

AUDITED FINANCIAL STATEMENTS
OF
CITY OF TOM BEAN
TOM BEAN, TEXAS
AT
SEPTEMBER 30, 2001

CITY OF TOM BEAN, TEXAS
Annual Financial Report
Fiscal Year Ended September 30, 2001

Table of Contents

	<u>Page</u>	<u>Exhibit</u>
FINANCIAL SECTION		
Independent Auditor's Report.....	1	
<u>General Purpose Financial Statements:</u>		
Combined Balance Sheet - All Fund Types and Account Groups.....	3	A
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types.....	5	B
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (GAAP Basis) and Actual - General Fund.....	6	C
Statement of Revenues, Expenses, and Changes in Fund Balances - Proprietary Fund Type...	7	D
Statement of Revenues, Expenses, and Changes in Fund Balances - Budget (GAAP Basis) and Actual - Proprietary Fund Type (Water and Sewer Fund).....	8	E
Statement of Cash Flows - Proprietary Fund Type - Water and Sewer.....	9	F
Notes to Financial Statements.....	10	
<u>General and Statistical Schedules:</u>		
Schedule of City Officials.....	21	
Schedule of Water and Sewer Rates.....	21	
Schedule of Long-Term Debt Requirements.....	22	
Schedule of Pension Plan Funding.....	23	
Schedule of Federal Award Expenditures.....	24	
<u>Report Required by Government Auditing Standards:</u>		
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.	25	

GREGG & COMPANY

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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, 2001, 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, 2001, 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 9, 2002, 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 general and statistical 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 9, 2002

CITY OF TOM BEAN, TEXAS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
September 30, 2001

ASSETS	Governmental fund type	Proprietary fund type	Account Groups		Totals (memorandum only)	
	General	Water and sewer	General fixed assets	General long-term debt	2001	2000
Cash	\$ 41,671	\$ 9,909	-	-	\$ 51,580	-
Receivables (net of allowance for doubtful accounts):						
Property taxes	2,829	-	-	-	2,829	\$ 2,534
Water/Sewer	-	19,798	-	-	19,798	27,420
Sundry	212	-	-	-	212	210
Prepaid bond issuance costs	-	19,718	-	-	19,718	-
Due from other funds	-	138,393	-	-	138,393	90,032
Total Current assets:	44,712	187,818	-	-	232,530	120,196
Restricted assets:						
Deposits held by other agencies	-	537,933	-	-	537,933	53,775
Total Restricted assets	-	537,933	-	-	537,933	53,775
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	-	53,719	6,623	-	60,342	58,174
Furniture & fixtures	-	1,500	80,571	-	82,071	84,771
Sewer system	-	1,167,794	-	-	1,167,794	1,006,214
Water system	-	572,644	-	-	572,644	572,644
Water distribution improvements.	-	133,540	-	-	133,540	133,540
	-	1,931,697	233,417	-	2,165,114	2,004,066
Accumulated depreciation	-	(686,613)	(206,305)	-	(892,918)	(833,596)
Total Property, plant and equipment:	-	1,245,084	27,112	-	1,272,196	1,170,470
Amount to be provided	-	-	-	-	-	2,418
Total assets	\$ 44,712	\$ 1,970,835	\$ 27,112	-	\$ 2,042,659	\$ 1,346,859

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, 2001

	Governmental fund type	Proprietary fund type	Account Groups		Totals (memorandum only)	
	General	Water and sewer	General fixed assets	General long-term debt	2001	2000
LIABILITIES						
Current liabilities						
Bank overdrafts	-	-	-	-	-	\$ 27,424
Accrued liabilities	\$ 1,732	\$ 1,819	-	-	\$ 3,551	4,051
Other accounts payable	5,825	56,416	-	-	62,241	12,255
Customer water deposits	-	16,655	-	-	16,655	16,755
Notes Payable - First Nat'l Bank	-	-	-	-	-	4,093
Due to other funds	138,393	-	-	-	138,393	90,032
Water and sewer bonds (current)	-	-	-	-	-	15,000
Contractual obligations - (current)	-	25,000	-	-	25,000	20,000
Contractual obligations - interest payable	-	10,007	-	-	10,007	6,235
Total current liabilities	145,950	109,897	-	-	255,847	195,845
Long-term debt:						
Contracted obligations - long term (Note C)	-	810,000	-	-	810,000	340,000
Total liabilities	145,950	919,897	-	-	1,065,847	535,845
FUND EQUITY						
Investment in fixed assets	-	-	\$ 27,112	-	27,112	32,494
Fund balance: unrestricted	(101,238)	-	-	-	(101,238)	(98,332)
Retained earnings: unrestricted	-	1,050,938	-	-	1,050,938	876,852
Total fund equity	(101,238)	1,050,938	27,112	-	976,812	811,014
Total liabilities and fund equity	\$ 44,712	\$1,970,835	\$ 27,112	-	\$2,042,659	\$1,346,859

