

**GOVERNMENT WIDE FINANCIAL STATEMENTS
OF THE CITY OF TOM BEAN, TEXAS**

For the Fiscal Year Ended September 30, 2004

City of Tom Bean, Texas
GOVERNMENT WIDE FINANCIAL STATEMENTS
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September 30, 2004

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the City of Tom Bean, Texas (the City) as of and for the year ended September 30, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City as of September 30, 2004, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds 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 11, 2005, on our consideration of the City's internal control over financial reporting and 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 *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

We performed our audit to form an opinion on the basic financial statement of the City, taken as a whole.

Adami, Lindsey & Company, L.L.P.

January 11, 2005

Adami, Lindsey & Company, LLP

CITY OF TOM BEAN, TEXAS
MANAGEMENTS DISCUSSION AND ANALYSIS
September 30, 2004
(Unaudited)

USING THIS ANNUAL REPORT

As management of the City of Tom Bean, we offer readers of City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year that ended September 30, 2004.

The City implemented for the first time this fiscal year the new Government Accounting Standard Board Statement 34 Basic Financial Statements and Management Discussion Analysis for state and local governments (Statement 34).

FINANCIAL HIGHLIGHTS

The City operates two separate accounts for its record of business. These are called the General Fund and Public Works Fund. These two accounts are designed to keep City operations as separate entities. The General Fund is operated as the Government Funds accounting and the Public Works Fund is the Water and Sewer business account. This way the Government Funds (Taxes) and Business Fund (Water and Sewer revenues) are kept separate and operate independently of each other. For purposes of this Management Discussion and Analysis, we will refer to each separately.

The assets of the General Fund exceeded liabilities at the close of the most recent fiscal year by \$18,252. This improved our cash flow from the previous year by \$15,886.

The pie chart on the page 4 breaks down the expenses incurred from the General Fund.

The assets of the Public Works Fund exceeded liabilities at the close of the most recent fiscal year by \$3,113. This eroded our cash flow in the Public Works Fund by \$365. To compensate for this loss, a rate increase of approximately 5% was instituted in the Water and Sewer rates which will improve our cash flow going forward. Most of this increase would not be realized in this fiscal period. The pie chart on the page 5 breaks down the expenses incurred from the Public Works Fund this fiscal year.

These two statements report the City's net assets and changes in them. You can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other no financial factors, however, such as changes in the City's property tax base and the condition of the City's streets, to assess the overall health of the City.

Again, because this is the first year to report governmental activities on the accrual basis of accounting, a comparison to the prior year is not possible. In next year's discussion this section will show a condensed financial comparison of revenues and expenses and provide explanations for significant differences.

GENERAL FUND BUDGET HIGHLIGHTS

Over the course of the year, the City Council revised the General Fund budget one time. This budget amendment allowed an increase in street repairs due to the extra revenue generated by property tax and court fees. We were able to increase our road repair expense by \$4,940. During the course of this year, we improved our software and also implemented programs to recover more of outstanding court costs and warrants which resulted in a 255% increase in revenues of court fees over the original budget. The City was in this fiscal year charged \$5,900 in past due court fees from the prior administration year 2002 which was paid out of this fiscal year.

CITY OF TOM BEAN, TEXAS
MANAGEMENTS DISCUSSION AND ANALYSIS
September 30, 2004
(Unaudited)

PUBLIC WORKS BUDGET HIGHLIGHTS

The expenses in the Public Works Fund attributed to the slight decrease in budgeted net income for the fiscal year. Some areas of concern were utility costs which were up 33% over budget. Increase in costs of lab fees (water testing) was up 21% over budgeted figures and supplies were up almost 31% over budget figures. To compensate for this expense overage, a rate increase of approximately 5% was instituted in July 2004. This increase was necessary to offset increase costs of doing business and maintaining the proper level of cash flow in the water and sewer department.

DEBT

My intent as administrator of the City is to live by the policy of pay as we go, however, there are some times when major expenses occur which require us to use borrowed money. Two areas that are considered major expenses are listed here.

In May 2004, we purchased a new police car to replace one that was totaled in an accident. This new car was financed at a low interest rate and for a short term note to save money on interest charges. The old note was for a period of four years. We refinanced the new car and old note together which resulted in a shorter term for the note. They were financed on 2 ½ years and saved the City approximately \$5,000 in interest over the term of the note.

