

AUDITED FINANCIAL STATEMENTS

OF

CITY OF TOM BEAN
TOM BEAN, TEXAS

AT

SEPTEMBER 30, 1995

GREGG & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
100 BRITTON PLAZA
P.O. BOX 619
TOM BEAN, TEXAS 75489-0619

AUDITED FINANCIAL STATEMENTS

OF

CITY OF TOM BEAN
TOM BEAN, TEXAS

AT

SEPTEMBER 30, 1995

CITY OF TOM BEAN
Annual Financial Report
Fiscal Year Ended September 30, 1995

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FINANCIAL SECTION

GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

100 BRITTON PLAZA

P.O. BOX 619

TOM BEAN, TEXAS 75489-0619

VOICE (903) 546-6975 / FAX (903) 546-6017

MEMBER

TEXAS SOCIETY OF CPAs

MEMBER

AMERICAN SOCIETY OF CPAs

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Tom Bean, Texas

We have audited the accompanying general purpose financial statements of City of Tom Bean, Texas, as of September 30, 1995, and for the year then ended. These general purpose financial statements are the responsibility of City of Tom Bean, Texas, management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of City of Tom Bean, Texas, as of September 30, 1995, and the results of its operations and the cash flows of its proprietary fund for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of City of Tom Bean, Texas. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Gregg & Company

Tom Bean, Texas

February 28, 1996

CITY OF TOM BEAN, TEXAS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
September 30, 1995

ASSETS	Governmental fund type	Proprietary fund type	Account Groups		Totals (memorandum only)	
	General	Water and sewer	General fixed assets	General long-term debt	1995	1994
Cash in bank	\$18,557	\$34,384	--	--	\$52,941	\$66,396
Receivables (net of allowance for doubtful accounts):						
Property taxes	2,466	--	--	--	2,466	2,587
Water/Sewer	--	16,075	--	--	16,075	16,363
Sanitation	--	2,803	--	--	2,803	2,345
Sundry	--	--	--	--	--	--
Interest receivable	19	31	--	--	50	111
Due from other funds	--	2,779	--	--	2,779	8,511
Total current assets:	21,042	56,072	--	--	77,114	96,313
Restricted assets:						
Deposits held by other agencies	--	92,300	--	--	92,300	88,486
Total restricted assets	--	92,300	--	--	92,300	88,486
Property, plant and equipment: (Note B)						
Land	--	2,500	10,000	--	12,500	12,500
City park	--	--	46,223	--	46,223	46,223
Buildings	--	--	20,000	--	20,000	20,000
Improv. other than bldgs.	--	--	70,000	--	70,000	70,000
Machinery and equipment	--	40,094	63,871	--	103,965	103,965
Furniture & fixtures	--	5,157	5,153	--	10,310	10,083
Sewer system	--	974,130	--	--	974,130	823,916
Water pump	--	7,935	--	--	7,935	7,935
Water system	--	555,479	--	--	555,479	555,479
Water distribution improvements.	--	133,540	--	--	133,540	133,540
	--	1,718,835	215,247	--	1,934,082	1,783,641
Accumulated depreciation	--	(389,714)	(172,556)	--	(562,270)	(512,503)
	--	1,329,121	42,691	--	1,371,812	1,271,138
Amount to be provided	--	--	--	\$2,955	2,955	6,935
Total assets	\$21,042	\$1,477,493	\$42,691	\$2,955	\$1,544,181	\$1,462,286

The accompanying notes are an integral part of the financial statements.

CITY OF TOM BEAN, TEXAS
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 September 30, 1995

	Governmental fund type	Proprietary fund type	Account Groups		Totals (memorandum only)	
	General	Water and sewer	General fixed assets	General long-term debt	1995	1994
<u>LIABILITIES</u>						
Accrued liabilities	\$6,836	\$11,270	—	—	\$18,106	\$15,079
Payroll taxes payable	—	—	—	—	—	—
Sales tax payable	—	635	—	—	635	506
Other accounts payable	—	2,526	—	—	2,526	2,110
Customer water deposits	—	11,200	—	—	11,200	10,389
Notes Payable - First Nat'l Bank	—	—	—	\$2,955	2,955	6,349
Due to other funds	2,779	—	—	—	2,779	8,511
Water and sewer bonds (current)	—	30,000	—	—	30,000	29,000
Bond interest payable	—	10,017	—	—	10,017	10,017
Deferred revenues (Note H)	2,086	—	—	—	2,086	2,587
 Total curr. liabilities	 11,701	 65,648	 —	 2,955	 80,304	 84,548
 Long-term debt:						
 Water and sewer bonds- L.T.	 —	 495,000	 —	 —	 495,000	 525,000
 Total liabilities	 11,701	 560,648	 —	 2,955	 575,304	 609,548
 <u>FUND EQUITY</u>						
Investment in general fixed assets	—	—	\$42,691	—	42,691	48,873
Fund balance: unreserved	9,341	916,845	—	—	926,186	803,865
 Total fund equity	 9,341	 916,845	 42,691	 —	 968,877	 852,738
 Total liabilities and fund equity	 \$21,042	 \$1,477,493	 \$42,691	 \$2,955	 \$1,544,181	 \$1,462,286

The accompanying notes are an integral part of the financial statements.

