 | \$ 701,280 | \$ 705,073 |
| NPO at the End of Period | \$ - | \$ - | \$ - | \$ - | \$ - |

CITY OF WEBSTER, TEXAS
SCHEDULE OF FUNDING PROGRESS-
TEXAS STATEWIDE SERVICES PERSONNEL RETIREMENT FUND

| Fiscal year | <u>2004</u> | <u>2002*</u> | <u>2000</u> |
|-------------------------------|---------------|----------------|----------------|
| Actuarial Valuation date | 8/31/2004 | 8/31/2002 | 8/31/2000 |
| Actuarial Value of Assets | \$ 38,140,501 | \$ 32,797,262 | \$ 36,767,553 |
| Actuarial Accrued Liability | \$ 51,567,426 | \$ 45,976,387 | \$ 36,048,771 |
| Percentage Funded | 74.0% | 71.3% | 102.0% |
| Unfunded Actuarial | | | |
| Accrued Liability | \$ 13,426,925 | \$ 13,179,125 | \$ (718,782) |
| Total members covered | 7,994 | 7,669 | 7,114 |
| UAAL per Member Covered | \$ 1,680 | \$ 1,718 | \$ (101) |
| Annual Req. Contrib. (ARC) | \$ 2,896,557 | \$ 1,768,059 | \$ 1,469,777 |
| Contributions Made | \$ 1,891,243 | \$ 1,768,059 | \$ 1,469,777 |
| Percentage Contributed | <u>\$ 65%</u> | <u>\$ 100%</u> | <u>\$ 100%</u> |

* Actuarial assumptions and methodology were changed for the August 31, 2002 valuation.

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***COMBINING STATEMENTS
AND SCHEDULES***

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

The Public Safety Fund is used to account for the City's equitable share of cash and proceeds realized from forfeited property from cases aided by the City's law enforcement and prosecuted by appropriate governmental agencies, as well as donations to the City's fire department. All equitable shared cash must be used for public safety purposes.

The Municipal Court Program Fund is used to account for court fines and fees that are legally restricted to be used in child safety, court security, judicial efficiency, and court technology programs.

The Equipment Replacement Fund is used to account for all financial resources to be used for vehicle and equipment replacement.

Capital Projects Funds

The Capital Projects Funds account for financial resources used for the acquisition and/or construction of major capital improvements

The Parks and Landscape Fund accounts for the acquisition and improvements of the City's parks and landscaping and beautification projects of facilities and right of ways. These funds have been contributed by the General Fund and the Enterprise Fund.

The Drainage Construction Fund accounts for drainage improvements within the City. The principle resources of this fund are proceeds from the sale of bonds.

The Certificates Obligation Series 2000 accounts for the construction of a new City Hall facility and the expansion of the Police Department facility. The funding for these improvements are through Certificates of Obligation, Series 2000.

The Building Construction Fund accounts for the cost of construction and improvements of the City's facilities and buildings. These funds have been provided from the General Fund, Enterprise Fund, and Street Construction Fund.

The 2000 General Obligation Bonds - Streets, Roads and Drainage Fund accounts for the cost of right of way purchases and street, road, and drainage improvements within the City. The funding for these improvements are through Public Improvement Bonds, Series 2000.

The 2005 General Obligation Refunding Bonds were issued to refund a portion of outstanding Tax and Revenue Certificates of Obligation, Series 2000A, and the Public Improvement and Refunding Bonds, Series 2000B.

CITY OF WEBSTER, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2005

| | Special Revenue Funds | | | |
|--|-----------------------|--------------------------------|--------------------------|------------------------|
| | Public Safety | Municipal Court Programs | Equipment Replacement | Parks and Landscape |
| <u>Assets</u> | | | | |
| Cash and cash equivalents | \$ 37,681 | \$ 249,512 | \$ 1,348,801 | \$ 62,457 |
| Total Assets | \$ 37,681 | \$ 249,512 | \$ 1,348,801 | \$ 62,457 |
| <u>Liabilities and Fund Balance</u> | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 663 | \$ 267 | \$ - | \$ 10,971 |
| Total Liabilities | 663 | 267 | - | 10,971 |
| <u>Fund Balances</u> | | | | |
| Reserved: | | | | |
| Public safety | 37,018 | - | - | - |
| Municipal court | - | 249,245 | - | - |
| Capital projects | - | - | - | - |
| Unreserved and designated: | | | | |
| Construction | - | - | - | 51,486 |
| Equipment replacement | - | - | 1,348,801 | - |
| Total Fund Balance | 37,018 | 249,245 | 1,348,801 | 51,486 |
| Total Liabilities and Fund Balance | \$ 37,681 | \$ 249,512 | \$ 1,348,801 | \$ 62,457 |

Capital Project Funds

| Drainage Improvement | Certificates Obligation Series 2000 | Building Construction | General Obligation Bonds 2000 | General Obligation Refunding Bonds 2005 | Total Nonmajor Governmental Funds |
|---------------------------------|--|----------------------------------|--|--|--|
| \$ 8,213 | \$ 198,688 | \$ 259,379 | \$ 111,476 | \$ - | \$ 2,276,207 |
| <u>\$ 8,213</u> | <u>\$ 198,688</u> | <u>\$ 259,379</u> | <u>\$ 111,476</u> | <u>\$ -</u> | <u>\$ 2,276,207</u> |
| | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 11,901 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>11,901</u> |
| | | | | | |
| - | - | - | - | - | 37,018 |
| - | - | - | - | - | 249,245 |
| - | 198,688 | - | 111,476 | - | 310,164 |
| 8,213 | - | 259,379 | - | - | 319,078 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,348,801</u> |
| <u>8,213</u> | <u>198,688</u> | <u>259,379</u> | <u>111,476</u> | <u>-</u> | <u>2,264,306</u> |
| | | | | | |
| <u>\$ 8,213</u> | <u>\$ 198,688</u> | <u>\$ 259,379</u> | <u>\$ 111,476</u> | <u>\$ -</u> | <u>\$ 2,276,207</u> |