The other large debt is in the Public Works which involves the bonds that have been issued in 1988 for water improvements and 2000 bonds issued for sewer plant improvements. The outstanding balances for this two bonds are \$780,000, which is only the principal and with interest totals \$1,199,156. These bonds will be paid in full by the year 2020. The City pays a monthly charge of over \$6,000 on these bonds. The owner of these bonds is the Greater Texoma Utility Authority (GTUA).

With the current known facts, we anticipate that no new debt to the City is expected in the next two years.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

One of the main factors effecting the City budget is fuel costs. With the rise in prices of gasoline and diesel fuel, this will put a strain on the budget year unless we see a lowering of prices at the pumps. This will affect electric rates going forward and will result in increased costs of electricity. We have tried to budget for this going forward. We have raised the property tax rate 3% to help compensate for these increases. No increase is expected this next year on water and sewer rates.

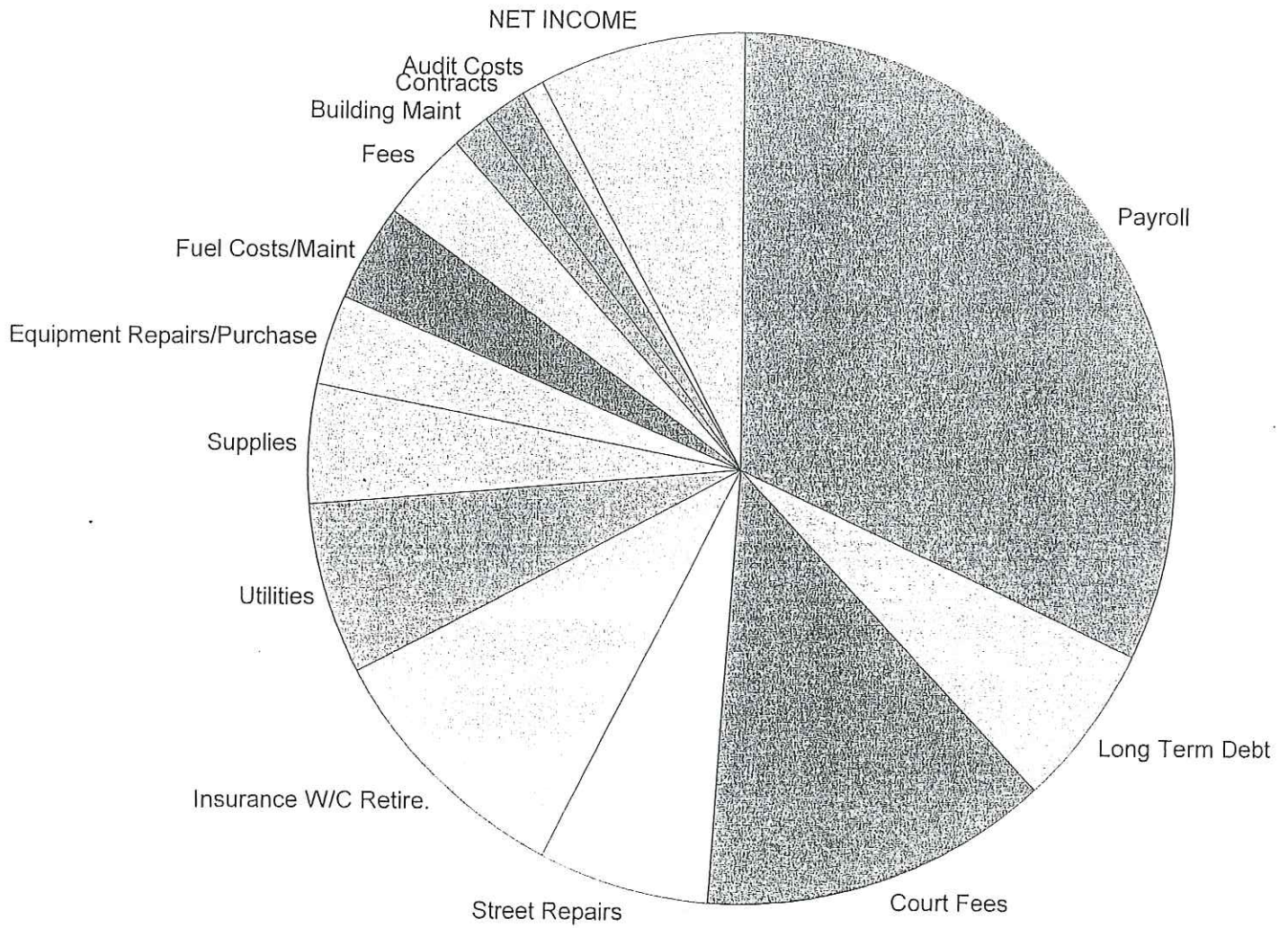
CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Mayor's office at City Hall. 201 So. Britton Street, Tom Bean, Texas.