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, 2001

	Governmental fund types	Totals (Memorandum only)	
	General	2001	2000
Revenues:			
Property tax revenue	\$ 124,396	\$ 124,396	\$ 80,729
Franchise fees	23,329	23,329	25,480
Sales tax revenue	22,346	22,346	23,803
Grant income	20,719	20,719	-
Court fees income	14,631	14,631	24,934
Insurance claim revenue	5,504	5,504	2,921
Other income	4,880	4,880	1,884
Property tax - penalty & interest	1,515	1,515	1,199
Donations	1,215	1,215	-
Interest income	819	819	188
Gain on sale of asset	150	150	-
Building permit revenue	137	137	425
	<u>219,641</u>	<u>219,641</u>	<u>161,563</u>
General Expenditures:			
Salaries	19,989	19,989	20,725
Utilities	10,355	10,355	23,630
Other expenditures	8,668	8,668	28,993
Property & liability insurance	7,731	7,731	7,287
Legal and accounting	5,835	5,835	1,500
Contract labor	4,147	4,147	6,098
Payroll taxes & fringe benefits	2,972	2,972	4,538
Office supplies and postage expense	2,503	2,503	3,462
Licences, permits, fees	85	85	2,810
Total general expenditures	<u>62,285</u>	<u>62,285</u>	<u>99,043</u>
Police department:			
Salaries	69,192	69,192	69,634
Payroll tax & fringe benefits	9,650	9,650	7,710
Municipal court expense	7,674	7,674	8,861
Other expenditures	5,758	5,758	4,243
Vehicle expense	2,411	2,411	12,269
Total police expenditures	<u>94,685</u>	<u>94,685</u>	<u>102,717</u>
Street department:			
Street repair and other improvements	35,532	35,532	215
Salaries	30,045	30,045	11,663
Total street expenditures	<u>65,577</u>	<u>65,577</u>	<u>11,878</u>
Total expenditures	<u>222,547</u>	<u>222,547</u>	<u>213,638</u>
Excess of revenues over (under) expenditures	(2,906)	(2,906)	(54,919)
Fund balances, beginning October 1	(98,332)	(98,332)	(43,413)
Fund balances, ending September 30	<u>\$ (101,238)</u>	<u>\$ (101,238)</u>	<u>\$ (98,332)</u>

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, 2001

	General Fund		
	Budget	Actual	Variance- favorable (unfavorable)
Revenues:			
Property tax revenue	\$ 123,767	\$ 124,396	\$ 629
Franchise tax revenue	25,000	23,329	(1,671)
Sales tax revenue	24,050	22,346	(1,704)
Grant income	14,000	20,719	6,719
Court fee revenue	25,000	14,631	(10,369)
Insurance claim revenue	-	5,504	5,504
Other	-	4,880	4,880
Property tax - penalty and interest	-	1,515	1,515
Donations	-	1,215	1,215
Interest income	500	819	319
Gain on sale of asset	-	150	150
Building permit revenue	400	137	(263)
Total revenues	212,717	219,641	6,924
Expenditures:			
General expenditures:			
Salaries	20,023	19,989	34
Other	4,050	13,323	(9,273)
Utilities	18,300	10,355	7,945
Property and liability insurance	-	7,731	(7,731)
Legal and accounting	4,500	5,835	(1,335)
Office supplies and postage	4,350	2,503	1,847
Mayor	2,400	2,400	0
Election	400	149	251
Police department:			
Salaries	82,274	69,192	13,082
Payroll taxes & fringe benefits	8,000	9,650	(1,650)
Court fees and expenses	12,650	7,674	4,976
Other	9,750	5,758	3,992
Vehicle expense	17,860	2,411	15,449
Street department:			
Street repair and other improvements	36,829	35,532	1,297
Salaries	-	30,045	(30,045)
Total expenditures	221,386	222,547	(1,161)
Excess of revenues over (under) expenditures	\$ (8,669)	\$ (2,906)	\$ 5,763