CITY OF WEBSTER, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
Year Ended September 30, 2005

| | <u>Special Revenue Funds</u> | | | |
|--|------------------------------|---|----------------------------------|--------------------------------|
| | <u>Public Safety</u> | <u>Municipal Court Programs</u> | <u>Equipment Replacement</u> | <u>Parks and Landscape</u> |
| Revenues | | | | |
| Fines and forfeitures | \$ 11,641 | \$ 63,853 | \$ - | \$ - |
| Investment income | 1,176 | 6,014 | 11,921 | 1,699 |
| Intergovernmental | 6,666 | - | - | - |
| Other revenue | 245 | - | - | - |
| Total Revenues | <u>19,728</u> | <u>69,867</u> | <u>11,921</u> | <u>1,699</u> |
| Expenditures | | | | |
| General government | - | 12,142 | - | - |
| Public safety | 34,968 | - | - | - |
| Capital projects | - | - | - | 13,621 |
| Interest and fiscal charges | - | - | - | - |
| Total Expenditures | <u>34,968</u> | <u>12,142</u> | <u>-</u> | <u>13,621</u> |
| Revenues Over (Under) Expenditures | <u>(15,240)</u> | <u>57,725</u> | <u>11,921</u> | <u>(11,922)</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | - | 1,025,060 | - |
| Transfers out | - | (22,900) | - | - |
| Issuance of debt | - | - | - | - |
| Discount on debt | - | - | - | - |
| Payment to escrow agent | - | - | - | - |
| Total Other Financing (Uses) | <u>-</u> | <u>(22,900)</u> | <u>1,025,060</u> | <u>-</u> |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses) | <u>(15,240)</u> | <u>34,825</u> | <u>1,036,981</u> | <u>(11,922)</u> |
| Fund balances, beginning of year | <u>52,258</u> | <u>214,420</u> | <u>311,820</u> | <u>63,408</u> |
| Fund Balances, End of Year | <u>\$ 37,018</u> | <u>\$ 249,245</u> | <u>\$ 1,348,801</u> | <u>\$ 51,486</u> |

Capital Project Funds

| Drainage Improvement | Certificates Obligation Series 2000 | Building Construction | General Obligation Bonds 2000 | General Obligation Refunding Bonds 2005 | Total Nonmajor Governmental Funds |
|---------------------------------|--|----------------------------------|--|--|--|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 75,494 |
| 211 | 10,063 | 11,473 | 2,922 | - | 45,479 |
| - | - | - | - | - | 6,666 |
| - | - | - | - | - | 245 |
| <u>211</u> | <u>10,063</u> | <u>11,473</u> | <u>2,922</u> | <u>-</u> | <u>127,884</u> |
| - | - | - | - | - | 12,142 |
| - | - | - | - | - | 34,968 |
| - | (20,668) | 358,416 | - | - | 351,369 |
| - | - | - | - | 191,684 | 191,684 |
| <u>-</u> | <u>(20,668)</u> | <u>358,416</u> | <u>-</u> | <u>191,684</u> | <u>590,163</u> |
| <u>211</u> | <u>30,731</u> | <u>(346,943)</u> | <u>2,922</u> | <u>(191,684)</u> | <u>(462,279)</u> |
| - | - | - | - | - | 1,025,060 |
| - | (200,000) | - | - | (12,478) | (235,378) |
| - | - | - | - | 10,300,000 | 10,300,000 |
| - | - | - | - | (46,545) | (46,545) |
| - | - | - | - | (10,049,293) | (10,049,293) |
| <u>-</u> | <u>(200,000)</u> | <u>-</u> | <u>-</u> | <u>191,684</u> | <u>993,844</u> |
| 211 | (169,269) | (346,943) | 2,922 | - | 531,565 |
| <u>8,002</u> | <u>367,957</u> | <u>606,322</u> | <u>108,554</u> | <u>-</u> | <u>1,732,741</u> |
| <u>\$ 8,213</u> | <u>\$ 198,688</u> | <u>\$ 259,379</u> | <u>\$ 111,476</u> | <u>\$ -</u> | <u>\$ 2,264,306</u> |

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CITY OF WEBSTER, TEXAS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended September 30, 2005
With Comparative Totals for the Year Ended September 30, 2004

| | <u>2005</u> | | Variance with Final Budget Positive (Negative) | <u>2004</u> Actual |
|--|--|-------------------|--|-----------------------|
| | Original and Final Budgeted Amounts | Actual | | |
| <u>Revenues</u> | | | | |
| Property taxes | \$ 1,733,550 | \$ 1,831,868 | \$ 98,318 | \$ 1,690,880 |
| Contributions | 330,030 | 330,030 | - | 330,030 |
| Other revenue | - | 56,304 | 56,304 | - |
| Investment income | 5,000 | 19,373 | 14,373 | 10,709 |
| Total Revenues | <u>2,068,580</u> | <u>2,237,575</u> | <u>168,995</u> | <u>2,031,619</u> |
| <u>Expenditures</u> | | | | |
| Principal | 819,690 | 819,689 | 1 | 1,000,650 |
| Interest and fiscal charges | 1,195,690 | 1,143,918 | 51,772 | 1,077,279 |
| Total Expenditures | <u>2,015,380</u> | <u>1,963,607</u> | <u>51,773</u> | <u>2,077,929</u> |
| Revenues Over (Under) Expenditures | <u>53,200</u> | <u>273,968</u> | <u>220,768</u> | <u>(46,310)</u> |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Transfers in | - | 212,478 | 212,478 | 108,173 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>212,478</u> | <u>212,478</u> | <u>108,173</u> |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses) | <u>\$ 53,200</u> | 486,446 | <u>\$ 433,246</u> | <u>\$ 61,863</u> |
| Fund Balance, beginning of year | | <u>366,178</u> | | |
| Fund Balance, End of Year | | <u>\$ 852,624</u> | | |

CITY OF WEBSTER, TEXAS
SPECIAL REVENUE FUNDS - PUBLIC SAFETY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended September 30, 2005
With Comparative Totals for the Year Ended September 30, 2004

| | <u>2005</u> | | Variance with Final Budget Positive (Negative) | <u>2004 Actual</u> |
|---|--|------------------|--|------------------------|
| | Original and Final Budgeted Amounts | Actual | | |
| <u>Revenues</u> | | | | |
| Fines and forfeitures | \$ 10,000 | \$ 11,641 | \$ 1,641 | \$ 22,773 |
| Investment income | 650 | 1,176 | 526 | 972 |
| Intergovernmental | 3,750 | 6,666 | 2,916 | 3,576 |
| Other revenue | 600 | 245 | (355) | 1,605 |
| Total Revenues | <u>15,000</u> | <u>19,728</u> | <u>4,728</u> | <u>28,926</u> |
| <u>Expenditures</u> | | | | |
| Public safety | <u>36,500</u> | <u>34,968</u> | <u>1,532</u> | <u>27,458</u> |
| Revenues Over (Under) Expenditures | <u>(21,500)</u> | <u>(15,240)</u> | <u>6,260</u> | <u>1,468</u> |
| <u>Other Financing Sources</u> | | | | |
| Sale of capital assets | - | - | - | 8,730 |
| Transfers out | - | - | - | (13,380) |
| Total Other Financing Sources | <u>-</u> | <u>-</u> | <u>-</u> | <u>(4,650)</u> |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources | <u>\$ (21,500)</u> | <u>(15,240)</u> | <u>\$ 6,260</u> | <u>\$ (3,182)</u> |
| Fund balance, beginning of year | | <u>52,258</u> | | |
| Fund Balance, End of Year | | <u>\$ 37,018</u> | | |