Tom Wilthers, Mayor
City of Tom Bean, Texas

CITY OF TOM BEAN, TEXAS
MANAGEMENTS DISCUSSION AND ANALYSIS
September 30, 2004
(Unaudited)

GENERAL FUND EXPENSE BREAKDOWN



AUDIT PERIOD SEPTEMBER 30, 2004

CITY OF TOM BEAN, TEXAS
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
September 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 23,988	\$ 7,534	\$ 31,522
Accounts Receivable, net	2,112	22,868	24,980
Due from Other Funds	-	7,252	7,252
Prepaid Expenses	2,049	-	2,049
Property, Plant & Equipment, net	975,680	717,533	1,693,213
Total Assets	<u>1,003,829</u>	<u>755,187</u>	<u>1,759,016</u>
LIABILITIES			
Accounts Payable	228	5,926	6,154
Customers' Water Deposits	-	10,725	10,725
Due to Other Funds	7,252	-	7,252
Deferred Revenue - Property Taxes	102	-	102
Accrued Expenses	10,753	5,362	16,115
Capital Lease Obligations - due within one year	13,603	-	13,603
Capital Lease Obligations - due in more than one year	13,038	-	13,038
Total Liabilities	<u>44,976</u>	<u>22,013</u>	<u>66,989</u>
NET ASSETS			
Unrestricted Net Assets	958,853	733,174	1,692,027
Total Net Assets	<u>\$ 958,853</u>	<u>\$ 733,174</u>	<u>\$ 1,692,027</u>

See notes to the financial statements.

CITY OF TOM BEAN, TEXAS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended September 30, 2004

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General Government	\$ 110,612	\$ -	\$ 2,017	\$ (103,595)	\$ -	\$ (103,595)
Public Safety	96,100	30,924	6,087	(59,089)	-	(59,089)
Streets	16,145	-	-	(16,145)	-	(16,145)
Interest Expense	4,897	-	-	(4,897)	-	(4,897)
Total Governmental Activities	<u>227,754</u>	<u>30,924</u>	<u>8,104</u>	<u>(183,726)</u>	<u>-</u>	<u>(183,726)</u>
Business-Type Activities						
Water and Sewer Sales	354,665	313,509	-	-	(30,806)	(30,806)
Total Business-Type Activities	<u>354,665</u>	<u>313,509</u>	<u>-</u>	<u>-</u>	<u>(30,806)</u>	<u>(30,806)</u>
Total Primary Government	<u>\$ 582,419</u>	<u>\$ 344,433</u>	<u>\$ 8,104</u>	<u>(183,726)</u>	<u>(30,806)</u>	<u>(214,532)</u>
General Revenues						
Taxes:						
General Property				108,654	-	108,654
City Sales				25,443	-	25,443
Franchise				32,619	-	32,619
Licenses and Permits				1,935	-	1,935
Interest Income				122	23	145
Gain on Sale of Capital Assets				870	-	870
Insurance Proceeds				-	13,507	13,507
Miscellaneous				1,729	-	1,729
Total General Revenues and Transfers				<u>171,372</u>	<u>13,530</u>	<u>184,902</u>
Change in Net Assets						
Net Assets - Beginning				(12,354)	(17,276)	(29,630)
Net Assets - Ending				<u>971,207</u>	<u>750,450</u>	<u>1,721,657</u>
				<u>\$ 958,853</u>	<u>\$ 733,174</u>	<u>\$ 1,692,027</u>

See notes to the financial statements.