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

CITY OF TOM BEAN, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - PROPRIETARY FUND TYPE (WATER AND SEWER FUND)
Year ended September 30, 2001

EXHIBIT D

	Water and Sewer	Totals (NOTE A) 2001	2000
Operating revenues:			
Water revenue	\$ 134,338	\$ 134,338	\$152,442
Sewer revenue	80,461	80,461	78,514
Sanitation revenue	31,615	31,615	29,147
Water and sewer tie-on revenue	4,997	4,997	6,810
Total Operating revenues	251,411	251,411	266,913
Operating expenses:			
Depreciation expense	53,722	53,722	52,478
Utilities	38,731	38,731	23,745
Salaries	35,024	35,024	39,023
Sanitation contract	31,550	31,550	35,969
Material and supplies	10,922	10,922	10,754
Insurance	9,022	9,022	11,438
Payroll taxes & fringe benefits	8,028	8,028	5,512
Contract labor	6,342	6,342	5,364
Chemicals and lab expense	2,744	2,744	6,170
Miscellaneous expense	2,034	2,034	790
Dues, permits, subscriptions, and education	735	735	1,864
Equipment, repairs, and maintenance	620	620	2,868
Office supplies and postage	518	518	1,167
Vehicle expense	150	150	2,045
Bad debt	-	-	2,047
Total Operating expenses	200,142	200,142	201,234
Operating income (loss)	51,269	51,269	65,679
Nonoperating revenues			
TDHCA Grant	145,403	145,403	11,202
Insurance claim and other	26,868	26,868	260
Interest income	120	120	338
Total Nonoperating revenues:	172,391	172,391	11,800
Nonoperating expenses:			
Interest expense	48,974	48,974	28,466
Loss on sale of assets	600	600	-
Total Nonoperating expenses:	49,574	49,574	28,466
Net Nonoperating income:	122,817	122,817	(16,666)
Net Income	174,086	174,086	49,013
Retained earnings, beginning October 1	876,852	876,852	827,839
Retained earnings, ending September 30	<u>\$ 1,050,938</u>	<u>\$ 1,050,938</u>	<u>\$ 876,852</u>

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, 2001

Water and Sewer Fund			
	Budget	Actual	Variance- favorable (unfavorable)
Revenue:			
Grant income	-	\$ 145,403	\$ 145,403
Water revenue	\$122,500	134,338	11,838
Sewer revenue	97,500	80,461	(17,039)
Sanitation revenue	38,000	31,615	(6,385)
Insurance claims	-	26,868	26,868
Water and sewer connections	4,000	4,997	997
Other income	-	120	120
Total revenue	262,000	423,802	161,802
Expenses:			
Depreciation expense	-	53,722	(53,722)
Principal and interest	48,974	48,974	-
Utilities	14,700	38,731	(24,031)
Salaries	48,060	35,024	13,036
Sanitation contract	30,000	31,550	(1,550)
Supplies	3,750	10,922	(7,172)
Property and liability insurance	1,500	9,022	(7,522)
Payroll taxes & fringe benefits	6,000	8,028	(2,028)
Contract labor	5,000	6,342	(1,342)
Chemicals and lab fees	7,000	2,744	4,256
Miscellaneous expense	900	2,034	(1,134)
Dues, permits, subscriptions, and education	3,500	735	2,765
Equipment, repairs, and maintenance	3,100	620	2,480
Loss on sale of assets	-	600	(600)
Office supplies and postage	1,400	518	882
Vehicle expense	4,510	150	4,360
Total expense	178,394	249,716	(71,322)
Net income	\$ 83,606	\$174,086	\$90,480

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

CITY OF TOM BEAN, TEXAS
STATEMENT OF CASH FLOWS-PROPRIETARY TYPE FUNDS
Year ended September 30, 2001

