

AUDITED FINANCIAL STATEMENTS
OF
CITY OF TOM BEAN
TOM BEAN, TEXAS
AT
SEPTEMBER 30, 1998

CITY OF TOM BEAN, TEXAS
Annual Financial Report
Fiscal Year Ended September 30, 1998

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GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

MEMBER

TEXAS SOCIETY OF CPAs

118 COTTONBELT

P.O. BOX 619

TOM BEAN, TEXAS 75489-0619

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

MEMBER

AMERICAN INSTITUTE 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, 1998, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 1998, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 1999, on our consideration of Tom Bean, Texas internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

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 CPAs

Tom Bean, Texas

January 29, 1999

CITY OF TOM BEAN, TEXAS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
September 30, 1998

ASSETS	Governmental fund type	Proprietary fund type	Account Groups		Totals (memorandum only)	
	General	Water and sewer	General fixed assets	General long-term debt	1998	1997
Cash in bank	\$ 8,118	\$ 939	-	-	\$ 9,057	\$ 20,191
Receivables (net of allowance for doubtful accounts):			-	-	-	-
Property taxes	2,533	-	-	-	2,533	1,534
Water/Sewer	-	28,904	-	-	28,904	17,270
Sanitation	-	-	-	-	-	2,834
Sundry	-	-	-	-	-	417
Due from other funds		4,564	-	-	4,564	2,779
Total Current assets:	10,651	34,407	-	-	45,058	45,025
Restricted assets:						
Deposits held by other agencies	-	65,742	-	-	65,742	96,913
Total Restricted assets	-	65,742	-	-	65,742	96,913
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	6,698	-	46,792	103,965
Furniture & fixtures	-	5,157	75,621	-	80,778	11,854
Sewer system	-	997,745	-	-	997,745	997,745
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
	-	1,742,450	228,542	-	1,970,992	1,959,241
Accumulated depreciation	-	(538,340)	(190,529)	-	(728,869)	(670,917)
Total Property, plant and equipment:	-	1,204,110	38,013	-	1,242,123	1,288,324
Amount to be provided	-	-	-	\$ 21,786	21,786	15,537
Total assets	\$ 10,651	\$ 1,304,259	\$ 38,013	\$ 21,786	\$ 1,374,709	\$ 1,445,799

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, 1998

	Governmental fund type	Proprietary fund type	Account Groups		Totals (memorandum only)	
	General	Water and sewer	General fixed assets	General long-term debt	1998	1997
LIABILITIES						
Current liabilities						
Accrued liabilities	\$ 14,598	\$ 10,420	-	-	\$ 25,018	\$ 25,727
Sales tax payable	-	-	-	-	-	596
Other accounts payable	4,386	-	-	-	4,386	2,383
Customer water deposits	-	17,040	-	-	17,040	16,360
Notes Payable - First Nat'l Bank	-	-	-	\$ 21,786	21,786	15,537
Due to other funds	4,564	-	-	-	4,564	2,778
Water and sewer bonds (current)	-	15,000	-	-	15,000	15,000
Contractual obligations - (current)	-	15,000	-	-	15,000	15,000
Bond interest payable	-	8,009	-	-	8,009	10,017
Deferred revenues (Note F)	2,423	-	-	-	2,423	1,535
Total current liabilities	25,971	65,469	-	21,786	113,226	104,933
Long-term debt:						
Water and sewer bonds - long term	-	25,000	-	-	25,000	40,000
Contracted obligations - long term (Note D)	-	380,000	-	-	380,000	395,000
Total liabilities	25,971	470,469	-	21,786	518,226	539,933
FUND EQUITY						
Investment in general fixed assets	-	-	\$ 38,013	-	38,013	33,263
Fund balance: unreserved	(15,320)	833,790	-	-	822,856	872,603
Total fund equity	(15,320)	833,790	38,013	-	856,483	905,866
Total liabilities and fund equity	\$ 10,651	\$1,304,259	\$ 38,013	\$21,786	\$1,374,709	\$1,445,799

