

**AUDITED FINANCIAL STATEMENTS
OF THE CITY OF TOM BEAN, TEXAS
AT SEPTEMBER 30, 2002**

CITY OF TOM BEAN, TEXAS
Annual Financial Report
Fiscal Year Ended September 30, 2002

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.....	22	
Schedule of Water and Sewer Rates.....	22	
Schedule of Long-Term Debt Requirements.....	23	
Schedule of Pension Plan Funding.....	24	
Schedule of Federal Award Expenditures.....	25	
<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.	26	

GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

118 COTTONBELT ROAD

P.O. BOX 619

TOM BEAN, TEXAS 75489-0619

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

Email greggco@texoma.net

MEMBER

AMERICAN INSTITUTE OF CPA's

MEMBER

TEXAS SOCIETY OF CPA's

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Tom Bean, TX

We have audited the accompanying general-purpose financial statements of City of Tom Bean, Texas, as of and for the year ended September 30, 2002, as listed in the table of contents. 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 auditing standards generally accepted in the United States of America 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 above present fairly, in all material respects, the financial position of City of Tom Bean, Texas, as of September 30, 2002, and the results of its operations and the cash flows of its proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2003, on our consideration of City of Tom Bean, Texas internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole and on the combining and individual fund and account group financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the 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 financial statements of each of the respective individual funds and account groups taken as a whole.

Gregg & Company CPAs

Tom Bean, Texas

January 6, 2003

CITY OF TOM BEAN, TEXAS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
September 30, 2002

ASSETS	Governmental fund type	Proprietary fund type	Account Groups		Totals (memorandum only)	
	General	Water and sewer	General fixed assets	General long-term debt	2002	2001
Cash (Note E)	\$ 33,169	\$ 8,138	-	-	\$ 41,307	\$ 51,580
Receivables (net of allowance for doubtful accounts):						
Property taxes	4,372	-	-	-	4,372	2,829
Water/Sewer	-	25,722	-	-	25,722	19,798
Other	65	-	-	-	65	212
Prepaid bond issuance costs	-	18,708	-	-	18,708	19,718
Due from other funds	-	77,420	-	-	77,420	138,393
Total current assets:	37,606	129,988	-	-	167,594	232,530
Restricted assets:						
Deposits held by GTUA	-	114,950	-	-	114,950	537,933
Total restricted assets	-	114,950	-	-	114,950	537,933
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
Improvements other than buildings	-	-	70,000	-	70,000	70,000
Machinery and equipment	-	53,718	133,351	-	187,069	60,342
Furniture & fixtures	-	1,500	6,533	-	8,033	82,071
Sewer system	-	1,167,797	-	-	1,167,797	1,167,794
Water system	-	572,644	-	-	572,644	572,644
Water distribution improvements	-	133,540	-	-	133,540	133,540
Construction in progress	-	438,942	-	-	438,942	-
	-	2,370,641	266,107	-	2,636,748	2,165,114
Accumulated depreciation	-	(745,639)	(192,159)	-	(937,798)	(892,918)
Total property, plant, and equipment	-	1,625,002	73,948	-	1,698,950	1,272,196
Amount to be provided	-	-	-	\$ 60,554	60,554	-
Total assets	\$ 37,606	\$ 1,869,940	\$ 73,948	\$ 60,554	\$ 2,042,048	\$ 2,042,659