	Water fund	Totals (Memorandum Only) 2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 174,086	\$ 174,086	\$ 49,013
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	52,972	52,972	52,478
Decrease/(increase) in assets:			
Accounts receivable	7,622	7,622	1,756
Restricted cash	(484,158)	(484,158)	350
Prepaid expenses	(19,715)	(19,715)	-
Increase (decrease) in liabilities:			
Accounts payable	44,605	44,605	489
Water meter deposits	(100)	(100)	(100)
Interest payable	3,765	3,765	(1,019)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(220,923)	(220,923)	102,967
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
(Increase) decrease in amounts due from other funds	(48,361)	(48,361)	(60,107)
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	(48,361)	(48,361)	(60,107)
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:			
Cash proceeds from new capital debt	500,000	500,000	-
Cash paid for bond principal	(35,000)	(35,000)	(30,000)
Cash paid for capital asset acquisitions	(165,076)	(165,076)	(10,756)
Disposal of capital assets	-	-	(3,657)
NET CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:	299,924	299,924	(44,413)
NET INCREASE (DECREASE) IN CASH	30,640	30,640	(1,553)
Cash at beginning of year	(20,731)	(20,731)	(19,178)
Cash at end of year	\$ 9,909	\$ 9,909	\$ (20,731)

Supplemental disclosures of cash flow information:

Note: During 2001, the City incurred and paid interest costs of \$48,974.

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

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2001

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.

Notes to the Financial Statements (Continued)

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 or expenditures. The City uses the following funds and groups of accounts:

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:

Water Fund

The Water 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.

Notes to the Financial Statements (Continued)

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 with the operation of these funds 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.

Notes to the Financial Statements (Continued)

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 and permits revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Proprietary fund types utilize the accrual basis of accounting. 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 potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the City receives resources 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.

4. Budget and Budgetary Accounting

The City Council adopts an annual budget for the General Fund and Water 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 Water Fund is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, non-operating 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

Notes to the Financial Statements (Continued)

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.

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

Notes to the Financial Statements (Continued)

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 and cash equivalents if they are highly liquid with maturity within ninety days or less. As of September 30, 2001 all bank balances are entirely insured by FDIC.

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>2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Sept. 30,</u> <u>2001</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	2,955	\$3,668	--	6,623
Machinery & Equipment	<u>83,271</u>	<u>--</u>	<u>(\$2,700)</u>	<u>80,571</u>
	232,449	--	--	233,417
Accum. deprec.	<u>(199,955)</u>	<u>--</u>	<u>(6,350)</u>	<u>(206,305)</u>
	<u>\$ 32,494</u>	<u>\$3,668</u>	<u>(\$9,050)</u>	<u>\$ 27,112</u>

Notes to the Financial Statements (Continued)

Proprietary Fund Fixed Assets

The following is a summary of proprietary fund fixed assets at September 30, 2001:

	Oct. 1, 2000	Additions	Deductions	Sept. 30, 2001
Land	\$ 2,500	--	--	\$ 2,500
Water works system	555,479	--	--	555,479
Water distrib improv	133,540	--	--	133,540
Water pump	17,165	--	--	17,165
Furniture & fixtures	1,499	--	--	1,499
Machinery & equipment	55,217	--	(\$1,500)	53,717
Sewer sys	<u>1,006,214</u>	<u>\$161,583</u>	<u>--</u>	<u>1,167,797</u>
	1,771,614	161,583	(1,500)	1,931,697
Accumulated deprec.	<u>(633,641)</u>	<u>(52,972)</u>	<u>--</u>	<u>(686,613)</u>
	<u>\$1,137,973</u>	<u>\$108,611</u>	<u>(\$1,500)</u>	<u>\$1,245,084</u>

C. LONG-TERM LIABILITIES AND CONTRACTUAL OBLIGATIONS

During the year ended September 30, the changes in long-term indebtedness were:

	Oct.1,2000	Additions	Retired	Sept.30,2001
<u>Water Fund</u>				
Contractual Obligations	\$360,000	\$ 500,000	(\$25,000)	\$835,000
Bonds Payable	<u>15,000</u>	<u>- -</u>	<u>(15,000)</u>	<u>- -</u>
	<u>375,000</u>	<u>500,000</u>	<u>(40,000)</u>	<u>835,000</u>
<u>General Long-Term Debt</u>				
Notes Payable	<u>2,418</u>	<u>- -</u>	<u>(2,418)</u>	<u>- -</u>
Totals	<u>\$377,418</u>	<u>\$500,000</u>	<u>(\$42,418)</u>	<u>\$835,000</u>

Notes to the Financial Statements (Continued)

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 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%. 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.