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, 1998

	Governmental fund types	Totals (Memorandum only)	
	General	1998	1997
Revenues:			
Court fees income	\$ 65,670	\$ 65,670	\$ 29,939
Property tax revenue	67,711	67,711	62,340
Franchise permits	20,628	20,628	24,041
Sales tax revenue	10,370	10,370	19,617
Grant income	9,257	9,257	-
Sanitation revenue	3,859	3,859	3,288
Building permit revenue	3,243	3,243	688
Contributions	3,045	3,045	-
Tax collector fees	2,302	2,302	-
Interest income	1,572	1,572	887
Coffee /coke machine revenue	993	993	342
Penalty & interest revenue	-	-	805
	188,650	188,650	141,947
General Expenditures:			
Utilities	23,730	23,730	10,412
Salaries	20,911	20,911	22,475
Office supplies and postage expense	9,053	9,053	1,455
Property & liability insurance	7,330	7,330	3,210
Licences & permits expense	4,470	4,470	272
Payroll taxes & fringe benefits	3,347	3,347	6,358
Audit	2,900	2,900	950
Contract labor	2,400	2,400	-
Dues, subscriptions, & tuition	1,476	1,476	981
Contributions	1,261	1,261	200
Legal	1,125	1,125	600
Mayor expense	1,000	1,000	2,400
TWC expense	901	901	526
Municipal court expense	4,537	4,537	540
Repair and maintenance	688	688	582
Vehicle expense	653	653	1,572
Advertising/professional	518	518	589
Miscellaneous expense	395	395	95
Equipment purchases	350	350	675
Chemicals & lab fees	294	294	239
Appraisal district fees expense	282	282	896
Inspection expense	235	235	-
Election expense	194	194	774
Tools, equipment & uniforms	-	-	202
Total general expenditures	\$ 88,050	\$ 88,050	\$ 56,003

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 - ALL GOVERNMENTAL FUND TYPES
Year ended September 30, 1998

	Governmental fund types	Totals (Memorandum only)	
	General	1998	1997
Fire department:			
Miscellaneous expense	-	-	\$ 1,300
Total fire department expenditures	-	-	1,300
Police department:			
Salaries	\$ 65,182	\$ 65,182	38,230
Vehicle expense	17,812	17,812	15,776
Employee fringe benefits	6,533	6,533	3,882
Supplies	6,454	6,454	1,278
Tax court expense	-	-	2,400
Property & liability insurance	3,070	3,070	-
Contract labor	2,947	2,947	-
Equipment rent & purchases	1,494	1,494	242
Utilities	1,361	1,361	2,391
Office supplies expense	1,334	1,334	761
Uniforms	534	534	565
Dues & subscriptions	160	160	-
Repairs and maintenance	142	142	191
Education and tuition	124	124	398
Miscellaneous expense	-	-	-
Total police department expenditures	107,147	107,147	66,114
Street department:			
Property & liability insurance	1,313	1,313	-
Supplies	641	641	-
Vehicle expense	636	636	-
Contract labor	341	341	-
Street repairs	190	190	11,307
Equipment repair	18	18	-
Total street department expenditures	3,139	3,139	11,307
Park department:			
Vehicle expense	3	3	-
Utilities	-	-	139
Total park department expenditures	3	3	139
Total expenditures	198,339	198,339	134,863
Excess of revenues over (under) expenditures	(9,689)	(9,689)	7,084
Transfer out to water fund	-	-	(22,056)
Fund balances, beginning October 1	(5,631)	(5,631)	9,341
Fund balances, ending September 30	\$ (15,320)	\$ (15,320)	(\$5,631)

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, 1998

General Fund

	Budget	Actual	Variance- favorable (unfavorable)
Revenues:			
Court fee revenue	\$ 21,460	\$ 65,670	\$ 44,210
Property tax revenue	64,644	67,711	3,067
Franchise tax revenue	28,588	20,628	(7,960)
Sales tax revenue	19,497	10,370	(9,127)
Grant income	-	9,257	9,257
Sanitation revenue	3,300	3,859	559
Building permit revenue	300	3,243	2,943
Contributions	-	3,045	3,045
Property tax - penalty and interest	850	2,302	1,452
Interest income	945	1,572	627
Coffee / Coke machine revenue	250	993	743
Total revenues	\$ 139,834	\$188,650	\$48,816