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, 2002

	Governmental fund type	Proprietary fund type	Account Groups		Totals (memorandum only)	
	General	Water and sewer	General fixed assets	General long-term debt	2002	2001
<u>LIABILITIES</u>						
Current liabilities						
Accrued liabilities	\$ 994	\$ 26,926	-	-	\$ 27,920	\$ 3,551
Other accounts payable	11,625	35,565	-	-	47,190	62,241
Customer water deposits	-	17,960	-	-	17,960	16,655
Due to other funds	77,420	-	-	-	77,420	138,393
Contractual obligations - (current)	-	30,000	-	-	30,000	25,000
Capital lease - (current)	-	-	-	\$ 15,164	15,164	-
Deferred revenue - taxes	4,372	-	-	-	4,372	-
Bond interest payable	-	11,706	-	-	11,706	10,007
Total current liabilities	94,411	122,157	-	15,164	231,732	255,847
Long-term debt:						
Capital lease - long term (Note G)	-	-	-	45,390	45,390	-
Contracted obligations - long term (Note C)	-	780,000	-	-	780,000	810,000
Total long term liabilities	-	780,000	-	45,390	825,390	810,000
Total liabilities	94,411	902,157	-	60,554	1,057,122	1,065,847
<u>FUND EQUITY</u>						
Investment in general fixed assets	-	-	\$ 73,948	-	73,948	27,112
Fund balance - unrestricted	(56,805)	-	-	-	(56,805)	(101,238)
Retained earnings - unrestricted	-	967,783	-	-	967,783	1,050,938
Total fund equity	(56,805)	967,783	73,948	-	984,926	976,812
Total liabilities and fund equity	\$ 37,606	\$ 1,869,940	\$ 73,948	\$ 60,554	\$ 2,042,048	\$ 2,042,659

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, 2002

	Governmental fund types	Totals (Memorandum only)	
	General	2002	2001
<u>Revenues:</u>			
Property tax revenue (Note D)	\$ 122,501	\$ 122,501	\$ 124,396
Court fees income	71,939	71,939	14,631
Franchise fees	30,020	30,020	23,329
Sales tax revenue	23,845	23,845	22,346
Extraordinary gain - Insurance proceeds	11,205	11,205	5,504
Grant income	4,917	4,917	20,719
Miscellaneous income	2,639	2,639	4,880
Property tax-penalty and interest	1,743	1,743	1,515
Building permit revenue	852	852	137
Interest income	499	499	819
Gain on sale of asset	-	-	150
Donations	-	-	1,215
Total revenues	270,160	270,160	219,641
<u>General Expenditures:</u>			
Payroll tax and health insurance	20,842	20,842	2,972
Contract labor	15,452	15,452	4,147
Miscellaneous expense	11,859	11,859	8,668
Legal and accounting	7,398	7,398	5,835
Property and liability insurance	6,344	6,344	7,731
Office supplies and postage	3,695	3,695	2,503
Utilities	3,690	3,690	10,355
Licenses, permits, and fees	2,817	2,817	85
Salaries	1,255	1,255	19,989
Total general expenditures	73,352	73,352	62,285
<u>Police department:</u>			
Capital outlay - Police cars (Note G)	60,554	60,554	-
Salaries	53,178	53,178	69,192
Municipal court expense	15,894	15,894	7,674
Vehicle expense	7,403	7,403	2,411
Payroll tax and health insurance	5,848	5,848	9,650
Miscellaneous expense	1,615	1,615	5,758
Total police expenditures	144,492	144,492	94,685
<u>Street department:</u>			
Street repairs and improvements	68,437	68,437	35,532
Salaries	-	-	30,045
Total street department expenditures	68,437	68,437	65,577
Total expenditures	286,281	286,281	222,547
Excess of revenues over (under) expenditures	(16,121)	(16,121)	(2,906)
<u>Other financing sources (uses):</u>			
Capital lease - Police cars (Note G)	60,554	60,554	-
Excess of revenues and other sources over (under) expenditures and other uses	44,433	44,433	(2,906)
Fund balances, beginning October 1	(101,238)	(101,238)	(98,332)
Fund balances, ending September 30	\$ (56,805)	\$ (56,805)	\$ (101,238)

