

**BASIC FINANCIAL STATEMENTS
OF THE CITY OF TOM BEAN, TEXAS**

For the Fiscal Year Ended September 30, 2006

City of Tom Bean, Texas
BASIC FINANCIAL STATEMENTS
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September 30, 2006

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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 financial statements of the governmental activities and the business-type activities of the City of Tom Bean, Texas (the City) as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions 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 respective financial position of the governmental activities and the business-type activities of the City as of September 30, 2006, and the respective changes in financial position, and, where applicable cash flows thereof and the respective budgetary comparison for the General 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 May 5, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

The Management's Discussion and Analysis on pages 3 through 7, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

May 5, 2007

Adami, Lindsey & Company, LLP

CITY OF TOM BEAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006
(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, 2006.

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on page 8 and 9) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 10. For governmental activities, these statements tell how these services also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

FINANCIAL HIGHLIGHTS

- * The City's total combined net assets were \$1,740,602 at September 30, 2006.
- * During the year, the City's governmental fund revenues were \$409,038 generated from taxes and other revenues for governmental activities, and expenditures were \$396,730, which resulted in excess revenue over expenditures of \$12,308. These totals include grants in the amount of \$151,550 used for street improvements and updating the City's infrastructure.
- * During the year, the City's proprietary fund operating revenues were \$349,347 generated from service charges and other revenues for business-type activities, and expenses were \$419,888.
- * The business-type activities fund had a net loss of \$49,012 for the 2006 fiscal year, which was an increase from the net loss of \$27,752 for the 2005 fiscal year, and was due to repairs to water lines.
- * The total cost of the City's programs increased with the addition of grant funds in the amount of \$151,500.

CITY OF TOM BEAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006
(Unaudited)

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The analysis of the City as a whole begins on page 8. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes to them. You can think of the City's 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.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities.

Governmental activities – Most of the City's basic services are reported here, including the general administration, streets, and parks. Sales taxes, franchise fees, and state and federal grants finance most of these activities. The City also reports its economic development fund in this activity.

Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer systems are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the City's general and major fund begins on page 10. The fund financial statements begin on page 10 and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law and by bond covenant. However, the City Council establishes other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

Governmental fund – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation of the fund financial statements.

CITY OF TOM BEAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006
(Unaudited)

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS (continued)

Fund Financial Statements (continued)

Proprietary Fund – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

THE CITY AS A WHOLE

The streets in the City have been an issue for over 20 years. We have made great strides in street re-paving since beginning a (7) year program in 2004 to re-do all the streets in the City. With the grant awarded to the City in 2006, we were able to complete additional streets above our plan. We are now at about 60 percent of the streets re-surfaced and in the year 2007 we will spend an additional \$34,000 on the continuing program. Costs of raw materials are affecting the number of streets we have planned, but we will continue to make this our main focus going forward until every street is completed.

The City received a grant in the amount of \$37,000 for future planning of the City and updating maps and population figures. This will help us plan for the potential growth of the City and a time table that can be used for infrastructure improvements. These projections give us up to a 25 year growth potential and management planning table.

Additionally, we are in the final stages of receiving approval to build a new water well in the City. This process has been ongoing since 2003. We expect to have approval and the breaking of ground on the new well sometime in the year 2007. This project will take care of water needs for the City for the next 30-50 years depending on population growth.

For the years ended September 30, 2006 and 2005, net assets changed as follows:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Beginning Net Assets	\$ 971,021	\$ 958,853	\$ 705,422	\$ 733,174	\$ 1,676,443	\$ 1,692,027
Increase (Decrease) in Net Assets	113,171	12,168	(49,012)	(27,752)	64,159	(15,584)
Ending Net Assets	<u>\$ 1,084,192</u>	<u>\$ 971,021</u>	<u>\$ 656,410</u>	<u>\$ 705,422</u>	<u>\$ 1,740,602</u>	<u>\$ 1,676,443</u>