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, 1998

General Fund			
	Budget	Actual	Variance- favorable (unfavorable)
Expenditures:			
General expenditures:			
Utilities	\$ 10,000	\$ 23,730	\$ (13,730)
Salaries	24,775	20,911	3,864
Office supplies and postage expense	1,100	9,052	(7,952)
Insurance	3,400	7,330	(3,930)
Licenses & permits	-	4,470	(4,470)
Payroll taxes & fringe benefits	6,805	3,348	3,457
Audit	950	2,900	(1,950)
Contract labor	-	2,400	(2,400)
Dues and subscriptions & tuition	1,100	1,476	(376)
Contributions	1,500	1,261	239
Legal	500	1,125	(625)
Mayor expense	2,400	1,000	1,400
TEC expense	400	901	(501)
Municipal court	-	4,537	(4,537)
Repair and maintenance	400	688	(288)
Vehicle expense	850	653	197
Miscellaneous expense	300	630	(330)
Advertising	100	518	(418)
Equipment purchases	1,500	350	1,150
Chemicals	100	294	(194)
Appraisal district fees	972	282	690
Election expense	350	194	156
Workers comp insurance	700	-	700
Tax collection fees	550	-	550
Coke machine, coffee	250	-	250
Tools and equipment & uniforms	200	-	200
Equipment rent	60	-	60
Total general expenses	\$ 59,262	\$ 88,050	\$ (28,788)

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, 1998

General Fund			
	Budget	Actual	Variance- favorable (unfavorable)
Police department:			
Salaries	\$ 44,500	\$ 65,182	\$ (20,682)
Vehicle expense	14,380	17,812	(3,432)
Employee fringe benefits	4,152	6,533	(2,381)
Supplies	450	6,454	(6,004)
Municipal court expense	2,400	-	2,400
Property & liability insurance	-	3,070	(3,070)
Contract labor	-	2,947	(2,947)
Equipment rent & purchases	200	1,494	(1,294)
Utilities	2,240	1,361	879
Office expense	400	1,334	(934)
Uniforms	500	534	(34)
Dues & subscriptions	-	160	(160)
Repair & maintenance	250	142	108
Education & tuition	300	124	176
Tools and equipment	400	-	400
	70,172	107,147	(36,975)
Street department			
Property & liability insurance	-	1,314	(1,314)
Supplies	-	640	(640)
Vehicle expenses	-	636	(636)
Contract labor	-	341	(341)
Street repairs	10,250	190	10,060
Equipment Repair	-	18	(18)
	10,250	3,139	7,111
Parks department			
Vehicle expenses	-	3	(3)
Utilities	150	-	150
	150	3	147
Total expenditures	139,834	198,339	(28,641)
Excess of revenues over (under) expenditures	-	(\$9,690)	(\$5,303)

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, 1998

EXHIBIT D

	Totals (NOTE F)		
	Water and Sewer	1998	1997
Operating revenues:			
Water/meter and sewer revenue	\$208,248	\$208,248	\$185,454
Water and sewer tie-on revenue	490	490	4,080
Miscellaneous water income	17	17	23
Reconnect fee revenue	-	-	1,265
Returned check revenue	-	-	150
Meter transfer fee	-	-	150
Total Operating revenues	208,755	208,755	191,122
Operating expenses:			
Salaries	63,492	63,492	44,950
Depreciation expense	50,951	50,951	51,381
Contract labor	30,789	30,789	6,450
Utilities	20,081	20,081	38,412
Payroll taxes & fringe benefits	14,829	14,829	7,087
Material and supplies	11,123	11,123	4,068
Engineering fees	7,881	7,881	-
Chemicals, enzymes, lab expense	5,328	5,328	8,628
Equipment-rent, repair, and purchase	5,229	5,229	610
Miscellaneous expense	2,999	2,999	200
Insurance	2,896	2,896	6,420
Legal, dues, permits, subscriptions, education	2,685	2,685	499
Office, postage & cleaning expense	2,170	2,170	1,815
Repairs and maintenance	1,569	1,569	24,430
Vehicle expense	1,503	1,503	3,050
Fees and contributions	1,135	1,135	-
Audit	100	100	1,900
Tools expense	48	48	698
Workers comp. insurance	-	-	3,241
Inspection expense	-	-	2,517
Uniforms & advertising expense	-	-	193
Bad debt expense	-	-	55
Total Operating expenses	224,808	224,808	206,604
Operating income (loss)	(16,053)	(16,053)	(15,482)
Nonoperating revenues			
Interest income	6,001	6,001	493
Penalty and interest revenue	-	-	10,602
Total Nonoperating revenues:	6,001	6,001	11,095
Nonoperating expenses:			
Interest expense	31,867	31,867	34,551
Penalties	2,500	2,500	-
Grant expense	25	25	-
Total Nonoperating expenses:	34,392	34,392	34,551
Net Nonoperating income:	(28,391)	(28,391)	(23,456)
Net Income before transfers	(44,444)	(44,444)	(38,938)
Transfer in from general fund	-	-	22,056
Net Income	(44,444)	(44,444)	(16,882)
Fund balances, beginning October 1	878,234	878,234	895,116
Fund balances, ending September 30	\$833,790	\$ 833,790	\$878,234