CITY OF TOM BEAN, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
Year ended September 30, 1995

	Governmental fund types	Totals (Memorandum only)	
	General	1995	1994
Revenues:			
Property tax revenue	\$58,372	\$58,372	\$54,866
Franchise permits	22,433	22,433	21,951
Court fees income	19,679	19,679	16,966
Sales tax revenue	13,389	13,389	12,910
Interest income	1,364	1,364	889
Property tax-penalty and interest	1,106	1,106	689
Coffee / Coke machine revenue	427	427	—
Building permit revenue	180	180	41
Miscellaneous income	—	—	402
Total revenues	116,950	116,950	108,714
Expenditures:			
Salaries	21,164	21,164	20,555
Grant expense	15,360	15,360	4,500
Utilities	9,110	9,110	8,349
Payroll taxes & fringe benefits	5,237	5,237	4,973
Insurance	2,926	2,926	2,050
Mayor expense	2,400	2,400	2,400
Workers comp. insurance	2,064	2,064	2,841
Repair and maintenance	1,451	1,451	226
Tools, equipment & uniforms	1,306	1,306	1,882
Office supplies and postage expense	1,246	1,246	1,211
Dues, subscriptions, & tuition	1,168	1,168	946
Equipment purchases	1,034	1,034	25
Audit	950	950	950
Appraisal district fees expense	880	880	854
Vehicle expense	863	863	817
Contributions	700	700	800
Miscellaneous expense	583	583	677
Tax collection fee	535	535	569
Advertising/professional	425	425	431
Coffee/Coke machine expense	419	419	—
Election expense	352	352	336
Legal	296	296	866
Equipment rent	157	157	—
Professional fees	149	149	—
Contract labor	1	1	87
Chemicals & lab fees	—	—	235
Total general expenditures	\$70,776	\$70,776	\$56,580

The accompanying notes are an integral part of the financial statements.

CITY OF TOM BEAN, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
Year ended September 30, 1995

	Governmental fund types	Totals (Memorandum only)	
	General	1995	1994
Fire department:			
Miscellaneous expense	\$1,300	\$1,300	\$1,300
Total fire department expenditures	1,300	1,300	1,300
Police department:			
Salaries	29,910	29,910	21,123
Vehicle expense	12,723	12,723	8,312
Employee fringe benefits	2,790	2,790	2,542
Municipal court expense	2,400	2,400	6,622
Supplies	1,611	1,611	—
Utilities	1,366	1,366	1,356
Office supplies expense	1,033	1,033	330
Repairs and maintenance	517	517	311
Education and tuition	467	467	649
Miscellaneous expense	—	—	569
Total police department expenditures	52,817	52,817	41,814
Street department:			
Street repairs	5,635	5,635	9,031
Miscellaneous expense	191	191	140
Total street department expenditures	5,826	5,826	9,171
Park department:			
Utilities	137	137	130
Total park department expenditures	137	137	130
Total expenditures	130,856	130,856	108,995
Excess of revenues over (under) expenditures	(13,906)	(13,906)	(281)
Transfer out to water fund			
Fund balances, beginning October 1	23,247	23,247	23,528
Fund balances, ending September 30	\$9,341	\$9,341	\$23,247

The accompanying notes are an integral part of the financial statements.

CITY OF TOM BEAN, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS)
AND ACTUAL - GENERAL FUND
Year ended September 30, 1995

General Fund			
	Budget	Actual	Variance- favorable (unfavorable)
Revenues:			
Property tax revenue - current	\$56,842	\$57,004	\$162
Franchise tax revenue	26,200	22,433	(3,767)
Sales tax revenue	12,600	13,389	789
Court fee revenue	10,605	19,679	9,074
Property tax revenue - prior	900	1,368	468
Interest income	900	1,364	464
Coffee / Coke machine revenue	350	427	77
Property tax - penalty and interest	300	1,106	806
Miscellaneous revenue	150	—	(150)
Building permit revenue	100	180	80
Total revenues	\$108,947	\$116,950	\$8,003

The accompanying notes are an integral part of the financial statements.