CITY OF WEBSTER, TEXAS
SPECIAL REVENUE FUNDS - MUNICIPAL COURT PROGRAMS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended September 30, 2005
With Comparative Totals for the Year Ended September 30, 2004

| | <u>2005</u> | | Variance with Final Budget Positive (Negative) | <u>2004</u> Actual |
|---|--|-------------------|--|-----------------------|
| | Original and Final Budgeted Amounts | Actual | | |
| <u>Revenues</u> | | | | |
| Fines and forfeitures | \$ 55,300 | \$ 63,853 | \$ 8,553 | \$ 58,513 |
| Investment income | 2,500 | 6,014 | 3,514 | 3,700 |
| Total Revenues | <u>57,800</u> | <u>69,867</u> | <u>12,067</u> | <u>62,213</u> |
| <u>Expenditures</u> | | | | |
| General government | 81,790 | 12,142 | 69,648 | 10,146 |
| Revenues Over (Under) Expenditures | <u>(23,990)</u> | <u>57,725</u> | <u>81,715</u> | <u>52,067</u> |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Transfers out | (22,900) | (22,900) | - | (12,750) |
| Total Other Financing (Uses) | <u>(22,900)</u> | <u>(22,900)</u> | <u>-</u> | <u>(12,750)</u> |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources | <u>\$ (46,890)</u> | 34,825 | <u>\$ 81,715</u> | <u>\$ 39,317</u> |
| Fund balance, beginning of year | | <u>214,420</u> | | |
| Fund Balance, End of Year | | <u>\$ 249,245</u> | | |

CITY OF WEBSTER, TEXAS
SPECIAL REVENUE FUNDS - EQUIPMENT REPLACEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended September 30, 2005
With Comparative Totals for the Year Ended September 30, 2004

| | 2005 | | Variance with Final Budget Positive (Negative) | 2004 Actual |
|---|--|---------------------|--|--------------------|
| | Original and Final Budgeted Amounts | Actual | | |
| Revenues | | | | |
| Investment income | \$ 4,660 | \$ 11,921 | \$ 7,261 | \$ 4,092 |
| Total Revenues | <u>4,660</u> | <u>11,921</u> | <u>7,261</u> | <u>4,092</u> |
| Other Financing Sources (Uses) | | | | |
| Transfer in | 1,025,060 | 1,025,060 | - | 45,420 |
| Transfers out | - | - | - | (117,960) |
| Total Other Financing Sources (Uses) | <u>1,025,060</u> | <u>1,025,060</u> | <u>-</u> | <u>(72,540)</u> |
| Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources | <u>\$ 1,029,720</u> | 1,036,981 | <u>\$ 7,261</u> | <u>\$ (68,448)</u> |
| Fund balance, beginning of year | | <u>311,820</u> | | |
| Fund Balance, End of Year | | <u>\$ 1,348,801</u> | | |

STATISTICAL SECTION

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CITY OF WEBSTER, TEXAS

NET ASSETS BY COMPONENT

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

| | Fiscal Year | | |
|--|----------------------|----------------------|----------------------|
| | 2003 | 2004 | 2005 |
| Governmental activities | | | |
| Invested in capital assets, net of related debt | \$ 27,733,166 | \$ 29,047,446 | \$ 28,559,397 |
| Restricted | 1,501,035 | 2,145,738 | 3,909,606 |
| Unrestricted | 9,434,518 | 8,047,965 | 9,753,629 |
| Total governmental activities net assets | <u>\$ 38,668,719</u> | <u>\$ 39,241,149</u> | <u>\$ 42,222,632</u> |
| Business-type activities | | | |
| Invested in capital assets, net of related debt | \$ 13,676,380 | \$ 13,113,572 | \$ 13,018,963 |
| Restricted | - | - | - |
| Unrestricted | 2,023,318 | 2,167,830 | 2,808,641 |
| Total business-type activities net assets | <u>15,699,698</u> | <u>15,281,402</u> | <u>15,827,604</u> |
| Primary government | | | |
| Invested in capital assets, net of related debt | \$ 41,409,546 | \$ 42,161,018 | \$ 41,578,360 |
| Restricted | 1,501,035 | 2,145,738 | 3,909,606 |
| Unrestricted | 11,457,836 | 10,215,795 | 12,562,270 |
| Total primary government net assets | <u>\$ 54,368,417</u> | <u>\$ 54,522,551</u> | <u>\$ 58,050,236</u> |

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

CITY OF WEBSTER, TEXAS

CHANGES IN NET ASSETS

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

| | Fiscal Year | | |
|--|------------------------|------------------------|------------------------|
| | 2003 | 2004 | 2005 |
| Expenses | | | |
| Governmental activities | | | |
| General government | \$ 3,379,338 | \$ 3,319,970 | \$ 3,266,448 |
| Public safety | 6,160,314 | 6,105,672 | 6,436,542 |
| Community development | 3,659,727 | 3,505,191 | 3,817,687 |
| Interest and fiscal agent fees on long-term debt | 1,138,356 | 1,121,506 | 1,165,289 |
| Total governmental activities expenses | <u>14,337,735</u> | <u>14,052,339</u> | <u>14,685,966</u> |
| Business-type activities | | | |
| Water | 1,131,837 | 1,343,896 | 1,331,436 |
| Sewer | 1,033,796 | 1,168,643 | 1,181,352 |
| Total business-type activities expenses | <u>2,165,633</u> | <u>2,512,539</u> | <u>2,512,788</u> |
| Total primary government expenses | <u>\$ 16,503,368</u> | <u>\$ 16,564,878</u> | <u>\$ 17,198,754</u> |
| Program Revenues | | | |
| Governmental activities | | | |
| Charges for services | | | |
| General government | \$ 39,212 | \$ 43,253 | \$ 53,809 |
| Public safety | 652,594 | 819,980 | 841,367 |
| Community development | 233,376 | 305,699 | 640,068 |
| Operating grants and contributions | 1,118,955 | 1,074,146 | 1,664,269 |
| Total governmental activities program revenues | <u>2,044,137</u> | <u>2,243,078</u> | <u>3,199,513</u> |
| Business-type activities | | | |
| Charges for services | | | |
| Water | 1,143,080 | 1,115,767 | 1,298,509 |
| Sewer | 946,727 | 939,458 | 1,057,025 |
| Operating grants and contributions | - | - | - |
| Total business-type activities program revenues | <u>2,089,807</u> | <u>2,055,225</u> | <u>2,355,534</u> |
| Total primary government program revenues | <u>\$ 4,133,944</u> | <u>\$ 4,298,303</u> | <u>\$ 5,555,047</u> |
| Net (Expense)/Revenue | | | |
| Governmental activities | \$ (12,293,598) | \$ (11,809,261) | \$ (11,486,453) |
| Business-type activities | (75,826) | (457,314) | (157,254) |
| Total primary government net expense | <u>\$ (12,369,424)</u> | <u>\$ (12,266,575)</u> | <u>\$ (11,643,707)</u> |