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, 1998

	Water and Sewer Fund		
	Budget	Actual	Variance- favorable (unfavorable)
Revenue:			
Water/meter and sewer revenue	\$192,500	\$208,248	\$15,748
Interest income	500	6,001	5,501
Water and sewer tie-on revenue	3,000	490	(2,510)
Miscellaneous	-	17	17
Penalty and interest revenue	6,000	-	(6,000)
Reconnect fee revenue	1,000	-	(1,000)
Meter transfer fee	60	-	(60)
Returned check fee	150	(200)	(350)
Total revenue	203,210	214,556	11,346
Expenses:			
Salaries	49,550	63,492	(13,942)
Depreciation expense	-	50,952	(50,952)
Bond Prin,Int, Res-'88 Series	45,132	31,867	13,265
Contract labor	3,000	30,789	(27,789)
Utilities	38,200	20,081	18,119
Payroll taxes & fringe benefits	7,610	14,829	(7,219)
Supplies	1,780	11,123	(9,343)
Permits and Fees	-	9,152	(9,152)
Chemicals and enzymes and lab fees	7,600	5,328	2,272
Equipment rental and lease	680	4,956	(4,276)
Property and liability insurance	6,800	2,896	3,904
Miscellaneous expense	200	2,799	(2,599)
Penalties	-	2,500	(2,500)
Office, postage, & cleaning expense	1,400	2,170	(770)
Dues, subscriptions & tuition	530	1,651	(1,121)
Repairs and maintenance	7,733	1,569	6,164
Vehicle expense	1,700	1,503	197
Grant expense	-	825	(825)
Equipment purchase	2,300	273	2,027
Audit	1,900	100	1,800
Legal	200	72	128
Tools and equipment	400	48	352
Contributions	-	25	(25)
Workers comp. insurance	4,200	-	4,200
Inspection expense	3,125	-	3,125
Interest expense	2,970	-	2,970
TWC expense	800	-	800
Bad debt expense	400	-	400
Total expense	188,210	259,000	(70,790)
Net income	\$ 15,000	(\$44,444)	(\$59,444)

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, 1998

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$197,801
Interest received	6,001
Cash paid to suppliers and employees	(175,460)
Interest paid	(33,875)
Net Cash Provided (Used) by Operating Activities	<u>(5,533)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments on long-term debt	(30,000)
(Increase) decrease in funds held by other agency	31,171
(Increase) decrease in amounts due from other funds	<u>(1,785)</u>
Net Cash Provided (Used) by Financing Activities	<u>(614)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (6,147)

CASH AND CASH EQUIVALENTS, OCTOBER 1 7,086

CASH AND CASH EQUIVALENTS, SEPTEMBER 30 \$ 939

Reconciliation of net income to net cash provided
by operating activities:

Net income \$ (44,444)

Adjustments to reconcile net income to net
cash provided by operating activities:

Depreciation	50,951
(Increase) decrease in accounts receivable	(11,634)
Increase (decrease) in accrued liabilities	922
Increase (decrease) in water meter deposits	680
Increase (decrease) in interest payable	(2,008)
Total adjustments	<u>38,911</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES (\$5,533)

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

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 1998

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

Notes to the Financial Statements (Continued)

assets, liabilities, fund equity, revenues and expenses 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.

Notes to the Financial Statements (Continued)

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

Notes to the Financial Statements (Continued)

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.

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.

Notes to the Financial Statements (Continued)

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.

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.

8. Cash

For the purpose of the statement of cash flows, investments are considered to be cash equivalents if they are highly liquid with maturity within one year or less. As of September 30, 1998 all bank balances are entirely insured by FDIC.

Notes to the Financial Statements (Continued)

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, 1997</u>	<u>Additions</u>	<u>Deductions</u>	<u>Sept. 30, 1998</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	6,698		--	6,698
Machinery & equipment	63,870	\$11,751	--	75,621
	<u>216,791</u>	<u>--</u>	<u>--</u>	<u>228,542</u>
Accumulated deprec.	(183,528)	(7,001)	--	(190,529)
	<u>\$33,263</u>	<u>\$4,750</u>	<u>--</u>	<u>\$38,013</u>

Proprietary Fund Fixed Assets

The following is a summary of proprietary fund fixed assets at September 30, 1998:

	<u>Oct. 1, 1997</u>	<u>Additions</u>	<u>Deductions</u>	<u>Sept. 30, 1998</u>
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	5,157	--	--	5,157
Machinery & equipment	40,094	--	--	40,094
Sewer sys	997,745	--	--	997,745
	<u>1,742,450</u>	<u>--</u>	<u>--</u>	<u>1,742,450</u>
Accumulated deprec.	(487,389)	(50,951)	--	(538,340)
	<u>\$1,255,061</u>	<u>(\$50,951)</u>	<u>--</u>	<u>\$1,204,110</u>

Notes to the Financial Statements (Continued)

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.