CITY OF TOM BEAN, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS)
AND ACTUAL - GENERAL FUND
Year ended September 30, 1995

General Fund

	Budget	Actual	Variance- favorable (unfavorable)
Expenditures:			
General Expenses:			
Salaries	\$21,483	\$21,164	\$319
Utilities	9,600	9,110	490
Grant expense	4,500	15,360	(10,860)
Miscellaneous expense	3,246	583	2,663
Payroll taxes	3,100	3,649	(549)
Workers comp insurance	3,100	2,064	1,036
Mayor expense	2,400	2,400	0
Insurance	2,200	2,926	(726)
Contributions	1,700	700	1,000
Fringe benefits	1,500	1,498	2
Dues and subscriptions	1,350	940	410
Audit	900	950	(50)
Uniforms	875	961	(86)
Appraisal district fees	875	880	(5)
Postage	750	602	148
Legal	725	296	429
Tax collection fees	550	535	15
Vehicle expense - fuel	500	523	(23)
Coke machine, coffee	400	419	(19)
Election expense	350	352	(2)
TEC expense	330	90	240
Repair and maintenance	300	1,451	(1,151)
Vehicle expense - maintenance	300	340	(40)
Supplies	300	315	(15)
Chemicals	275	—	275
Advertising	200	425	(225)
Office expense	200	328	(128)
Education and tuition	150	228	(78)
Contract labor	100	1	99
Tools and equipment	60	503	(443)
Professional fees other	50	149	(99)
Equipment purchases	30	1,034	(1,004)
Total general expenses	\$62,399	\$70,776	(\$8,377)

The accompanying notes are an integral part of the financial statements.

CITY OF TOM BEAN, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS)
AND ACTUAL - GENERAL FUND
Year ended September 30, 1995

General Fund			
	Budget	Actual	Variance- favorable (unfavorable)
Fire department			
Miscellaneous	—	\$1,300	(\$1,300)
Police department			
Salaries	\$21,859	29,910	(8,051)
Municipal court expense	2,400	2,400	—
Vehicle expense - purchase	4,200	4,200	—
Vehicle expense - fuel	2,639	4,261	(1,622)
Employee fringe benefits	1,500	2,790	(1,290)
Utilities	1,500	1,366	134
Tools and equipment	—	1,315	(1,315)
Supplies	—	295	(295)
Vehicle expense - maintenance	500	4,263	(3,763)
Education & tuition	600	467	133
Miscellaneous expense	500	—	500
Office expense	300	1,033	(733)
Repair & maintenance	200	517	(317)
	36,198	52,817	(16,619)
Street department			
Street repairs	10,000	5,635	4,365
Miscellaneous	200	191	9
	10,200	5,826	4,374
Parks department			
Utilities	150	137	13
	150	137	13
Total expenditures	108,947	130,856	(21,909)
Excess of revenues over (under) expenditures	\$0	(\$13,906)	(\$13,906)

The accompanying notes are an integral part of the financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND BALANCES - PROPRIETARY FUND TYPE (WATER AND SEWER FUND)
Year ended September 30, 1995

EXHIBIT D

	Waterworks	Sewer system	Total systems (NOTE G) 1995	1994
Revenues:				
Grant income	\$167,214	—	\$167,214	—
Water/meter and sewer revenue	146,544	\$38,490	185,034	\$191,591
Penalty and interest revenue	6,025	—	6,025	5,312
Interest income	5,467	—	5,467	8,604
Sanitation	3,264	—	3,264	2,706
Water and sewer tie-on revenue	1,550	1,200	2,750	300
Gain on sale of assets	400	—	400	—
Reconnect fee revenue	231	—	231	149
Returned check revenue	110	—	110	50
Meter transfer fee	40	—	40	70
Miscellaneous water income	—	—	—	12
Total revenues	330,845	39,690	370,535	208,794
Expenses:				
Interest expense	33,873	4,200	38,073	39,255
Utilities	23,556	17,532	41,088	47,778
Salaries	21,164	21,164	42,328	41,110
Depreciation expense	20,975	23,540	44,515	44,539
Engineer expense	17,000	—	17,000	—
Repairs and maintenance	5,357	9,483	14,840	6,316
Chemicals, enzymes, lab expense	3,905	2,812	6,717	4,756
Payroll taxes & fringe benefits	3,092	3,092	6,184	6,566
Insurance	2,750	2,750	5,500	4,100
Workers comp. insurance	2,064	2,064	4,128	5,682
Office, postage & cleaning expense	953	922	1,875	2,050
Audit	950	950	1,900	1,900
Loss on disposal of assets	827	—	827	—
Contract labor	825	810	1,636	—
Inspection expense	622	1,125	1,747	1,716
Vehicle expense	621	621	1,242	1,311
Uniforms & advertising expense	404	760	1,164	901
Legal, dues, subscriptions, education	370	220	590	664
Tools expense	358	401	759	224
Equip rental expense & lease expense	287	242	529	443
Material and supplies	208	924	1,132	502
Miscellaneous expense	98	299	397	215
Bad debt expense	97	—	97	330
Returned check expense	40	—	40	—
Total expenses	140,396	93,911	234,308	210,358
Net income	190,449	(54,221)	136,227	(1,564)
Other income				
Transfer in from general fund	—	—	—	—
Fund balances, beginning October 1	901,054	(122,378)	780,618	782,182
Fund balances, ending September 30	\$1,091,503	(\$176,599)	\$916,845	\$780,618