CITY OF WEBSTER, TEXAS

CHANGES IN NET ASSETS (Continued)

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

| | Fiscal Year | | |
|---|----------------------|----------------------|----------------------|
| | 2003 | 2004 | 2005 |
| General Revenues and Other Changes in Net Assets | | | |
| Governmental activities | | | |
| Taxes | | | |
| Property taxes | \$ 1,828,882 | \$ 1,979,032 | \$ 2,274,512 |
| Sales taxes | 7,682,515 | 7,739,590 | 8,972,603 |
| Franchise and local taxes | 771,355 | 740,553 | 777,018 |
| Other taxes | 786,138 | 677,721 | 748,656 |
| Investment earnings | 184,263 | 158,718 | 299,161 |
| Other revenues | 34,779 | 75,861 | 127,736 |
| Gain on sale of capital assets | 20,568 | 21,955 | - |
| Capital contributions from component unit | 729,851 | 717,841 | 972,830 |
| Transfers | (144,483) | 270,420 | 295,420 |
| Total governmental activities | <u>11,893,868</u> | <u>12,381,691</u> | <u>14,467,936</u> |
| Business-type activities | | | |
| Investment earnings | 30,828 | 37,997 | 82,182 |
| Other revenues | 136,000 | 271,441 | 916,694 |
| Transfers | 144,483 | (270,420) | (295,420) |
| Total business-type activities | <u>311,311</u> | <u>39,018</u> | <u>703,456</u> |
| Total primary government | <u>\$ 12,205,179</u> | <u>\$ 12,420,709</u> | <u>\$ 15,171,392</u> |
| Change in Net Assets | | | |
| Governmental activities | \$ (399,730) | \$ 572,430 | \$ 2,981,483 |
| Business-type activities | 235,485 | (418,296) | 546,202 |
| Total primary government | <u>\$ (164,245)</u> | <u>\$ 154,134</u> | <u>\$ 3,527,685</u> |

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

CITY OF WEBSTER, TEXAS
TAX REVENUES BY SOURCE, GOVERNMENTAL ACTIVITIES
Last Three Years (1)
(accrual basis of accounting)

| <u>Function</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>Change 2004-2005</u> |
|-----------------|----------------------|----------------------|----------------------|-----------------------------|
| Property | \$ 1,828,882 | \$ 1,979,032 | \$ 2,274,512 | 14.9% |
| Sales | 7,682,515 | 7,739,590 | 8,972,603 | 15.9% |
| Franchise fee | 771,355 | 740,553 | 777,018 | 4.9% |
| Other taxes | 786,138 | 677,721 | 748,656 | 10.5% |
| | <u>\$ 11,068,890</u> | <u>\$ 11,136,896</u> | <u>\$ 12,772,789</u> | 14.7% |

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

CITY OF WEBSTER, TEXAS
FUND BALANCES, GOVERNMENTAL FUNDS
 Last Three Years (1)
 (modified accrual basis of accounting)

| | Fiscal Year | | |
|------------------------------------|---------------------|---------------------|---------------------|
| | 2003 | 2004 | 2005 |
| General Fund | | | |
| Reserved | \$ 13,263 | \$ 522,680 | \$ 585,378 |
| Unreserved | 6,163,015 | 5,859,685 | 6,099,901 |
| Total general fund | <u>\$ 6,176,278</u> | <u>\$ 6,382,365</u> | <u>\$ 6,685,279</u> |
| | | | |
| All Other Governmental Funds | | | |
| Reserved | \$ 1,598,960 | \$ 2,291,890 | \$ 4,055,991 |
| Unreserved, reported in: | | | |
| Capital project | 654,344 | 606,322 | 1,898,544 |
| Nonmajor governmental funds | 3,015,725 | 1,726,899 | 1,667,879 |
| Total all other governmental funds | <u>\$ 5,269,029</u> | <u>\$ 4,625,111</u> | <u>\$ 7,622,414</u> |

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

CITY OF WEBSTER, TEXAS
CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
Last Three Years (1)
(modified accrual basis of accounting)

| | Fiscal Year | | |
|--|-----------------------|---------------------|---------------------|
| | 2003 | 2004 | 2005 |
| Revenues | | | |
| Taxes | \$ 11,087,784 | \$ 10,991,009 | \$ 12,601,416 |
| Fees and permits | 233,376 | 305,699 | 640,068 |
| Fines and penalties | 652,594 | 819,980 | 841,367 |
| Charges for services | 39,212 | 43,253 | 53,809 |
| Intergovernmental | 63,925 | 44,116 | 134,239 |
| Investment earnings | 184,263 | 158,718 | 299,161 |
| Contributions | 1,055,030 | 1,030,030 | 1,530,030 |
| Other revenues | 34,779 | 75,861 | 127,736 |
| Total revenues | <u>13,350,963</u> | <u>13,468,666</u> | <u>16,227,826</u> |
| Expenditures | | | |
| General government | 2,534,476 | 2,444,528 | 2,509,122 |
| Public safety | 5,777,489 | 5,650,560 | 6,166,468 |
| Community development | 3,427,866 | 3,226,909 | 3,423,059 |
| Capital outlay | 681,683 | 803,175 | 523,251 |
| Debt service | | | |
| Principal | 1,969,224 | 1,000,650 | 819,689 |
| Interest | 1,355,519 | 1,077,279 | 1,395,072 |
| Total expenditures | <u>15,746,257</u> | <u>14,203,101</u> | <u>14,836,661</u> |
| Excess of revenues over (under) expenditures | (2,395,294) | (734,435) | 1,391,165 |
| Other Financing Sources (Uses) | | | |
| Issuance of debt | 4,935,000 | - | 11,705,000 |
| Premium on debt | 13,711 | - | 4,470 |
| Discount on debt | - | - | (46,545) |
| Payment to refunded bond escrow agent | (4,816,625) | - | (10,049,293) |
| Transfers in | 1,125,040 | 556,063 | 1,669,368 |
| Transfers out | (894,020) | (285,643) | (1,373,948) |
| Sale of capital assets | 36,773 | 26,184 | - |
| Total other financing sources | <u>399,879</u> | <u>296,604</u> | <u>1,909,052</u> |
| Net change in fund balances | <u>\$ (1,995,415)</u> | <u>\$ (437,831)</u> | <u>\$ 3,300,217</u> |
| Debt service as a percentage of noncapital expenditures | 22.07% | 15.51% | 15.47% |