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, 2002

	General Fund		
	Budget	Actual	Variance- favorable (unfavorable)
<u>Revenues:</u>			
Property tax revenue (Note D)	\$ 128,762	\$ 122,501	\$ (6,261)
Court fee revenue	15,000	71,939	56,939
Other financing source - Capital lease	-	60,554	60,554
Franchise tax revenue	24,000	30,020	6,020
Sales tax revenue	24,500	23,845	(655)
Extraordinary gain - Insurance proceeds	-	11,205	11,205
Grant income	-	4,917	4,917
Other income	-	2,639	2,639
Property tax - penalty and interest	-	1,743	1,743
Building permit revenue	400	852	452
Interest income	500	499	(1)
Total revenues	193,162	330,714	137,552
<u>Expenditures:</u>			
<u>General Expenditures:</u>			
Payroll tax and health insurance	2,162	20,842	(18,680)
Contract labor	1,200	15,452	(14,252)
Miscellaneous expense	3,450	11,859	(8,409)
Legal and accounting	4,500	7,398	(2,898)
Property and liability insurance	-	6,344	(6,344)
Office supplies and postage expense	1,750	3,695	(1,945)
Utilities	14,300	3,690	10,610
Licenses, permits, and fees	2,100	2,817	(717)
Salaries	1,140	1,255	(115)
<u>Police department</u>			
Capital outlay - Police cars	-	60,554	(60,554)
Salaries	66,960	53,178	13,782
Municipal court expense	8,550	15,894	(7,344)
Vehicle expense	15,000	7,403	7,597
Payroll tax and health insurance	17,495	5,848	11,647
Other	3,250	1,615	1,635
Property and liability insurance	9,000	-	9,000
Utilities	1,700	-	1,700
<u>Street department</u>			
Street repairs and improvements	40,614	68,437	(27,823)
Total expenditures	193,171	286,281	(93,110)
Excess of revenues over (under) expenditures	\$ (9)	\$ 44,433	\$ 44,442

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, 2002

	Water and Sewer	Totals (NOTE A) 2002	2001
<u>Operating revenues:</u>			
Water revenue	\$143,655	\$143,655	\$134,338
Sewer revenue	81,997	81,997	80,461
Sanitation revenue	32,153	32,153	31,615
Water and sewer tie-on revenue	3,952	3,952	4,997
Total Operating revenues	261,757	261,757	251,411
<u>Operating expenses:</u>			
Salaries	80,951	80,951	35,024
Utilities	65,928	65,928	38,731
Depreciation expense	59,026	59,026	53,722
Sanitation contract	33,867	33,867	31,550
Material and supplies	15,976	15,976	10,922
Contract labor	15,107	15,107	6,342
Payroll tax and health insurance	12,289	12,289	8,028
Equipment, repairs, and maintenance	7,308	7,308	620
Chemicals and lab expense	5,816	5,816	2,744
Vehicle expense	3,687	3,687	150
Dues, permits, subscriptions, and education	2,646	2,646	735
Miscellaneous expense	1,415	1,415	2,034
Postage	1,226	1,226	518
Property and liability insurance	-	-	9,022
Total Operating expenses	305,242	305,242	200,142
Operating income (loss)	(43,485)	(43,485)	51,269
<u>Non-operating revenues</u>			
Insurance claim and other	11,436	11,436	26,868
Interest income	52	52	120
TDHCA grant income	-	-	145,403
Total Nonoperating revenues:	11,488	11,488	172,391
<u>Non-operating expenses:</u>			
Interest expense	50,151	50,151	48,974
Bond issuance costs	1,007	1,007	-
Loss on sale of assets	-	-	600
Total Nonoperating expenses:	51,158	51,158	49,574
Net Non-operating income:	(39,670)	(39,670)	122,817
Net Income	(83,155)	(83,155)	174,086
Retained earnings, beginning October 1	1,050,938	1,050,938	876,852
Retained earnings, ending September 30	\$967,783	\$967,783	\$1,050,938

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 FUND)
 Year ended September 30, 2002