The accompanying notes are an integral part of the financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF REVENUES AND EXPENSES,
BUDGET (GAAP BASIS) AND ACTUAL -
PROPRIETARY FUND TYPE (WATER AND SEWER FUND)
Year ended September 30, 1995

	Water Fund			Sewer Fund		
	Budget	Actual	Variance- favorable (unfavorable)	Budget	Actual	Variance- favorable (unfavorable)
Revenue:						
Water/meter and sewer revenue	\$157,497	\$146,544	(\$10,953)	\$37,062	\$38,490	\$1,428
Penalty and interest revenue	5,300	6,025	725	—	—	—
Sanitation	2,750	3,264	514	—	—	—
Interest income	1,200	5,467	4,267	—	—	—
Water and sewer tie-on revenue	600	1,550	950	600	1,200	600
Reconnect fee revenue	150	231	81	—	—	—
Returned check fee	50	110	60	—	—	—
Meter transfer fee	50	40	(10)	—	—	—
Grant income	—	167,214	167,214	—	—	—
Gain on sale of assets	—	400	400	—	—	—
Total revenue	167,597	330,845	163,248	37,662	39,690	2,028
Expenses:						
Interest expense	34,108	33,873	235	4,200	4,200	—
Utilities	23,570	23,556	14	28,200	17,532	10,668
Salaries	21,484	21,164	320	21,483	21,164	319
Workers comp. insurance	3,100	2,064	1,036	3,100	2,064	1,036
Repairs and maintenance	2,500	5,357	(2,857)	1,000	9,437	(8,437)
Property and liability insurance	2,200	2,750	(550)	2,200	2,750	(550)
Grant expense	2,000	17,000	(15,000)	—	—	300
Chemicals and enzymes	1,600	3,905	(2,305)	2,500	2,812	(312)
Fringe benefits	1,500	1,498	2	1,500	1,498	2
Payroll taxes	1,400	1,504	(104)	1,400	1,504	(104)
Audit	900	950	(50)	900	950	(50)
Inspection expense	800	622	178	1,125	1,125	—
Postage	575	597	(22)	575	597	(22)
Equipment purchase	500	46	454	200	46	154
Bad debt expense	400	97	303	—	—	—
Vehicle expense - fuel	380	361	19	380	361	19
Uniforms	375	318	57	375	319	56
Vehicle expense - maintenance	300	261	39	300	260	40
Supplies	300	208	92	250	924	(674)
Office expense	250	356	(106)	250	326	(76)
TEC expense	210	90	120	210	90	120
Tools and equipment	200	358	(158)	200	401	(201)
Equipment rental and lease	200	241	(41)	200	242	(42)
Lab fees	160	—	160	900	—	900
Dues & subscriptions	150	150	—	50	—	50
Legal	100	42	58	100	42	58
Education and tuition	50	178	(128)	50	178	(128)
Returned check expense	30	40	(10)	—	—	—
Miscellaneous expense	25	98	(73)	210	299	(89)
Depreciation expense (Note A)	—	20,975	(20,975)	—	23,540	(23,540)
Loss on disposal of assets	—	827	—	—	—	—
Contract labor	—	825	—	—	810	—
Advertising	—	85	(85)	225	440	(215)
Total expense	99,367	140,396	(41,029)	72,083	93,911	(20,718)
Net income	\$68,230	\$190,449	\$122,219	(\$34,421)	(\$54,221)	(\$19,800)

The accompanying notes are an integral part of the financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF CASH FLOWS-WATER AND SEWER
Year ended September 30, 1995

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$197,720
Cash received from grant	167,214
Interest received	5,467
Cash paid to suppliers and employees	(162,664)
Interest paid	(38,073)
Net Cash Provided (Used) by Operating Activities	<u>169,664</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of fixed assets	(150,365)
	<u>(150,365)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on long-term debt	(29,000)
Net Cash Provided (Used) by Financing Activities	<u>(29,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,701)
CASH AND CASH EQUIVALENTS, OCTOBER 1	44,085
CASH AND CASH EQUIVALENTS, SEPTEMBER 30	<u>\$34,384</u>
Reconciliation of net income to net cash provided by operating activities:	
Net income	\$136,227
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	43,509
(Increase) decrease in accounts receivable	(172)
(Increase) decrease in interest receivable	38
(Increase) decrease in due from other funds	(2,778)
(Increase) decrease in restricted - other deposits	(3,813)
Increase (decrease) in accrued liabilities	3,808
Increase (decrease) in other accounts payable	416
Increase (decrease) in water meter deposits	811
Increase (decrease) in due to other funds	(8,511)
Increase (decrease) in sales tax payable	129
Total adjustments	<u>33,437</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$169,664</u>

The accompanying notes are an integral part of the financial statements.

GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
TOM BEAN, TEXAS 75489-0619

CITY OF TOM BEAN, TEXAS NOTES TO THE FINANCIAL STATEMENTS September 30, 1995

A. SUMMARY OF ACCOUNTING POLICIES

The City of Tom Bean, Texas (the "City") operates under a council-mayor form of government and provides the following services: public safety (police), streets, sanitation, planning and zoning, and general administrative services. Other services include water and sewer operations. Fire protection is provided by the Tom Bean Volunteer Fire Department.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

1. Reporting Entity

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Tom Bean.

The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the Tom Bean Waterworks and Sewer system are included in the accompanying financial statements; the Tom Bean Volunteer Fire Department is excluded from the accompanying financial statements.

2. Fund Accounting

The accounts of the City are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses

Notes to the Financial Statements (Continued)

or expenditures. The following funds and groups of accounts are used by the City:

Governmental Fund Types:

General Fund

The General Fund is the general operating fund of the City. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

Proprietary Fund Types:

Enterprise Funds

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis is financed through user charges.

General Fixed Assets Account Group:

The General Fixed Assets Account Group is used to account for fixed assets used in governmental fund type operations for control purposes. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date of donation. No depreciation is recorded on general fixed assets.

3. Basis of Accounting

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated

Notes to the Financial Statements (Continued)

with the operation of these fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total assets.

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both 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 be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred.

Those revenues susceptible to accrual are property taxes, franchise taxes, special assessments, licenses, interest revenue and charges for services. Sales taxes collected and held by the state at year-end on behalf of the City also are recognized as revenue. Fines, permits and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Notes to the Financial Statements (Continued)

4. Budget and Budgetary Accounting

The City Council adopts an annual budget for the General Fund and Enterprise Fund. The annual budget for the General Fund is prepared in accordance with the basis of accounting utilized by that fund. The budget for the Enterprise fund is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, nonoperating income and expense items are not considered.

5. Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. City property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. An allowance is established for delinquent taxes to the extent that their collectibility is improbable.

6. Property, Plant and Equipment

General Fixed Assets Account Group -

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Group of accounts, rather than in governmental funds.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair value on the date donated. Repairs and maintenance are recorded as expenditures; renewals and betterments are capitalized.

Water and Sewer System -

Additions to the utility plant in service are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewal and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Notes to the Financial Statements (Continued)

Depreciation has been calculated on each class of depreciable property using the straight-line method, with one-half year's depreciation in the year of acquisition. Estimated useful lives are as follows:

Sewer system	35 years
Water works system	35 years
Buildings	20 years
Improvement to building	10 years
Furniture & fixtures	5 - 10 years
Machinery & equipment	5 - 10 years

7. Total Columns on Combined Statements - Overview

Total columns on the combined statements are captioned "memorandum only" to indicate that they are presented only to facilitate analysis. Data in these columns do not present financial position, results of operations, or changes in cash flows in conformity with generally accepted accounting principles.

B. CHANGES IN FIXED ASSETS:

General Fixed Assets

The following is a summary of changes in the general fixed assets account group for the fiscal year:

	<u>Oct. 1,</u> <u>1994</u>	<u>Additions</u>	<u>Deductions</u>	<u>Sept. 30,</u> <u>1995</u>
Land	\$ 10,000	--	--	\$ 10,000
City park	46,223	--	--	46,223
Buildings	20,000	--	--	20,000
Improv. other than bldgs	70,000	--	--	70,000
Furniture & fixtures	5,077	\$992	(\$916)	5,153
Machinery & equipment	<u>63,871</u>	<u>--</u>	<u>--</u>	<u>63,871</u>
	215,171	992	(916)	215,247
Accumulated deprec.	<u>(166,298)</u>	<u>(6,764)</u>	<u>506</u>	<u>(172,556)</u>
	<u>\$48,873</u>	<u>(\$5,772)</u>	<u>(\$410)</u>	<u>\$42,691</u>

Notes to the Financial Statements (Continued)

Proprietary Fund Fixed Assets

The following is a summary of proprietary fund fixed assets at September 30, 1995:

	Oct. 1, 1994	Additions	Deductions	Sept. 30, 1995
Land	\$ 2,500	--	--	\$ 2,500
Water works system	555,479	--	--	555,479
Water distrib improv	133,540	--	--	133,540
Water pump	7,935	--	--	7,935
Furniture & fixtures	5,006	\$1,984	(\$1,833)	5,157
Machinery & equipment	40,094	--	--	40,094
Sewer sys	<u>823,916</u>	<u>150,214</u>	<u>--</u>	<u>974,130</u>
	1,568,470	152,198	(1,833)	1,718,835
Accumulated deprec.	<u>(346,205)</u>	<u>(44,516)</u>	<u>1,007</u>	<u>(389,714)</u>
	<u>\$1,222,265</u>	<u>\$107,682</u>	<u>\$ (826)</u>	<u>\$1,329,121</u>