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

CITY OF WEBSTER, TEXAS
TAX REVENUES BY SOURCE, GOVERNMENTAL ACTIVITIES
Last Three Years (1)
(modified accrual basis of accounting)

| <u>Function</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>Change 2004-2005</u> |
|-----------------|----------------------|----------------------|----------------------|-----------------------------|
| Property | \$ 1,847,776 | \$ 2,005,495 | \$ 2,275,492 | 13.5% |
| Sales | 7,682,515 | 7,567,240 | 8,800,250 | 16.3% |
| Franchise fee | 771,355 | 740,553 | 777,018 | 4.9% |
| Other taxes | 786,138 | 677,721 | 748,656 | 10.5% |
| | <u>\$ 11,087,784</u> | <u>\$ 10,991,009</u> | <u>\$ 12,601,416</u> | 14.7% |

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

CITY OF WEBSTER, TEXAS
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Years (1)

| | <u>1996</u> | <u>1997</u> | <u>1998</u> | <u>1999</u> |
|---|-------------|-------------|-------------|-------------|
| Residential Property | \$ - | \$ - | \$ - | \$ - |
| Commercial Property | - | - | - | - |
| Industrial Property | - | - | - | - |
| Less: Tax Exempt Property | - | - | - | - |
| Total Taxable Assessed Value (2) | 528,098,230 | 623,111,120 | 635,943,801 | 657,498,793 |
| Total Direct Tax Rate | 0.29010 | 0.29010 | 0.29010 | 0.29010 |

Source: Harris County Certified / Uncertified Tax Roll.

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

(2) Property is assessed at actual value; therefore, the assessed values are equal to actual value.
Tax rates are per \$100 of assessed value.

| | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|----|-------------|-------------|-------------------|-------------------|-------------------|-------------------|
| \$ | - | \$ - | \$ 161,935,110 | \$ 175,407,430 | \$ 172,483,570 | \$ 171,493,900 |
| | - | - | 570,711,500 | 552,654,130 | 575,953,400 | 602,282,610 |
| | - | - | 42,617,610 | 47,981,870 | 42,867,000 | 52,511,870 |
| | - | - | <u>14,272,460</u> | <u>23,499,700</u> | <u>24,031,660</u> | <u>24,199,770</u> |
| | 719,784,010 | 715,819,690 | 760,991,760 | 752,543,730 | 767,272,310 | 802,088,610 |
| | 0.26070 | 0.26000 | 0.26000 | 0.24000 | 0.25100 | 0.26800 |

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

| | <u>1996</u> | <u>1997</u> | <u>1998</u> | <u>1999</u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| City of Webster by fund: | | | | |
| General | 0.04000 | 0.04000 | 0.04000 | 0.00243 |
| Debt service | <u>0.25006</u> | <u>0.25006</u> | <u>0.25006</u> | <u>0.28763</u> |
| Total Direct Rates | <u><u>0.29006</u></u> | <u><u>0.29006</u></u> | <u><u>0.29006</u></u> | <u><u>0.29006</u></u> |
| Clear Creek School District | 1.47000 | 1.47000 | 1.59000 | 1.54150 |
| Harris County | 0.40683 | 0.41866 | 0.41660 | 0.39483 |
| Harris County Flood Control District | 0.07600 | 0.07967 | 0.08000 | 0.08000 |
| Port of Houston Authority | 0.01285 | 0.01959 | 0.02320 | 0.02040 |
| Harris County Hospital District | 0.12381 | 0.12381 | 0.12381 | 0.14650 |
| Harris County Dept. of Education | - | 0.00610 | 0.00611 | 0.00629 |
| Total Direct and Overlapping (2) Rates | <u><u>2.37955</u></u> | <u><u>2.40789</u></u> | <u><u>2.52978</u></u> | <u><u>2.47958</u></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 Webster. Not all overlapping rates apply to all City of Webster property owners (e.g., the rates for special districts apply only to the proportion of the government's property owners whose property is located within the geographic boundaries of the special district).

| <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|----------------|----------------|----------------|----------------|----------------|----------------|
| - | 0.02000 | 0.02000 | 0.02000 | 0.04053 | 0.05446 |
| <u>0.26073</u> | <u>0.24000</u> | <u>0.24000</u> | <u>0.22000</u> | <u>0.21047</u> | <u>0.21354</u> |
| <u>0.26073</u> | <u>0.26000</u> | <u>0.26000</u> | <u>0.24000</u> | <u>0.25100</u> | <u>0.26800</u> |
| 1.59856 | 1.70080 | 1.74000 | 1.74000 | 1.73000 | 1.74500 |
| 0.39483 | 0.35902 | 0.38814 | 0.38814 | 0.38803 | 0.39986 |
| 0.08000 | 0.06173 | 0.04174 | 0.04174 | 0.04174 | 0.03318 |
| 0.02040 | 0.01830 | 0.01989 | 0.01989 | 0.02000 | 0.01673 |
| 0.14650 | 0.20268 | 0.19021 | 0.19021 | 0.19021 | 0.19021 |
| 0.00629 | 0.00629 | 0.00629 | 0.00629 | 0.00629 | 0.00629 |
| <u>2.50731</u> | <u>2.60882</u> | <u>2.64627</u> | <u>2.62627</u> | <u>2.62727</u> | <u>2.65927</u> |