CITY OF TOM BEAN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2004

	<u>General Fund</u>
ASSETS	
Cash	\$ 23,988
Receivables (net, where applicable, of allowances for uncollectibles):	
Taxes	1,762
Other	350
Prepaid Expenses	2,049
Total Assets	<u>\$ 28,149</u>

LIABILITIES AND FUND BALANCE

Liabilities	
Accounts Payable	\$ 228
Due to Other Funds	7,252
Deferred Revenue	102
Accrued Expenses	10,753
Total Liabilities	<u>18,335</u>

Fund Balance	
Unreserved - Undesignated	9,814
Total Fund Balance	<u>9,814</u>
Total Liabilities and Fund Balance	

*Amounts reported for governmental activities in the Statement
of Net Assets are different because:*

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund, net of accumulated depreciation of \$499,677	975,680
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental fund balance sheet.	
Due within one year	\$ 13,603
Due in more than one year	13,038
	<u>(13,038)</u>
Net assets of governmental activities	<u>\$ 972,456</u>

See notes to the financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended September 30, 2004

	General Fund
REVENUE	
Taxes	
General Property	\$ 108,654
City Sales	25,443
Franchise	32,619
	<u>166,716</u>
Court Fees	30,924
Donations	13,104
Miscellaneous	3,664
Interest Income	122
Total Revenues	<u>214,530</u>
EXPENDITURES	
Current	
General Government	80,394
Public Safety	97,096
Streets	16,145
Debt Service	
Principal	22,832
Interest and Fees	4,897
Total Expenditures	<u>221,364</u>
Deficiency of Revenue over Expenditures	<u>(6,834)</u>
Net Change in Fund Balance	(6,834)
Fund Balance - October 1	<u>16,648</u>
Fund Balance - September 30	<u><u>\$ 9,814</u></u>

*Reconciliation of the Change in Fund Balance - Governmental Fund
to the Change in Net Assets of Governmental Activities*

Net change in fund balances - total governmental fund	\$ (6,834)
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*Amounts reported for governmental activities in the Statement of Activities
are different because:*

Governmental fund report capital outlay as expenditures while
governmental activities report depreciation expense to allocate
those expenditures over the life of the assets:

Capital asset purchases capitalized	7,458
Depreciation expense	(36,680)

The net effect of various sales transactions involving capital assets is to increase net assets.	870
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The issuance of long-term debt provide current financial resources
to governmental fund, while repayment of the principal consumes
the current financial resources of the governmental fund.
Repayment of long-term debt principal is an expenditure in the
governmental fund, but the repayment reduces long-term liabilities
in the statement of net assets.

22,832

Change in Net Assets of Governmental Activities	<u><u>\$ (12,354)</u></u>
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See notes to the financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
Year Ended September 30, 2004

	Budgeted Amounts		Actual	Final
	Original	Final	GAAP	Budget
			Basis	Variance
				Positive
				(Negative)
REVENUE				
Taxes				
General Property	\$ 104,781	\$ 106,000	\$ 108,654	\$ 2,654
City Sales	23,000	25,000	25,443	443
Franchise	36,685	36,000	32,619	(3,381)
	<u>164,466</u>	<u>167,000</u>	<u>166,716</u>	<u>(284)</u>
Court Fees	19,000	29,586	30,924	1,338
Donations	-	-	13,104	13,104
Miscellaneous	2,150	3,412	3,664	252
Interest Income	500	100	122	22
Total Revenues	<u>186,116</u>	<u>200,098</u>	<u>214,530</u>	<u>14,432</u>
EXPENDITURES				
Current				
General Government	59,648	61,926	80,394	(18,468)
Public Safety	96,946	100,949	124,825	(23,876)
Streets	12,500	15,290	16,145	(855)
Total Expenditures	<u>169,094</u>	<u>178,165</u>	<u>221,364</u>	<u>(43,199)</u>
Excess (Deficiency) of Revenue over Expenditures	17,022	21,933	(6,834)	(28,767)
Net Change in Fund Balance	17,022	21,933	(6,834)	(28,767)
Fund Balance - October 1	<u>16,648</u>	<u>16,648</u>	<u>16,648</u>	<u>-</u>
Fund Balance - September 30	<u>\$ 33,670</u>	<u>\$ 38,581</u>	<u>\$ 9,814</u>	<u>\$ (28,767)</u>

See notes to the financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
September 30, 2004