C. PROPRIETARY FUND CHANGES IN LONG-TERM DEBT

On June 9, 1980, the City of Tom Bean passed an ordinance to sell the previously authorized "Town of Tom Bean, Texas, Combination Tax and Waterworks and Sewer System Junior Lien Certificates of Obligation, Series 1980" in the principal sum of \$155,000.00. These Certificates of Obligation are subordinate to the "Town of Tom Bean Waterworks and Sewer System Junior Lien Revenue Bonds, Series 1968". The net revenues of the system after all obligations of the prior bond issues, are pledged to the payment of these certificates with an additional provision for payment from a levy of ad valorem taxes if necessary. The ordinance also requires that a separate interest and sinking account be established at 1st City Bank of Austin and that payments be made to this account. The separate account at the bank has not been established. The 1968 issue requires several sinking fund reserves to be funded. To maximize interest income, the City has combined the 1968, 1980, and 1988 series sinking funds in a single bond maintenance and sinking fund at the 1st National Bank of Tom Bean. The aggregate funding requirements for all bond issues has been met at September 30, 1995.

Notes to the Financial Statements (Continued)

The bond funding requirements for all bonds at September 30, 1995 are \$68,433. The amounts funded are \$122,681, therefore, there is a surplus funding of \$54,248.

		<u>Requirement</u>	<u>Funded</u>	<u>Surplus</u>
Junior Lien Sinking-P&I	'68 Series	\$1,550	\$ 2,453	\$ 903
Junior Lien Reserve	'68 Series	4,754	7,523	2,769
Revenue Bond Reserve	'80 Series	5,250	8,307	3,057
Replacement & Repair Reserve	'80 Series	3,100	4,905	1,805
Certificate Fund-P&I	'80 Series	4,546	7,193	2,647
Revenue Bond-P&I	'88 Series	5,141	13,832	8,691
Revenue Bond Reserve	'88 Series	<u>44,092</u>	<u>78,468</u>	<u>34,376</u>
		<u>\$68,433</u>	<u>\$122,681</u>	<u>\$54,248</u>

D. BONDS

The City of Tom Bean passed an ordinance to finance two wells by issuing 1988 series water/sewer revenue bonds of \$480,000. On or about October 1, 1988, the proceeds of the sale was received by the Greater Texoma Utility Authority (GTUA). The bond proceeds of \$480,000 are held by GTUA and are shown as a restricted asset reported as "deposits held by other agencies". The city made monthly payments to GTUA for the purpose of funding a reserve fund and an interest and principal sinking fund. At September 30, 1995 the reserve funding requirements of \$44,092 were met, and the interest and principle sinking fund requirements of \$5,253 were met. See EXHIBIT G for a schedule of debt retirement.

E. WATER PUMPING

During the year ended September 30, 1995, approximately 23,000,000 gallons of water were pumped into the storage tank twice as the result of a leaking valve. Water pumped into the storage tank leaked down through a leaking valve to be pumped into the storage tank again at an estimated cost of \$1,584. This situation has since been corrected.

Notes to the Financial Statements (Continued)

F. TAX ROLLS

The general tax rolls for the City of Tom Bean, Texas are as follow:

<u>Tax Year</u>	<u>1994</u>	<u>1993</u>
Gross market value	\$14,699,700	\$16,611,826
Exemptions	<u>(15,500)</u>	<u>(1,938,556)</u>
Net taxable value	14,684,200	14,673,270
Tax rate per \$100	<u>0.0039459</u>	<u>0.0039459</u>
Tax levy	<u>\$ 57,942</u>	<u>\$ 57,899</u>

G. WATER AND SEWER FUND

The combined water and sewer fund has been audited. Separation of sewer and water is shown for internal purposes only.

H. DEFERRED REVENUES

	<u>Amount</u>
General Fund	
Property taxes - current year	\$1,150
Property taxes - prior years	<u>936</u>
	<u>\$2,086</u>