CITY OF WEBSTER, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

Current Year and Three Years Ago

| Property Tax Payer | 2005 | | | 2002 | | |
|------------------------------------|------------------------|------|-----------------------------|------------------------|------|-----------------------------|
| | Taxable Assessed Value | Rank | % of Taxable Assessed Value | Taxable Assessed Value | Rank | % of Taxable Assessed Value |
| Clear Lake Regional Medical Center | \$ 35,655,870 | 1 | 4.19% | \$ 51,777,010 | 1 | 6.81% |
| Exxon Corp | 28,143,820 | 2 | 3.31% | 13,806,150 | 10 | 1.82% |
| CHCA Clear Lake, LP | 25,943,430 | 3 | 3.05% | | | |
| Rockwell International | 20,070,750 | 4 | 2.36% | 19,877,290 | 3 | 2.62% |
| CenterPoint Energy, Inc. | 15,231,526 | 5 | 1.79% | 15,628,230 | 7 | 2.06% |
| Price Baybrook, Ltd. | 17,923,600 | 6 | 2.11% | 20,869,540 | 2 | 2.75% |
| Benton Parkwood Partners | 18,999,950 | 7 | 2.23% | 17,749,960 | 5 | 2.34% |
| Walden Drever Operating, LP | 16,749,980 | 8 | 1.97% | 19,794,340 | 4 | 2.60% |
| Eastfield Realty, Inc. | 16,042,940 | 9 | 1.89% | 16,057,810 | 6 | 2.11% |
| Clear Lake Center, LP | 14,899,980 | 10 | 1.75% | | | |
| Fiesta Mart, Inc. (1) | | n/a | | 14,553,000 | 8 | 1.91% |
| MBS Windward Ltd. | | n/a | | 13,849,980 | 9 | 1.82% |
| Subtotal | \$ 209,661,846 | | 24.66% | \$ 203,963,310 | | 26.83% |
| Other Taxpayers | 640,512,104 | | 75.34% | 556,106,140 | | 73.17% |
| Total | \$ 850,173,950 | | 100.00% | \$ 760,069,450 | | 100.00% |

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

(1) Fiesta Mart, Inc. closed in 2003.

CITY OF WEBSTER, TEXAS

PRINCIPAL SALES TAX REMITTERS

Current Year and Two Years Ago

| Sales Tax Remitter | 2005 Rank | 2003 Rank |
|---|----------------------|----------------------|
| Home Depot | 1 | 1 |
| Star Furniture | 2 | 2 |
| Fry's Electronics | 3 | n/a |
| Conn's Appliances | 4 | 6 |
| CompUSA Stores | 5 | 3 |
| Garden Ridge | 6 | 4 |
| Cinemark USA | 7 | 7 |
| Burlington Coat Factory | 8 | 10 |
| Barnes & Noble | 9 | 11 |
| Pappa's Seafood House/Pappasito's Cantina | 10 | 9 |
| Old Navy | 11 | 14 |
| Office Depot | 12 | 8 |
| Bed Bath & Beyond | 13 | 12 |
| The Roomstore | 14 | 18 |
| Oshman's Sporting Goods | 15 | 13 |

Source: State Comptroller's Office

Note: Periods range from May thru April.

CITY OF WEBSTER, TEXAS

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Years

| | <u>1996</u> | <u>1997</u> | <u>1998</u> | <u>1999</u> |
|---|--------------|--------------|--------------|--------------|
| Tax levy | \$ 1,531,669 | \$ 1,807,396 | \$ 1,844,777 | \$ 1,907,141 |
| Current tax collected | \$ - | \$ - | \$ - | \$ - |
| Percent of current tax collections | | | | |
| Delinquent tax collections (1) | \$ - | \$ - | \$ - | \$ - |
| Total tax collections | \$ - | \$ - | \$ - | \$ - |
| Total collections as a percentage of current levy | - | - | - | - |
| Outstanding delinquent taxes | \$ - | \$ - | \$ - | \$ - |
| Outstanding delinquent taxes as percentage of current levy | - | - | - | - |

(1) Collections prior to 2001 are not available

| | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|----|-------------|--------------|--------------|--------------|--------------|--------------|
| \$ | 1,689,594 | \$ 1,854,800 | \$ 1,976,524 | \$ 1,818,570 | \$ 1,940,214 | \$ 2,115,135 |
| \$ | - | \$ - | \$ 1,921,917 | \$ 1,788,647 | \$ 1,912,018 | \$ 2,075,818 |
| | | | 97.24% | 98.35% | 98.55% | 98.14% |
| \$ | - | \$ - | \$ 37,292 | \$ 17,789 | \$ 6,016 | \$ - |
| \$ | - | \$ - | \$ 1,959,209 | \$ 1,806,436 | \$ 1,918,034 | \$ 2,075,818 |
| | - | - | 99.12% | 99.33% | 98.86% | 98.14% |
| \$ | - | \$ - | \$ 58,098 | \$ 29,897 | \$ 29,172 | \$ 39,317 |
| | - | - | 2.94% | 1.64% | 1.50% | 1.86% |

CITY OF WEBSTER, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
 Last Four Years (1)

| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| PRIMARY GOVERNMENT | | | | |
| Governmental Activities: | | | | |
| General obligation bonds | \$ 14,219,035 | \$ 13,179,035 | \$ 12,659,035 | \$ 18,551,445 |
| Certificates of obligation | 9,275,000 | 8,900,000 | 8,500,000 | 4,355,000 |
| Capital leases | 575,772 | 239,257 | 158,655 | - |
| Subtotal | <u>\$ 24,069,807</u> | <u>\$ 22,318,292</u> | <u>\$ 21,317,690</u> | <u>\$ 22,906,445</u> |
| Business-Type Activities: | | | | |
| Interfund loan | \$ - | \$ - | \$ 562,044 | \$ 509,537 |
| TOTAL PRIMARY GOVERNMENT | <u>\$ 24,069,807</u> | <u>\$ 22,318,292</u> | <u>\$ 21,879,734</u> | <u>\$ 23,415,982</u> |
| COMPONENT UNIT | | | | |
| Activities (2): | | | | |
| Sales Tax Revenue Bonds | \$ 14,410,000 | \$ 13,905,000 | \$ 13,375,000 | \$ 12,820,000 |
| PERSONAL INCOME (3)(4) | - | - | 240,081,856 | 246,785,110 |
| DEBT AS A PERCENTAGE OF PERSONAL INCOME | - | - | 9.11% | 9.49% |
| POPULATION | 9,083 | 9,083 | 9,083 | 9,083 |
| DEBT PER CAPITA | \$ 2,650 | \$ 2,457 | \$ 2,409 | \$ 2,578 |

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

(2) Component unit activities are not included in the calculation of debt as a percentage of personal income or debt per capita.

(3) Personal income data prior to 2004 is not available.

(4) Personal income information is a total for the year.