	<u>Water and Sewer Fund</u>
ASSETS	
Current Assets	
Cash	\$ 7,534
Accounts Receivable, net	21,122
Unbilled Accounts Receivable	1,746
Due from Other Funds	<u>7,252</u>
Total Current Assets	<u>37,654</u>
Noncurrent Assets	
Capital Assets, net	<u>717,533</u>
Total Noncurrent Assets	<u>717,533</u>
Total Assets	<u>755,187</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	5,926
Customers' Water Deposits	10,725
Accrued Expenses	<u>5,362</u>
Total Current Liabilities	<u>22,013</u>
Total Liabilities	<u>22,013</u>
NET ASSETS	
Net Assets	
Unreserved	733,174
Total Net Assets	<u>\$ 733,174</u>

See notes to the financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended September 30, 2004

	Water and Sewer Fund
OPERATING REVENUE	
Water Revenue	\$ 180,187
Sewer Revenue	91,277
Sanitation Revenue	36,665
Water and Sewer Tie-on Revenue	5,380
Donations	10,350
Total Operating Revenues	<u>323,859</u>
OPERATING EXPENSES	
Personnel Expenses	107,975 <i>74,860</i>
Contract Revenue Payments	74,296
Office and Utilities	66,653 <i>66,387 (with supplier.)</i>
Depreciation	44,833 <i>71,426</i>
Sanitation Charges	31,229 <i>27,233</i>
Repair and Maintenance - <i>damaged pump</i>	11,406 <i>692</i>
Lab and Chemicals	7,079 <i>6515</i>
Vehicle Expense	5,457 <i>4503</i>
Contract Labor	2,000 <i>6653</i>
Miscellaneous	3,737
Total Operating Expenses	<u>354,665</u>
Loss from Operations	<u>(30,806)</u>
NONOPERATING REVENUES	
Insurance Proceeds	13,507
Interest Income	23
Total Nonoperating Revenues	<u>13,530</u>
Net Loss	(17,276)
Net Assets - Beginning of Year	<u>750,450</u>
Net Assets - End of Year	<u>\$ 733,174</u>

See notes to the financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended September 30, 2004

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 306,455
Cash Payments for Supplies and Other Services	(197,764)
Cash Payments to Employees for Services	(107,158)
Net Cash Used by Operating Activities	<u>1,533</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash Received from Other Funds	<u>505</u>
Net Cash Provided in Noncapital Financing Activities	<u>505</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	<u>(2,475)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(2,475)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Investment Income Received	<u>23</u>
Net Cash Provided by Investing Activities	<u>23</u>
Net Decrease in Cash and Restricted Cash	(414)
Cash and Restricted Cash - October 1	<u>7,948</u>
Cash and Restricted Cash - September 30	<u>\$ 7,534</u>
<i>Reconciliation of Operating Income to Net Cash Used in Operating Activities</i>	
Loss from Operations	\$ (30,806)
Add Back Item not Requiring Cash Outlay	
Depreciation	44,833
Miscellaneous Revenue	(10,350)
(Increase) Decrease in Operating Assets:	
Accounts Receivable	6,132
Unbilled Accounts Receivable	(1,746)
Due from Other Funds	
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	3,668
Customer Deposits Payable	<u>(10,198)</u>
Net Cash Provided in Operating Activities	<u>\$ 1,533</u>

See notes to the financial statements.

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A - General Statement

The City of Tom Bean, Texas (City), was established in 1887 and incorporated in 1897. The City operates under a council-mayor form of government. The general governmental functions include law enforcement, fire and other public safety activities, streets, sanitation, public improvements, planning and zoning, and general administrative services. Enterprise Funds are used to account for the operations of its water and sewer systems. Fire protection is provided by the Tom Bean Volunteer Fire Department.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United State of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). For the fiscal year ended September 30, 2004, the City implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial presentation format has been implemented. The more significant accounting policies of the City are described below.

B - Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units with the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Tom Bean has no component units.

C - Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds, if any, are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental fund:

General Fund

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary fund:

Water and Sewer Fund

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

D – Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D – Measurement Focus and Basis of Accounting (continued)

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increase (revenues) and decrease (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. 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. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

E – Budgetary Control

The City follows the procedures outlined below in establishing budgetary data reflected in the financial statements:

Annual budgets are legally adopted for all funds of the City. The adopted budgets are prepared on a basis consistent with generally accepted accounting principles, except that depreciation is not budgeted in the proprietary funds.