WATERWORKS AND SEWER SYSTEM
SCHEDULE OF BOND REQUIREMENTS
YEAR ENDED SEPTEMBER 30, 1995

YEAR ENDED SEPT. 30	WATERWORKS & SEWER SYSTEM JUNIOR LIEN REVENUE BONDS SERIES 1968			COMBINATION TAX & WATERWORKS & SEWER SYSTEM JUNIOR LIEN CERTIF- ICATES OF OBLIGATION, SERIES 1980			CONTRACT REVENUE BONDS SERIES 1988			TOTAL REQUIREMENTS
	INTEREST DUE 12/1	INTEREST DUE 6/1	PRINCIPAL DUE 6/1	INTEREST DUE 12/1	INTEREST DUE 6/1	PRINCIPAL DUE 6/1	INTEREST DUE 1/1	INTEREST DUE 7/1	PRINCIPAL DUE 7/1	
1996	\$450	\$450	\$5,000	\$1,820	\$1,820	\$10,000	\$16,045	\$16,045	\$15,000	\$66,630
1997	337	338	5,000	1,540	1,540	10,000	15,561	15,561	15,000	64,877
1998	225	225	5,000	1,260	1,260	10,000	15,066	15,066	15,000	63,102
1999	113	112	5,000	980	980	10,000	14,560	14,560	15,000	61,305
2000				700	700	10,000	14,042	14,042	20,000	59,484
2001				420	420	15,000	13,342	13,342	20,000	62,524
2002							12,633	12,633	20,000	45,266
2003							11,913	11,913	25,000	48,826
2004							11,000	11,000	25,000	47,000
2005							10,081	10,081	25,000	45,162
2006							9,156	9,156	30,000	48,312
2007							8,039	8,039	30,000	46,078
2008							6,921	6,921	30,000	43,842
2009							5,804	5,804	35,000	46,608
2010							4,500	4,500	35,000	44,000
2011							3,188	3,188	40,000	46,376
2012							1,688	1,688	45,000	48,376
TOTALS	\$1,125	\$1,125	\$20,000	\$6,720	\$6,720	\$65,000	\$173,539	\$173,539	\$440,000	\$887,768

NOTE: INTEREST RATE ON SERIES 1968 4.5%
INTEREST RATE ON SERIES 1980 5.6%
INTEREST RATE ON SERIES 1988 6.05%

The accompanying notes are an integral part of the financial statements.

CITY OF TOM BEAN, TEXAS
SCHEDULE OF CITY OFFICIALS
SEPTEMBER 30, 1995

Name	Position
Ralph Hall Jerry Harris James Yowell Greg Reynolds Bobbie Moran Sue Monks Janet Dickey	Mayor Mayor Pro Tempore Council Member Council Member Council Member Council Member Secretary

<u>Water & Sewer Rates</u>		
Connections	Water Rate	Sewer Rate
Within city limits: Water - 392	\$20.00 for 1st 2,000 gallons \$2.17 for each additional 1,000 gallons between 2,000 and 15,000 gallons.	\$4.32 for 1st 1,000 gallons. \$1.29 for each addition 1,000 gallons.
Sewer - 315	\$3.00 for each additional 1,000 gallons over 15,000 gallons.	
Outside city limits: Water - 17	\$25.00 for 1st 2,000 gallons \$3.23 for each additional 1,000 gallons between 2,000 and 15,000 gallons. \$4.40 for each additional 1,000 gallons over 15,000 gallons	
Sewer - 0		
New connections:	\$300 per connection	\$300 per connection
Deposit (refundable)	\$100	Not applicable

OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

CITY OF TOM BEAN, TEXAS
COMMUNITY DEVELOPMENT BLOCK GRANT #703901
STATEMENT OF GRANT REVENUES AND EXPENDITURES - BUDGET & ACTUAL
Year ended September 30, 1995

EXHIBIT H

	ACTUAL TO DATE			TOTAL BUDGET	VARIANCE (OVER)/UNDER
	CURRENT	PRIOR	TOTAL		
Revenues:					
CDBG #703901	\$167,214	\$0	\$167,214	\$173,000	\$5,786
Local matching funds	15,930	0	15,930	15,930	0
Total Revenues	183,144	0	183,144	188,930	5,786
Expenses:					
Federal					
1b. Sewer Facilities	150,214	0	150,214	156,000	5,786
30. Engineering	17,000	0	17,000	17,000	0
32. General administrative					
Local					
1b. Sewer Facilities	0	0	0	0	0
30. Engineering	0	0	0	0	0
32. General administrative	15,930	0	15,930	15,930	0
Total Expenses	183,144	0	183,144	188,930	5,786
Excess of Revenue over Expenses	\$0	\$0	\$0	\$0	\$0

The accompanying notes are an integral part of the financial statements.

GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

TOM BEAN, TEXAS 75489-0619

INDEPENDENT AUDITOR'S REPORT ON SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

To the City Council
City of Tom Bean, TX

We have audited the general purpose financial statements of the City of Tom Bean, Texas, as of and for the year ended September 30, 1995, and have issued our report thereon dated February 28, 1996. These general purpose financial statements are the responsibility of the City of Tom Bean, Texas' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements of the City of Tom Bean, TX taken as a whole. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Gregg & Company
Tom Bean, Texas

February 28, 1996

City of Tom Bean, TX
Schedule of Federal Financial Assistance
For the Year Ended September 30, 1995

Federal Grantor/Pass- Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Disbursements/ Expenditures
--	---------------------------	-------------------------------------	-------------------------------	--------------------------------

MAJOR PROGRAMS

-- NONE --

NON-MAJOR PROGRAMS

U.S. Department of Housing and Urban Development

Passed Through State

Texas Department of Housing
and Community Affairs

Community Development Block Grant Community Development	14.228	#703901	\$173,000	\$173,000
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TOTAL NON-MAJOR PROGRAMS				\$173,000
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The accompanying notes are an integral part of the financial statements.

GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

TOM BEAN, TEXAS 75489-0619

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the City Council
City of Tom Bean, Texas

We have audited the general purpose financial statements of City of Tom Bean, Texas, as of and for the year ended September 30, 1995, and have issued our report thereon dated February 28, 1996.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audit for the year ended September 30, 1995, we considered the internal control structure of City of Tom Bean, Texas, in order to determine our auditing procedures for the purpose of expressing our opinion on City of Tom Bean, Texas' general purpose financial statements, and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs.

The management of City of Tom Bean, Texas, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control

structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

Cash

Expenditures for grant and administrative services

Governmental financial assistance programs as follows:

GENERAL REQUIREMENTS

- Political activity
- Civil rights
- Cash management
- Allowable costs
- Davis-Bacon Act
- Administrative requirements

SPECIFIC REQUIREMENTS

- Types of activities allowed or unallowed
- Matching requirements
- Reporting requirements

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended September 30, 1995, City of Tom Bean, Texas, had no major federal financial assistance programs, and expended 100% of its total federal financial assistance under the following nonmajor federal financial assistance programs: U.S. Department of Housing and Urban Development.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we have considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the aforementioned nonmajor programs. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the audit committee, management, and the Texas Department of Housing and Community Development, and the U.S. Department of Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

Gregg & Company

Tom Bean, Texas
February 28, 1996

GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

TOM BEAN, TEXAS 75489-0619

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To City Council
City of Tom Bean, Texas

We have audited the general purpose financial statements of City of Tom Bean, Texas, as of and for the year ended September 30, 1995, and have issued our report thereon dated February 28, 1996.

We have applied procedures to test the City of Tom Bean, Texas' compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the year ended September 30, 1995: political activity, civil rights, cash management, allowable costs, Davis-Bacon Act, and administrative requirements.

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's "Compliance Supplement for Single Audits of State and Local Governments". Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on City of Tom Bean, Texas' compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that City of Tom Bean, Texas, had not complied, in all material respects, with those requirements. Also, the results of our procedures did not disclose any immaterial instances of noncompliance with those requirements.

This report is intended for the information of the audit committee, management, and the Texas Department of Housing and Community Development, and the U.S. Department Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

Gregg & Company
Tom Bean, Texas

February 28, 1996

GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

TOM BEAN, TEXAS 75489-0619

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO NONMAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAM TRANSACTIONS

To the City Council
City of Tom Bean, Texas

We have audited the general purpose financial statements of the City of Tom Bean, Texas, as of and for the year ended September 30, 1995, and have issued our report thereon dated February 28, 1996.

In connection with our audit of the general purpose financial statements of the City of Tom Bean, Texas, and with our consideration of the City of Tom Bean, Texas' control structure used to administer federal financial assistance programs, as required by Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments," we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended September 30, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; matching requirements, and reporting requirements that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion of the City of Tom Bean, Texas' compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the City of Tom Bean, Texas, had not complied, in all material respects, with those requirements. Also, the results of our procedures did not disclose any immaterial instances of noncompliance with those requirements.

This report is intended for the information of the audit committee, management, and the Texas Department of Housing and Community Development, and the U.S. Department Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

Tom Bean, Texas

February 28, 1996

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REPORTS REQUIRED BY THE GAO

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GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

TOM BEAN, TEXAS 75489-0619

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE OR BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Tom Bean, Texas

We have audited the general purpose financial statements of City of Tom Bean, Texas, as of and for the year ended September 30, 1995, and have issued our report thereon dated February 28, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

The management of City of Tom Bean, Texas, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general purpose financial statements of City of Tom Bean, Texas, for the year ended September 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an

opinion on the internal control structure. Accordingly, we do not express such an opinion.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, management, and the Texas Department of Housing and Community Development, and the U.S. Department Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

Tom Bean, Texas
February 28, 1996

GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

TOM BEAN, TEXAS 75489-0619

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
BASED ON AN AUDIT OF GENERAL PURPOSE OR BASIC
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the City Council
City of Tom Bean, Texas

We have audited the general purpose financial statements of City of Tom Bean, Texas, as of and for the year ended September 30, 1995, and have issued our report thereon dated February 28, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to City of Tom Bean, Texas, is the responsibility of City of Tom Bean, Texas, management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City of Tom Bean, Texas' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, City of Tom Bean, Texas, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that City of Tom Bean, Texas, had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management, and the Texas Department of Housing and Community Development, and the U.S. Department Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

Gregg & Company
Tom Bean, Texas
February 28, 1996