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

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CITY OF WEBSTER, 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>1996</u> | <u>1997</u> | <u>1998</u> | <u>1999</u> |
|---|----------------------|----------------------|----------------------|----------------------|
| NET TAXABLE ASSESSED VALUE | | | | |
| All property | \$ 528,098,230 | \$ 623,111,120 | \$ 635,943,801 | \$ 657,498,793 |
| NET BONDED DEBT | | | | |
| Gross bonded debt | \$ 19,214,036 | \$ 18,119,036 | \$ 17,374,036 | \$ 16,204,036 |
| Less debt service funds | 834,767 | 861,050 | 959,901 | 817,356 |
| Net Bonded Debt | <u>\$ 18,379,269</u> | <u>\$ 17,257,986</u> | <u>\$ 16,414,135</u> | <u>\$ 15,386,680</u> |
| RATIO OF NET BONDED DEBT TO ASSESSED VALUE | 3.48% | 2.77% | 2.58% | 2.34% |
| POPULATION | 6,515 | 6,515 | 8,217 | 8,240 |
| NET BONDED DEBT PER CAPITA | \$ 2,821 | \$ 2,649 | \$ 1,998 | \$ 1,867 |

| <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 719,784,010 | \$ 715,819,690 | \$ 760,069,450 | \$ 757,737,570 | \$ 767,272,310 | \$ 797,647,480 |
| \$ 25,104,035 | \$ 24,314,035 | \$ 23,494,035 | \$ 22,079,035 | \$ 21,159,035 | \$ 22,906,445 |
| 1,006,858 | 992,109 | 727,646 | 304,315 | 366,178 | 852,624 |
| <u>\$ 24,097,177</u> | <u>\$ 23,321,926</u> | <u>\$ 22,766,389</u> | <u>\$ 21,774,720</u> | <u>\$ 20,792,857</u> | <u>\$ 22,053,821</u> |
| 3.35% | 3.26% | 3.00% | 2.87% | 2.71% | 2.76% |
| 9,083 | 9,083 | 9,083 | 9,083 | 9,083 | 9,083 |
| \$ 2,653 | \$ 2,568 | \$ 2,506 | \$ 2,397 | \$ 2,289 | \$ 2,428 |

CITY OF WEBSTER, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
September 30, 2005

| Governmental Unit | <u>Debt Outstanding</u> | <u>Estimated Percentage Applicable (1)</u> | <u>Estimated Share of Overlapping Debt</u> |
|--|-----------------------------|--|--|
| Debt repaid with property taxes | | | |
| Clear Creek ISD (3) | \$ 528,765,000 | 7.510% | \$ 39,710,252 |
| Clear Lake City Water Authority (3) | 76,490,000 | 0.700% | 535,430 |
| Harris County (2)(3) | 1,872,976,590 | 0.400% | 7,491,906 |
| Harris County Dept. of Education (3) | 6,160,000 | 0.400% | 24,640 |
| Harris Co. Flood Control District (3) | 53,599,985 | 0.400% | 214,400 |
| Harris County Toll Road (3) | 723,975,261 | 0.400% | 2,895,901 |
| Port of Houston Authority (3) | 287,900,000 | 0.400% | <u>1,151,600</u> |
| Subtotal, overlapping debt | | | 52,024,129 |
| City direct debt | | | 23,649,036 |
| Other Debt | | | |
| Interfund Loan to Enterprise Fund | 509,537 | 100.000% | <u>509,537</u> |
| Total direct and overlapping debt | | | <u><u>\$ 76,182,702</u></u> |

Source: Coastal Securities, Ltd.

(1) Estimated Percentage Applicable obtained from Municipal Advisory Council of Texas.

(2) Excludes Toll Road Tax Bonds. The County's policy and practice has been to provide payment of debt service on the outstanding Toll Road Tax Bonds from toll revenues and certain other funds, and to date, no tax has been collected to provide for such debt service.

(3) Debt outstanding is as of September 30, 2004

CITY OF WEBSTER, TEXAS

LEGAL DEBT MARGIN INFORMATION

Last Three Years (1)

| | Fiscal Year | | |
|---|---------------|---------------|---------------|
| | 2003 | 2004 | 2005 |
| Debt limit | \$ 75,773,757 | \$ 76,727,231 | \$ 79,764,748 |
| Total net debt applicable to limit | 22,079,035 | 21,159,035 | 22,906,445 |
| Legal debt margin | \$ 53,694,722 | \$ 55,568,196 | \$ 56,858,303 |
| Total net debt applicable to the limit as a percentage of debt limit | 29.14% | 27.58% | 28.72% |

Legal Debt Margin Calculation for Fiscal Year 2005

| | |
|---|----------------|
| Assessed value | \$ 797,647,480 |
| Debt limit (10% of assessed value) | 79,764,748 |
| Debt applicable to limit: | |
| General obligation bonds | 22,906,445 |
| Less: amount set aside for repayment of general obligation debt | - |
| Total net debt applicable to limit | 22,906,445 |
| Legal debt margin | \$ 56,858,303 |

Note: Under state finance law, the City of Webster's outstanding general obligation debt should not exceed 10 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

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

CITY OF WEBSTER, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
 Last Ten Years

| Fiscal Year Ended Sept. 30, | Population(1) | Personal Income(5)(6) | Per Capita Personal Income(2) | Median Age (5) | School Enrollment(3) | Unemployment Rate(4) |
|--|----------------------|----------------------------------|--|---------------------------|---------------------------------|---------------------------------|
| 1996 | 6,515 | \$ - | \$ - | - | 1,435 | 2.3% |
| 1997 | 6,515 | - | - | - | 1,557 | 2.2% |
| 1998 | 8,217 | - | - | - | 1,555 | 1.8% |
| 1999 | 8,240 | - | - | - | 1,532 | 2.0% |
| 2000 | 9,083 | - | - | - | 1,756 | 1.8% |
| 2001 | 9,083 | - | - | - | 1,872 | 1.9% |
| 2002 | 9,083 | - | - | - | 1,507 | 2.6% |
| 2003 | 9,083 | - | - | - | 1,359 | 3.0% |
| 2004 | 9,083 | 240,081,856 | 26,432 | 34.0 | 1,332 | 2.7% |
| 2005 | 9,083 | 246,785,110 | 27,170 | 34.6 | 1,390 | 5.3% |

Data sources:

- (1) Bureau of the Census
- (2) Claritas
- (3) Clear Creek Independent School District
- (4) Texas Workforce Commission
- (5) Personal income and median age data prior to 2004 are not available.
- (6) Personal income information is a total for the year.

CITY OF WEBSTER, TEXAS

PRINCIPAL EMPLOYERS

Current Year

Employer

United Space Alliance

Boeing

Lockheed Martin

Clear Lake Regional Medical Center

Clear Creek Independent School District

Clear Lake Rehabilitation Hospital

Deke Slayton Cancer Center

Diagnostic Systems Laboratories

City of Webster

Source: Bay Area Economic Partnership

Note: Principal employers in the city are concentrated in the fields of medical/healthcare and aerospace. The city also has a high concentration of medium to small retailers. Number of employees data is not available at this time; therefore, the principal employers have not been ranked.