	Water Fund		
	Budget	Actual	Variance- favorable (unfavorable)
<u>Revenue:</u>			
Water revenue	\$ 140,000	\$ 143,655	\$ 3,655
Sewer revenue	78,000	81,997	3,997
Sanitation revenue	34,000	32,153	(1,847)
Insurance claims	-	11,436	11,436
Water and sewer connections	4,000	3,952	(48)
Interest	-	52	52
Total revenue	256,000	273,245	17,245
<u>Expenses:</u>			
Salaries	74,785	80,951	(6,166)
Utilities	26,000	65,928	(39,928)
Depreciation expense (Note A)	-	59,026	(59,026)
Principal and interest	82,073	50,151	31,922
Sanitation contract	29,240	33,867	(4,627)
Supplies	1,500	15,976	(14,476)
Contract labor	5,000	15,107	(10,107)
Payroll tax and health insurance	14,604	12,289	2,315
Equipment, repairs, and maintenance	800	7,308	(6,508)
Chemicals and lab fees	6,500	5,816	684
Vehicle expense	6,000	3,687	2,313
Dues, permits, subscriptions, and education	3,400	2,646	754
Miscellaneous expense	-	2,422	(2,422)
Postage	1,000	1,226	(226)
Property and liability insurance	5,000	-	5,000
Total expense	255,902	356,400	(100,498)
Net income	\$ 98	\$ (83,155)	\$ (83,253)

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

CITY OF TOM BEAN, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY TYPE FUNDS
For the year ended September 30, 2002

		Totals (Memorandum Only)	
	2002	2002	2001
Cash flows from operating activities:			
Net income	\$ (83,155)	\$ (83,155)	\$ 174,086
Adjustments to reconcile net operating income to net cash provided by operating activities:			
Depreciation	59,026	59,026	52,972
Decrease (increase) in receivables	(5,924)	(5,924)	7,622
Decrease (increase) in restricted cash	422,981	422,981	(484,158)
Decrease (increase) in prepaid expenses	1,010	1,010	(19,715)
Decrease (increase) in amounts due from General Fund	60,962	60,962	-
Increase (decrease) in accounts payable	4,257	4,257	44,605
Increase (decrease) in accrued interest	1,699	1,699	3,765
Increase (decrease) in customer water deposits	1,305	1,305	(100)
Net cash provided by operating activities	462,161	462,161	(220,923)
Cash flows from noncapital financing activities:			
Payments to/from other fund	-	-	(48,361)
Net cash provided by noncapital financing activities	-	-	(48,361)
Cash flows from capital and related financing activities:			
Proceeds from new capital debt	-	-	500,000
Cash payments for new capital assets	-	-	(165,076)
Principal repayments	(25,000)	(25,000)	(35,000)
Net cash used for capital and related financing activities	(25,000)	(25,000)	299,924
Cash flows from investing activities:			
Payments for water system construction in progress	(438,932)	(438,932)	-
Net cash provided by investing activities	(438,932)	(438,932)	-
Net increase (decrease) in cash	(1,771)	(1,771)	30,640
Cash at the beginning of the year	9,909	9,909	(20,731)
Cash at the end of the year	\$ 8,138	\$ 8,138	\$ 9,909

Supplemental disclosures of cash flow information:

For the years ended September 30, 2001 and 2002, the City paid interest cost of \$48,974 and \$48,452, respectively.

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

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2002

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.

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

Notes to the Financial Statements (Continued)

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 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.

Notes to the Financial Statements (Continued)

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
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

Notes to the Financial Statements (Continued)

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.

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:

	Oct. 1, <u>2001</u>	<u>Additions</u>	<u>Deductions</u>	Sept. 30, <u>2002</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	6,623	--	(90)	6,533
Machinery & Equipment	<u>80,571</u>	<u>\$60,554</u>	<u>(\$7,774)</u>	<u>133,351</u>
	233,417	--	--	266,107
Accum. deprec.	<u>(206,305)</u>	<u>(9,488)</u>	<u>23,634</u>	<u>(192,159)</u>
	<u>\$ 27,112</u>	<u>\$51,066</u>	<u>(\$4,230)</u>	<u>\$ 73,948</u>

Notes to the Financial Statements (Continued)

Proprietary Fund Fixed Assets

The following is a summary of proprietary fund fixed assets at September 30, 2002:

	<u>Oct. 1,</u> <u>2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Sept. 30,</u> <u>2002</u>
Land	\$ 2,500	--	--	\$ 2,500
Water system	555,479	--	--	555,479
Water improv's	133,540	--	--	133,540
Water pump	17,165	--	--	17,165
Furniture & fixtures	1,500	--	--	1,500
Machinery & equipment	53,718	--	--	53,718
Sewer system	1,167,797	--	--	1,167,797
Const. in progress	--	<u>\$438,942</u>	--	<u>438,942</u>
	1,931,699	438,942	--	2,370,641
Accumulated depreciation	<u>(686,613)</u>	<u>(59,026)</u>	--	<u>(745,639)</u>
	<u>\$1,245,086</u>	<u>\$379,916</u>	--	<u>\$1,625,002</u>

C. LONG-TERM LIABILITIES AND CONTRACTUAL OBLIGATIONS

During the year ended September 30, 2002 the changes in long-term indebtedness were:

	<u>Oct.1,2001</u>	<u>Additions</u>	<u>Retired</u>	<u>Sept.30,2002</u>
<u>Water Fund</u>				
Contractual Obligations	\$835,000	- -	(\$25,000)	\$810,000
<u>General Long-Term Debt</u>				
Capital Lease Payable	- -	<u>\$60,554</u>	- -	<u>60,544</u>
Totals	<u>\$835,000</u>	<u>\$60,554</u>	<u>(\$25,000)</u>	<u>\$870,544</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, 2002: \$320,000

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, 2002: \$490,000

Total liability for all GTUA contractual obligations
as of September 30, 2002: \$810,000

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>
9/30/2003	\$ 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
9/30/2007	35,000	38,284	73,284
Thereafter	<u>650,000</u>	<u>252,577</u>	<u>902,577</u>
Totals	<u>\$810,000</u>	<u>\$465,979</u>	<u>\$1,275,979</u>

D. PROPERTY TAXES

At September 30, 2002, property taxes still receivable for the year 2001 assessment are \$3,815 and property taxes receivable for prior periods amounted to \$1,025. Allowance for doubtful accounts for these receivables is set at approximately ten percent, which amounts to \$468.

Total taxes collected for the year ended September 30, 2002 amounted to \$126,873. For the current year's tax levy, a total of 97.05% of the tax levy was collected. Property ad valorem tax rate for the year 2001 was .64749 per \$100 of assessed value.

E. INSURED DEPOSITS

At September 30, 2002, the City's cash deposits at the First National Bank of Tom Bean amounted to \$41,107. 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 758 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 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Notes to the Financial Statements (Continued)

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.

CAPITAL LEASE

During the fiscal year ended September 30, 2002, the City entered into a capital lease to acquire two new police cars. The city will have an annual payment for the next four years.

<u>Year</u>	<u>Payment</u>
2003	\$16,958
2004	16,958
2005	16,958
<u>2006</u>	<u>16,958</u>
Total	67,832
Less :Interest portion	<u>(7,278)</u>
Present value of future minimum lease payments	<u>\$60,554</u>

Notes to the Financial Statements (Continued)

H. FINANCIAL HEALTH OF THE CITY

The City is currently facing serious financial hardships. Evidence of this includes: a low cash balance, a significant electric bill that includes a balance from prior months, bond payments that had to be paid late in the prior year, negative fund balance for the General Fund, and property tax revenue that will decrease for the year ending September 30, 2003.

On or before September 30, 2002, the City expected to receive grant funds to support lease payments for the two new police cars. These grants have yet to materialize.

Unless the City strictly adheres to its budgeted expenditures, the City could have a going concern issue in future periods.

City of Tont Bean, Texas
and City Ordinance and
September 30, 2014

SUPPLEMENTAL SCHEDULES

City of Tom Bean, Texas
Schedule of City Officials and Water Rates
September 30, 2002

<u>Name</u>	<u>Position</u>
Lonnie Jones	Mayor
Terry Sorensen	Mayor Pro Tem
Jerry Harris	Council Member
Rebecca Blomstedt	Council Member
Debbie Ellis	Council Member
Tamra Chancellor	Council Member
Becky Raney	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.	
	\$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.	
New connections:	\$400 per connection	\$300 per connection
Existing connections:	\$40 connect fee with a \$60 deposit.	

See accountant's report and notes to the financial statements.