The City's fiscal year commences October 1 and ends September 30. Prior to the end of the fiscal year, the City Manager is required to submit to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes the proposed expenditures/expenses and the proposed method to finance them.

Dates for public hearings, the purpose of which are to obtain taxpayers' comments, are set by the City Council at the time the budget is submitted to that body.

The City Council may add to, subtract from or change appropriations, but may not change the form of the proposed budget. However, any revisions to the budget, which increase the total budgeted expenditures/expenses within any fund, must be approved by the City Council.

Formal budgetary accounting is employed as a management control technique to assist in controlling revenue and expenditures in the General Fund and the Enterprise Fund. The budgetary accounts are compared to actual revenue and expenditures for the above funds on an annual basis.

Appropriations lapse at the end of each fiscal year.

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F - Assets, Liabilities and Equity

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand and time deposit accounts at local financial institutions.

For purposes of the statement of cash flows (proprietary fund types), the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Capital Assets

Capital assets, which includes property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$1,000 or more and over five years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line methods. Estimated useful lives are as follows:

Buildings and Facilities	20 Years
Improvements	20 Years
Infrastructure	75 Years
Furniture and Fixtures	5 – 10 Years
Machinery and Equipment	5 – 10 Years
Water and Sewer System	10 – 35 Years

G - Net Assets

Net assets represent the difference between assets and liabilities. New assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 2 – DEPOSITS

Statutes authorize the City to invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by Chapter 2256 Public Funds Investment and Chapter 2257 Collateral for Public Funds of the Government Code. The City's funds are required to be deposited and invested under the terms of a depository contract and investment policy pursuant to state statute. The depository bank deposits for safekeeping and trust with its agent approved pledged securities authorized by Chapter 2257 Collateral for Public Funds of the Government Code in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Category 1 - Insured or collateralized with securities held by the City or its agent in the City's name.

Category 2 - Collateralized by securities held by the depository bank or its agent in the City's name.

Category 3 - Uncollateralized.

At September 30, 2004, the carrying amount of City deposits was \$31,323. \$200 of the balance sheet cash balance represents cash on hand. The City's deposits were adequately insured by the FDIC (Category 1) at all times during the year ended September 30, 2004.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2004 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Cost				
Land (non-depreciable)	\$ 10,000	\$ -	\$ 3,000	\$ 7,000
Buildings and Facilities	151,419	-	-	151,419
Improvements other than Building	70,000	-	-	70,000
Infrastructure	1,099,580	-	-	1,099,580
Furniture and Fixtures	21,199	996	-	22,195
Machinery & Equipment	133,350	31,439	39,626	125,163
Totals at Historical Cost	1,485,548	32,435	42,626	1,475,357
Less Accumulated Depreciation for:				
Building	51,483	5,260	-	56,743
Improvements other than Building	70,000	-	-	70,000
Infrastructure	263,899	14,661	-	278,560
Furniture and Fixtures	6,933	2,915	-	9,848
Machinery and Equipment	88,324	13,844	17,642	84,526
Total Accumulated Depreciation	480,639	36,680	17,642	499,677
Governmental activities capital assets, net	\$ 1,004,909	\$ (4,245)	\$ 24,984	\$ 975,680

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 3 – CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Land (non-depreciable)	\$ 2,500	\$ 7,350	\$ -	\$ 9,850
Water and Sewer System	1,311,244	20,810	2,285	1,329,769
Furniture and Fixtures	1,500	-	-	1,500
Machinery and Equipment	53,719	-	-	53,719
Totals at Historical Cost	1,368,963	28,160	2,285	1,394,838
Less Accumulated Depreciation for:				
Water and Sewer System	587,475	43,436	457	630,454
Furniture and Fixtures	1,500	-	-	1,500
Machinery and Equipment	43,954	1,397	-	45,351
Total Accumulated Depreciation	632,929	44,833	457	677,305
Business-type activities capital assets, net	\$ 736,034	\$ (16,673)	\$ 1,828	\$ 717,533

NOTE 4 – LONG-TERM DEBT

The following schedule summarizes the changes in long-term debt for the year ended September 30, 2004:

	Balance October 1, 2003	Additions	Retirements	Balance September 30, 2004
Capital Lease Obligation	\$ 45,390	\$ 17,977	\$ 36,726	\$ 26,641

Capital Lease Obligation

Capital lease obligation payable at September 30, 2004, is comprised of the following issue:

Governmental Activities

\$34,288 Capital Lease for the purchase of 2 police cars due in monthly principal and interest payments of \$1,213 beginning March 15, 2004 through August 15, 2006 at 4.67%. During the year ended September 30, 2004, a prior capital lease with a balance of \$ 16,311 was refinanced. A new lease was obtained for the purchase of a new vehicle.