GTUA Contract Revenue Bonds, Series 1988:

Outstanding principal as of September 30, 2001: \$340,000

On October 7, 2000, the City entered into another contract with the Greater Texoma Utility Authority. Except for principal and interest rates, the conditions of the contract are comparable to 1987 GTUA contract terms discussed above. The original total principal obligation of the contract was \$500,000, with interest rates varying between 3.65% to 4.9%. 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, 2020. At that time, the undivided interest in the property transfers from GTUA to the City.

Notes to the Financial Statements (Continued)

GTUA Contract Revenue Bonds, Series 2000:

Outstanding principal as of September 30, 2001: \$495,000

Total liability for all GTUA contractual obligations
as of September 30, 2001: \$835,000

The principal and interest requirements for both contractual obligations for the next five fiscal years are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
9/30/2002	\$ 25,000	\$ 48,453	\$ 73,453
9/30/2003	30,000	46,823	76,823
9/30/2004	30,000	44,805	74,805
9/30/2005	30,000	42,770	72,770
9/30/2006	35,000	40,720	75,720
Thereafter	<u>685,000</u>	<u>290,861</u>	<u>323,590</u>
Totals	<u>\$835,000</u>	<u>\$514,432</u>	<u>\$1,349,432</u>

D. PROPERTY TAXES

At September 30, 2001, property taxes still receivable for the year 2000 assessment are \$2,088 and property taxes receivable for prior periods amounted to \$1,051. Allowance for doubtful accounts for these receivables is set at approximately ten percent, which amounts to \$310.

Total taxes collected for the year ended September 30, 2001 amounted to \$125,911. For the current year's tax levy, a total of 98.33% of the tax levy was collected. Property ad valorem tax rate for the year 2000 was .64749 per \$100 of assessed value.

E. INSURED DEPOSITS

At September 30, 2001, the City's cash deposits at the First National Bank of Tom Bean amounted to \$51,244. At year-end, all deposits are fully insured by the FDIC.

Notes to the Financial Statements (Continued)

F. PENSION PLAN

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 745 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of employee's accumulated contributions. In addition, the City can grant as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 10 or more years of service or with 25 years of service regardless of age. A member is vested after 10 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes

Notes to the Financial Statements (Continued)

governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for the employees is 5%, and the City matching ratio is currently 1 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

G. COMMUNITY DEVELOPMENT BLOCK GRANT

The City was awarded a \$146,036 Community Development Block Grant from the Texas Department of Housing and Community Affairs. Grant funds were used to replace 2,200 linear feet of sewer line along Bonham Street and Britton Street. \$145,403 of these funds have been expended at year-end.

City of Tom Bean, Texas
Schedule of City Officials
September 30, 2001

<u>Name</u>	<u>Position</u>
David Schaab	Mayor
Terry Sorensen	Mayor Pro Tem
Bobbie Moran	Council Member
Ruby Barnes	Council Member
Rebecca Blomstedt	Council Member
Jerry Harris	Council Member
Catherine Robles	Secretary

Water & Sewer Rates

<u>Water Rate</u>	<u>Sewer Rate</u>
Within city limits:	
\$18.00 for 1st 2,000 gallons.	\$16.82 for 1st
\$2.17 for each additional	1,000 gallons.
1,000 gallons between 2,000	\$1.29 for each additional
and 15,000 gallons.	1,000 gallons.
\$3.00 for each additional	
1,000 gallons over 15,000	
gallons.	
Outside city limits:	
\$30.00 for 1st 2,000 gallons.	\$25.23 for 1st
\$3.23 for each additional	1000 gallons.
1,000 gallons between 2,000	\$1.29 for each additional
and 15,000 gallons.	1000 gallons.
\$4.40 for each additional	
1,000 gallons over 15,000	
gallons.	
Existing connections:	
\$100 non-refundable water turn-on fee	
New connections:	
\$400 per connection	\$300 per connection

WATERWORKS AND SEWER SYSTEM
SCHEDULE OF CONTRACTUAL OBLIGATION REQUIREMENTS
YEAR ENDED SEPTEMBER 30, 2001

SCHEDULE OF CONTRACTUAL OBLIGATIONS				
GTUA CONTRACT REVENUE BONDS				
SERIES 1988				
YEAR ENDED SEPTEMBER 30	INTEREST DUE 1/1	INTEREST DUE 7/1	PRINCIPAL DUE 7/1	TOTAL REQUIREMENTS
2002	\$ 12,632	\$ 12,633	\$ 20,000	\$ 45,265
2003	11,912	11,913	25,000	48,825
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	3,187	3,188	40,000	46,375
2012	1,687	1,688	45,000	48,375
TOTALS	\$ 84,919	\$ 84,923	\$ 340,000	\$ 509,842