CITY OF WEBSTER, TEXAS

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM

Last Ten Years

| | Fiscal Year | | | | | | | | | |
|------------------------------|-------------|------------|------------|------------|--------------|------------|--------------|--------------|------------|------------|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| General Fund: | | | | | | | | | | |
| City Secretary | 7 | 3 | 5 | 3 | 3 | 3.5 | 4 | 4 | 4 | 4 |
| Public Relations | | 1 | | | | | | 1 | 1 | 1 |
| City Manager | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Finance | 5 | 5 | 5 | 6 | 8 | 9 | 8 | 8 | 7 | 7 |
| Municipal Court | 3 | 3 | 3 | 3 | 3.5 | 4 | 4 | 4 | 5 | 5 |
| Information Technology | | | | 1 | 1 | 2 | 2 | 2 | 2 | 2 |
| Human Resources | | | 2 | 2 | 2 | 3 | 3 | 3 | 2.75 | 2.75 |
| Community Development | 11 | 7 | 8 | 13 | 16 | 17 | 17 | | | |
| Administration | | | | | | | | 5.9 | 4.9 | 4.9 |
| Building | | | | | | | | 7 | 6 | 6 |
| Engineering | | | | | | | | 2 | 2 | 2 |
| Recreation Programs | | | | | | | | 2 | 1 | 1 |
| Public Works | 12 | 13 | 11 | 19 | 20 | 20 | 20 | | | |
| Administration | | | | | | | | 3 | 3 | 2 |
| Maintenance | | | | | | | | 12 | 10 | 10 |
| Parks Maintenance | | | | | | | | 4 | 4 | 4 |
| Police | 51 | 49 | 51 | 56 | 58 | 59 | 61 | | | |
| Administration | | | | | | | | 6 | 5 | 6 |
| Criminal Investigation | | | | | | | | 7 | 7 | 7 |
| Patrol | | | | | | | | 30 | 31 | 34 |
| Communications | | | | | | | | 16 | 15 | 13 |
| Technical Support | | | | | | | | | 1 | 1 |
| Fire | 3 | 2 | 2 | 3 | 4 | 4.5 | 4.5 | | | |
| Prevention | | | | | | | | 3 | 2.35 | 2.35 |
| Operations | | | | | | | | 2 | 2 | 2 |
| Economic Development | | | 1 | 2 | 4 | 3 | 4 | 3 | 3 | 3 |
| General Fund Total | 93 | 84 | 89 | 109 | 120.5 | 126 | 128.5 | 125.9 | 120 | 121 |
| Enterprise Fund: | | | | | | | | | | |
| Water | 9 | 9.5 | 9.5 | 9.5 | 7 | 7 | 7 | 7 | 7 | 7 |
| Sewer | 9 | 9.5 | 10.5 | 10.5 | 9 | 9 | 9 | 7 | 6 | 6 |
| Enterprise Fund Total | 18 | 19 | 20 | 20 | 16 | 16 | 16 | 14 | 13 | 13 |
| TOTAL CITY POSITIONS | 111 | 103 | 109 | 129 | 136.5 | 142 | 144.5 | 139.9 | 133 | 134 |

NOTES:

Around 17-24 temporary and seasonal employees are hired during the summer months as camp counselors and pool personnel. This count is not reflected above.

Around 16 Contract personnel are used year round to augment landscaping and maintenance crews. This count is not reflected above.

Prior to 2002-03, a number of positions were split and reported in separate departments. There are no splits reported since prior years were not restated.

Volunteer firefighters (15) are not included.

A part-time seasonal school crossing guard is not included.

Excludes Planning, GIS Tech and Recreation interns.

CITY OF WEBSTER, TEXAS
OPERATING INDICATORS BY FUNCTION / PROGRAM
 Last Three Years (1)

| Function / Program | Fiscal Year | | |
|---|--------------|---------------|---------------|
| | 2003 | 2004 | 2005 |
| Police | | | |
| Arrests | 1,646 | 1,920 | 2,115 |
| Accident reports | 1,200 | 1,151 | 1,078 |
| Citations | 4,639 | 5,661 | 6,342 |
| Offense reports | 2,585 | 2,586 | 2,616 |
| Calls for service | 19,522 | 20,298 | 21,794 |
| Fire | | | |
| Emergency responses | 1,083 | 1,048 | 993 |
| Fire incidents | 78 | 57 | 83 |
| Average response time | 5 min, 0 sec | 5 min, 31 sec | 5 min, 56 sec |
| Water | | | |
| New accounts | 82 | 99 | 142 |
| Average daily consumption (millions of gallons) | 1.409 | 1.446 | 1.419 |
| Total Consumption (millions of gallons) | 514.277 | 527.667 | 518.260 |
| Peak daily consumption (millions of gallons) | 2.474 | 2.705 | 2.927 |
| Sewer | | | |
| Average daily sewage treatment (millions of gallons) | 1.220 | 1.234 | 1.161 |
| Total Consumption (millions of gallons) | 445.412 | 451.755 | 416.620 |
| Peak daily consumption (millions of gallons) | 2.856 | 3.462 | 2.245 |

Source: Various City departments

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

CITY OF WEBSTER, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION / PROGRAM

Last Three Years (1)

| Function / Program | Fiscal Year | | |
|---|-------------|------|------|
| | 2003 | 2004 | 2005 |
| Police | | | |
| Stations | 1 | 1 | 1 |
| Patrol units | 41 | 38 | 43 |
| Fire stations | 2 | 2 | 2 |
| Other public works | | | |
| Streets (miles - centerlines) | 19.0 | 19.0 | 20.2 |
| Streetlights | 716 | 749 | 708 |
| Parks and recreation | | | |
| Parks | 3 | 3 | 4 |
| Parks acreage | 12.0 | 12.0 | 23.2 |
| Baseball / softball diamonds | 3 | 3 | 2 |
| Swimming pools | 1 | 1 | 1 |
| Community centers | 1 | 1 | 1 |
| Water | | | |
| Water mains (miles) | 39.2 | 39.8 | 39.1 |
| Fire hydrants | 464 | 484 | 492 |
| Storage capacity (millions of gallons) | 2.95 | 2.95 | 2.95 |
| Sewer | | | |
| Sanitary sewers (miles) | 26.8 | 26.9 | 27.2 |
| Storm sewers (miles) | 16.1 | 16.1 | 16.4 |
| Open ditch / creek / canal drainage (miles) | 3.5 | 3.5 | 3.5 |
| Treatment capacity (millions of gallons) | 1.65 | 1.65 | 1.65 |

Source: Various City departments

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