The bond funding requirements for all bonds at September 30, 1998 are \$4,406. The amounts funded are \$0, therefore, there is a \$4,406 funding deficit.

		<u>Requirement</u>	<u>Funded</u>	<u>Deficit</u>
Junior Lien Sinking-				
P&I	'68 Series	\$1,306	\$ - 0 -	\$(1,306)
Replacement & Repair				
Reserve	'80 Series	3,100	- 0 -	(3,100)
		<u>\$4,406</u>	<u>\$0</u>	<u>\$(4,406)</u>

D. CONTRACTUAL OBLIGATIONS

Under the terms of a long term water supply and sewer service contract between the City and Greater Texoma Utility Authority (GTUA), entered into on October 7, 1987, the City recognizes that GTUA has an undivided ownership interest in the facility equivalent to the percentage of the total cost of the facility provided by GTUA through the issuance and sale of GTUA bonds. The City has an obligation to make payments specified by the contract to GTUA to pay the principal and interest on the Bonds, maintain a Reserve Fund for the security and payment of bonds similarly secured, pay the administrative and overhead expenses of GTUA directly

Notes to the Financial Statements (Continued)

attributable to the Bonds, and pay any extraordinary expenses incurred by GTUA in connection with the Bonds.

Under terms of the contract, the City's obligation to make payments to GTUA, as well as GTUA's ownership interest in the facility, terminate when all of GTUA's bonds issued in connection with construction of the facility have been paid in full, are retired, and are no longer outstanding.

The original total principal obligation of the contract was \$480,000, with interest rates varying between 5.85% to 7.5%. As of September 30, 1998, the principal balance of the obligation was \$395,000. The City's obligation to GTUA under the long term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2012. At that time, the undivided interest in the property transfers from GTUA to the City.

E. TAX ROLLS

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

Tax Year	<u>1998</u>	<u>1997</u>
Gross market value	\$19,322,699	\$17,956,359
Exemptions	(2,099,469)	(1,889,124)
Net taxable value	17,223,230	16,067,235
Tax rate per \$100	.0041282	0.0041282
Tax levy	<u>\$ 71,101</u>	<u>\$ 66,329</u>

F. DEFERRED REVENUES

	<u>Amount</u>
General Fund	
Property taxes - current year	\$ 888
Property taxes - prior years	1,535
	<u>\$2,423</u>

WATERWORKS AND SEWER SYSTEM
SCHEDULE OF BOND REQUIREMENTS
YEAR ENDED SEPTEMBER 30, 1998

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			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	
1999	\$ 113	\$ 112	\$ 5,000	\$ 980	\$ 980	\$ 10,000	\$ 17,185
2000				700	700	10,000	11,400
2001				420	420	15,000	15,840
TOTALS	\$113	\$112	\$5,000	\$2,100	\$2,100	\$35,000	\$44,425

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

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

City of Tom Bean, Texas
Schedule of City Officials
September 30, 1998

<u>Name</u>	<u>Position</u>
Bill Garner	Mayor
Ben Vincent	Mayor Pro Tem
Bobbie Moran	Council Member
Ruby Barnes	Council Member
Rick Horner	Council Member
David Schaab	Council Member
Susan Miller	Council Member
Debbie Yowell	Secretary

Water & Sewer Rates

<u>Connections</u>	<u>Water Rate</u>	<u>Sewer Rate</u>
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 additional 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

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

GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

118 COTTONBELT

P.O. BOX 619

TOM BEAN, TEXAS 75489-0619

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

MEMBER

TEXAS SOCIETY OF CPAs

MEMBER

AMERICAN INSTITUTE OF CPAs

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF 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, 1998, and have issued our report thereon dated January 29, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Tom Bean, Texas general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determinations of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of City of Tom Bean, Texas, in a separate letter dated January 29, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Tom Bean, Texas's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operations of one or more of the internal control components does not reduce a relatively low level the risk that misstatements 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. We noted no material involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of City of Tom Bean, Texas, in a separate letter dated January 29, 1999.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distributions is not limited.

Tom Bean, Texas
January 29, 1999