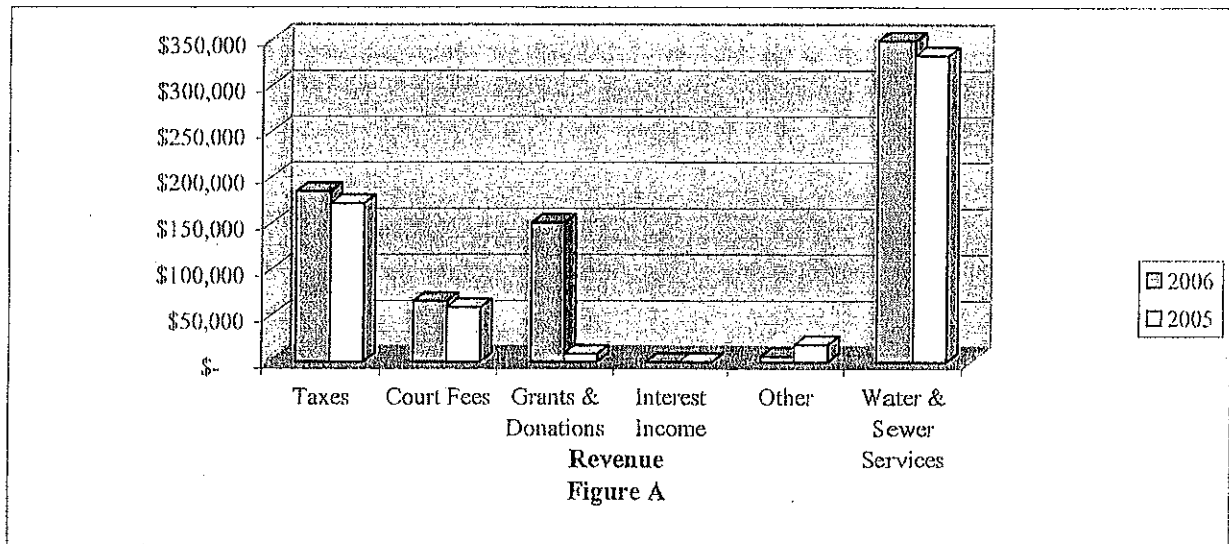
CITY OF TOM BEAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006
(Unaudited)

THE CITY AS A WHOLE (continued)

Revenue

The City's total operating revenues were \$758,385, per the information provided on pages 11 and 14. The revenue sources are comprised of the following (see Figure A): 24% from taxes; 46% from sales of Water and Sewer services; 20% from Grants and Donations; and 10% relates to other charges for services.

<u>Revenue</u>	<u>2006</u>	<u>2005</u>
Taxes	\$ 185,201	\$ 171,816
Court Fees	66,178	59,516
Grants & Donations	151,550	8,688
Interest Income	82	159
Other	6,027	18,991
Water & Sewer Services	349,347	333,230
Totals	\$ 758,385	\$ 592,400



Expenses and Expenditures

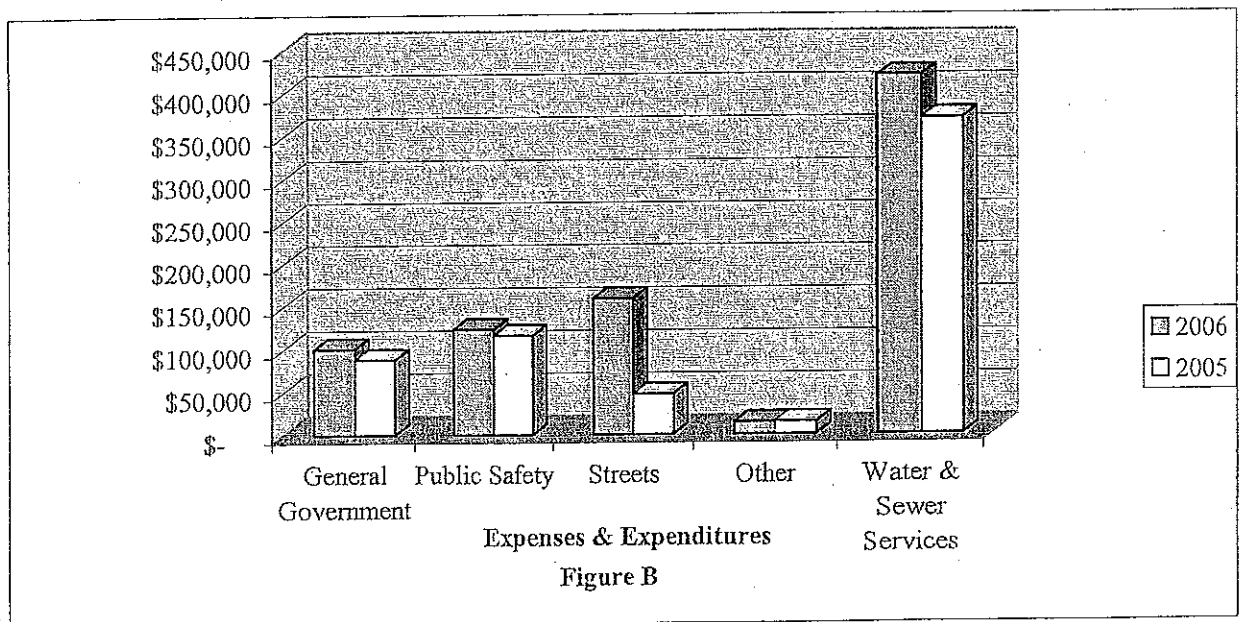
The City's total expenses were \$816,618, per the information provided on pages 11 and 14. The expenses are made up of the following (see Figure B): 12% for general government; 52% for water and sewer services; and 36% for other related services.