CITY OF TOM BEAN, TEXAS
WATERWORKS AND SEWER SYSTEM
SCHEDULE OF CONTRACTUAL OBLIGATION REQUIREMENTS
YEAR ENDED SEPTEMBER 30, 2002

SCHEDULE OF CONTRACTUAL OBLIGATION REQUIREMENTS GTUA CONTRACT REVENUE BONDS SERIES 1988				
YEAR ENDED SEPTEMBER 30	INTEREST DUE 1/1	INTEREST DUE 7/1	PRINCIPAL DUE 7/1	TOTALS
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	\$ 72,287	\$ 72,290	\$ 320,000	\$ 464,577

SCHEDULE OF CONTRACTUAL OBLIGATION REQUIREMENTS GTUA CONTRACT REVENUE BONDS SERIES 2000				
YEAR ENDED SEPTEMBER 30	INTEREST DUE 1/1	INTEREST DUE 7/1	PRINCIPAL DUE 7/1	TOTALS
2003	\$ 11,499	\$ 11,499	\$ 5,000	\$ 27,998
2004	11,403	11,403	5,000	27,806
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	27,206
2008	11,000	11,000	5,000	27,000
2009	10,896	10,896	5,000	26,792
2010	10,791	10,791	5,000	26,582
2011	10,635	10,635	5,000	26,270
2012	10,576	10,576	5,000	26,152
2013	10,465	10,465	45,000	65,930
2014	9,441	9,441	50,000	68,882
2015	8,291	8,291	50,000	66,582
2016	7,129	7,129	55,000	69,258
2017	5,823	5,823	55,000	66,646
2018	4,500	4,500	60,000	69,000
2019	3,048	3,048	60,000	66,096
2020	1,593	1,593	65,000	68,186
TOTALS	\$ 160,701	\$ 160,701	\$ 490,000	\$ 811,402

See accountant's report and notes to the financial statements.

CITY OF TOM BEAN, TEXAS
Year Ended September 30, 2002
Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation date		12/31/01
Actuarial Value of Assets		\$ 31,491
Actuarial Accrued Liability		55,565
Percentage Funded		56.7%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)		24,074
Annual Covered Payroll		111,439
UAAL as a Percentage of Covered Payroll		21.6%
Net Pension Obligation (NPO) at the Beginning of Period		-
Annual Pension Cost:		
Annual required contribution (ARC)	11,196	
Interest on NPO	-	
Adjustment to the ARC	-	11,196
Contributions Made		\$ 11,196
Increase in NPO		0
NPO at the end of the period		0

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 requirements of GASB 25)
Investment rate of return -	8%
Projected salary increases -	None
Includes inflation at -	None
Cost-of-living adjustments -	None

See accountant's report and notes to financial statements.

CITY OF TOM BEAN, TEXAS

Schedule of Federal Award Expenditures

For the year ended September 30, 2002

Federal Grantor	Program Name	CFDA Number	Pass - through Contract Number	Expenditures
U.S. Dept. Of Housing and Urban Development	Comm. Development Block Grant / CDF through ORCA	14.228	720831	\$ 633
U.S. Dept. Of Housing and Urban Development	Comm. Development Block Grant / TDA-TCF through ORCA	14.228	719062	2,815
U.S. Dept. Of Justice	COPS grant through Texas Criminal Justice	16.710	LB-00-A10-16149-01	4,917
Total Federal Award Expenditures				<u>\$ 8,365</u>

See accountant's report and notes to the financial statements.

GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

118 COTTONBELT ROAD

P.O. BOX 619

TOM BEAN, TEXAS 75489-0619

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

Email greggco@texoma.net

MEMBER

TEXAS SOCIETY OF CPA's

MEMBER

AMERICAN INSTITUTE OF CPA's

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, 2002, and have issued our report thereon dated January 6, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the 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 immaterial instances of noncompliance that we have reported to management of the City of Tom Bean, Texas, in a separate letter dated January 6, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Tom Bean 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 matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

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

Gregg & Company CPAs

Tom Bean, Texas

January 6, 2003