\$ 26,641

Total Capital Lease Obligations

\$ 26,641

The annual debt service requirements (including interest) are as follows:

<u>September 30</u>	<u>Total</u>
2005	\$ 14,558
2006	13,346
	<u>\$ 27,904</u>

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 5 – COMMITMENTS

Greater Texoma Utility Authority

The City has entered into various contracts with the Greater Texoma Utility Authority (Authority), whereby the Authority provides water and sewer services to the City. As part of the contractual agreements, the Authority issues debt for the benefit of the City, proceeds of which are used to finance construction of water and sewer facilities and infrastructure within the City. Although this debt is not that of the City, the City is contractually obligated for the repayment of principal and interest on the debt through a pledging of water and sewer revenues.

During the year ended September 30, 2004, the City paid \$74,296 to the Authority in accordance with these contracts. Future payments under these contracts average approximately \$70,000 per year for the next 16 years.

Below is a schedule of remaining debt service as of September 30, 2004:

Fiscal Year	Principal	Interest	Total
2005	\$ 30,000	\$ 42,771	\$ 72,771
2006	35,000	40,719	75,719
2007	35,000	38,283	73,283
2008	35,000	35,842	70,842
2009	40,000	33,401	73,401
2010-2014	230,000	122,667	352,667
2015-2019	280,000	57,585	337,585
2020	65,000	3,185	68,185
	<u>\$ 750,000</u>	<u>\$ 374,453</u>	<u>\$ 1,124,453</u>

Following is an excerpt from the audited general purpose financial statements of the Authority, amounts below reflect the balances for the years presented. These assets, liabilities, and equity are not that of the City of Tom Bean, but do reflect an allocation of the respective amounts among the Authority's members. Also presented is a Comparative Statement of Revenues, Expenses and Changes in Net Assets for the sum of the contractual arrangements between the City and Authority.

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 5 - COMMITMENTS (continued)

Greater Texoma Utility Authority (continued)

COMPARATIVE BALANCE SHEETS

	2004	2003
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ -	\$ 347
Total Current Assets	-	347
Restricted Assets		
Cash and Cash Equivalents	32,591	105,202
Temporary Investments	71,640	-
Interest Receivable	89	-
Due from Other Funds	-	83
Total Restricted Assets	104,320	105,285
Bond Issuance Costs (net)	20,471	22,025
Property Plant and Equipment (net)	626,395	678,957
TOTAL ASSETS	<u>751,186</u>	<u>806,614</u>
 LIABILITIES AND RETAINED EARNINGS		
Current Liabilities (payable from current assets)		
Due to Other Funds	5,287	3,458
Total Current Liabilities (payable from current assets)	5,287	3,458
Current Liabilities (payable from restricted assets)		
Accrued Interest Payable	10,692	11,201
Due to Other Funds	10,017	6,727
Deferred Revenue	7,500	7,500
Revenue Bonds Payable Current Portion	30,000	30,000
Total Current Liabilities (payable from restricted assets)	58,209	55,428
Noncurrent Liabilities		
Revenue Bonds Payable	720,000	750,000
Total Long-Term Liabilities	720,000	750,000
TOTAL LIABILITIES	<u>783,496</u>	<u>808,886</u>
 NET ASSETS		
Invested in Capital Assets, Net of Related Debt	(103,134)	(78,410)
Restricted:		
Debt Service	79,884	79,249
Unrestricted	(9,060)	(3,111)
TOTAL NET ASSETS	<u>\$ (32,310)</u>	<u>\$ (2,272)</u>

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 5 - COMMITMENTS (continued)

Greater Texoma Utility Authority (continued)