SCHEDULE OF CONTRACTUAL OBLIGATIONS				
GTUA CONTRACT REVENUE BONDS				
SERIES 2000				
YEAR ENDED SEPTEMBER 30	INTEREST DUE 1/1	INTEREST DUE 7/1	PRINCIPAL DUE 7/1	TOTAL REQUIREMENTS
2002	\$ 11,594	\$ 11,594	\$ 5,000	\$ 28,188
2003	11,499	11,499	5,000	27,998
2004	11,403	11,403	5,000	27,805
2005	11,304	11,304	5,000	27,608
2006	11,204	11,204	5,000	27,408
2007	11,103	11,103	5,000	27,205
2008	11,000	11,000	5,000	27,000
2009	10,896	10,896	5,000	26,793
2010	10,791	10,791	5,000	26,583
2011	10,635	10,635	5,000	26,270
2012	10,576	10,576	5,000	26,153
2013	10,465	10,465	45,000	65,930
2014	9,441	9,441	50,000	68,883
2015	8,291	8,291	50,000	66,583
2016	7,129	7,129	55,000	69,258
2017	5,823	5,823	55,000	66,645
2018	4,503	4,503	60,000	69,005
2019	3,048	3,048	60,000	66,095
2020	1,593	1,593	65,000	68,185
TOTALS	\$ 172,295	\$ 172,295	\$ 495,000	\$ 839,590

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

City of Tom Bean
Schedule of Actuarial Liabilities and Funding Progress
For the Year Ended September 30, 2001

Actuarial Valuation Date	12/31/00
Actuarial Value of Assets	\$ 20,040
Actuarial Accrued Liability	\$ 42,991
Percentage Funded	46.6%
(Unfunded) Overfunded Actuarial Accrued Liability (UAAL)	\$ (22,951)
Annual Covered Payroll	\$ 128,460
UAAL as a Percentage of Covered Payroll	17.9%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -
Annual Pension Cost:	
Annual required contribution (ARC)	\$ 12,073
Interest on NPO	\$ -
Adjustment to the ARC	\$ 12,073
Contributions Made	\$ 12,073
Increase in NPO	\$ -
NPO at the end of the period	<u>\$ -</u>

Actuarial Assumptions

Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years -- Open Period
Asset Valuation method	Amortized Cost (to accurately reflect the requirements of GASB stmt, No. 25, paragraphs 36e and 138)
Investment Rate of Return	8%
Projected Salary Increases	None
Includes Inflation At -	None
Cost of Living Adjustments	None

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

CITY OF TOM BEAN, TEXAS
Schedule of Federal Award Expenditures
For the year ended September 30, 2001

Federal Grantor	Program Name	CFDA Number	Expenditures
U.S. Dept. Of Housing and Urban Development	Comm. Development Block Grant through TDHCA	14.228	145,403
U.S. Dept. Of Justice	COPS grant through Texas Criminal Justice	16.710	20,719
Total Federal Award Expenditures			<u>\$ 166,122</u>

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, 2001, and have issued our report thereon dated January 9, 2002. 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 9, 2002.

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 9, 2002.

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.

Gregg & Company CPAs

Tom Bean, Texas
January 9, 2002

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

January 9, 2002

To the Mayor and City Council of the
City of Tom Bean, Texas
Tom Bean, Texas

Professional standards require that we provide you with the following information related to our audit. We have audited the general purpose financial statements of City of Tom Bean, Texas, for the year ended September 30, 2001, and have issued our report thereon dated January 9, 2002.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated July 6, 2001, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of City of Tom Bean, Texas. Such considerations were solely for the purpose of determining audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection and the use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. We

noted no transactions entered into by City of Tom Bean, Texas, during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. We evaluated the key factors and assumptions used to develop the allowance for bad debts in determining that it is reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Organization that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed a significant number of audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the City's financial reporting process. These adjustments are addressed in the management recommendation letter.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We are pleased to report that we encountered no significant difficulties in performing and completing our audit.

This information is intended solely for the use of the City Council and administration of City of Tom Bean, Texas, and should not be used for any other purpose.

Sincerely,

Gregg and Company, CPA's