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	2004	2003
Payments Received from City of Tom Bean	\$ 74,296	\$ 77,449
Operating Expenses	(59,349)	(57,209)
Operating Income	<u>14,947</u>	<u>20,240</u>
Nonoperating Revenues (Expenses)		
Investment Income	864	1,902
Interest Expense	(44,296)	(46,318)
Amortization of Bond Issuance Costs	(1,553)	(1,553)
Total Nonoperating Expenses	<u>(44,985)</u>	<u>(45,969)</u>
Change in Net Assets	(30,038)	(25,729)
Net Assets, October 1	(2,272)	23,457
Net Assets, September 30	<u>\$ (32,310)</u>	<u>\$ (2,272)</u>

NOTE 6 – OTHER INFORMATION

Pension Plan

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 794 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues stand-alone financial reports annually, and these can be obtained by request at the following address:

TMRS
P.O. Box 149153
Austin, TX 78714-9153

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

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 6 – OTHER INFORMATION (continued)

Pension Plan (continued)

Plan Description (continued)

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. Plan provisions for the City were as follows:

Deposit Rate:	5%
Matching Ratio (City to Employee):	1 to 1
A member is vested after:	5 years

Members can retire at certain ages, based on the years of service with the City.

The Service Retirement Eligibilities for the City are: 5 years/age 60, 25 years/ any age.

Contributions

Under 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 amortized 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. (i.e. December 31, 2003 valuation is effective for rate beginning January 2005.)

Schedule of Actuarial Liabilities and Funding Progress

	For Fiscal Years Ended September 30,	
	2004	2003
Actuarial Valuation Date	12/31/03	12/31/02
Actuarial Value of Assets	\$ 53,803	\$ 43,366
Actuarial Accrued Liability	\$ 84,830	\$ 67,726
Unfunded Actuarial Accrued Liability	\$ 31,027	\$ 24,360
Percentage Funded	63.4%	64.0%
Annual Covered Payroll	\$ 127,340	\$ 98,071
Ratio of Unfunded to Annual Covered Payroll	24.4%	24.8%
Net Pension Obligation at Beginning of Period	\$ -	\$ -
Annual Required Contribution (ARC)	10,877	10,956
Contributions Made	(10,877)	(10,956)
NPO at the End of the Period	\$ -	\$ -

CITY OF TOM BEAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 6 – OTHER INFORMATION (continued)

Pension Plan (continued)

Other Post-Employment Benefits

In addition to the pension benefits discussed above, the City provides post-employment benefit options for health care, life, and dental insurance to eligible retirees. The benefits are provided in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility include years of service and employee age. The City funds the benefits on a pay-as-you-go basis. During the year ended September 30, 2004, no amounts were recognized for post-employment benefits as there were no eligible employees during the year.

Property Taxes

Property taxes are levied on October 1 each year and become delinquent on February 1. Delinquent real property taxes are expected to be collected, as the delinquent amounts are a lien against the related property until paid. Revenue from property taxes not collected during the current period is deferred until such collection is made.

Property subject to taxation consists of real property and certain personal property situated in the City. Certain properties of religion, education and charitable organizations, as well as the Federal government and the State of Texas are exempt from taxation. Additionally, certain exemptions are granted to property owners in arriving at the net assessed valuation of property subject to City taxation.

At September 30, 2004, property taxes still receivable for the year 2003 assessment are \$4,083 and property taxes receivable for prior periods amounted to \$1,702.

Property ad valorem tax rate for the year 2003 was .48249 per \$100 of assessed value.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The City purchases commercial insurance through the Texas Municipal League. The City retains no risk of loss for these coverages. The City accounts for risk management issues in accordance with GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues."

NOTE 7 – SUBSEQUENT EVENTS

No events have occurred subsequent to September 30, 2004 that would require adjustment to, or disclosure in, these financial statements.

OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION



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BELINDA W. DEVINCENTIS

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

The Honorable Tom Wilthers, Mayor,
And the City Council
City of Tom Bean, Texas

We have audited the financial statements of the City of Tom Bean, Texas (City) as of and for the year ended September 30, 2004, and have issued our report thereon dated January 11, 2005. Except for not auditing the General Fixed Assets Account Group and fixed assets, accumulated depreciation and depreciation expense of the Enterprise Fund, we conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the Untied States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the City 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 determination of financial statements 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*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the internal control over financial reporting of the City in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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 operation that we consider to be material weaknesses.

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Adami, Lindsey & Company, L.L.P.

January 11, 2005

Adami, Lindsey & Company, LLP