CITY OF TOM BEAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006
(Unaudited)

THE CITY AS A WHOLE (continued)

Expenses and Expenditures (continued)

<u>Expenses & Expenditures</u>	<u>2006</u>	<u>2005</u>
General Government	\$ 100,605	\$ 87,884
Public Safety	123,099	115,924
Streets	158,752	47,091
Other	14,274	14,558
Water & Sewer Services	419,888	369,695
Totals	\$ 816,618	\$ 635,152



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 S. Britton Street, Tom Bean, Texas.

Tom Wilthers, Mayor
City of Tom Bean, Texas

BASIC FINANCIAL STATEMENTS

CITY OF TOM BEAN, TEXAS
STATEMENT OF NET ASSETS
September 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 39,747	\$ 6,039	\$ 45,786
Accounts Receivable, net	-	22,755	22,755
Due from Other Funds	-	9,609	-
Capital Assets, net	1,106,367	652,117	1,758,484
Total Assets	1,146,114	690,520	1,827,025
LIABILITIES			
Accounts Payable	2,427	7,035	9,462
Customers' Water Deposits	-	13,151	13,151
Due to Other Funds	9,609	-	-
Accrued Expenses	20,589	2,024	22,613
Capital Lease Obligations:			
Due within one year	9,345	3,817	13,162
Due in more than one year	19,952	8,083	28,035
Total Liabilities	61,922	34,110	86,423
NET ASSETS			
Invested in Capital Assets, net of related debt	1,077,070	640,217	1,717,287
Unrestricted	7,122	16,193	23,315
Total Net Assets	\$ 1,084,192	\$ 656,410	\$ 1,740,602

See notes to the basic financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF ACTIVITIES
Year Ended September 30, 2006

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities						
General Government	\$ 143,420	\$ -	\$ -	\$ -	\$ (143,420)	\$ -
Public Safety	123,099	66,178	-	-	(56,921)	-
Streets	26,439	-	4,800	146,750	125,111	-
Interest Expense	666	-	-	-	(666)	-
Total Governmental Activities	293,624	66,178	4,800	146,750	(75,896)	-
Business-Type Activities						
Water and Sewer Sales	419,888	348,878	-	-	-	(71,010)
Total Business-Type Activities	419,888	348,878	-	-	-	(71,010)
Total Primary Government	\$ 713,512	\$ 415,056	\$ 4,800	\$ 146,750	\$ (75,896)	\$ (146,906)
General Revenues						
Taxes:						
General Property					126,393	126,393
City Sales					36,853	36,853
Franchise					21,955	21,955
Licenses and Permits					4,092	4,092
Interest Income					82	114
Gain/(Loss) on Sale of Capital Assets					(2,242)	(1,242)
Insurance Proceeds					-	20,497
Miscellaneous					1,934	2,403
Total General Revenues and Transfers					189,067	21,998
Change in Net Assets					113,171	(49,012)
Net Assets - Beginning					971,021	705,422
Net Assets - Ending					\$ 1,084,192	\$ 656,410
						\$ 1,740,602

See notes to the basic financial statements.

CITY OF TOM BEAN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2006

	General Fund
ASSETS	
Cash	\$ 39,747
Total Assets	<u>\$ 39,747</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts Payable	\$ 2,427
Due to Other Funds	9,609
Accrued Expenses	20,589
Total Liabilities	<u>32,625</u>
Fund Balance	
Unrestricted	<u>7,122</u>
Total Fund Balance	7,122
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund, net of accumulated depreciation of \$ 552,377	1,106,367
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund	
Due within one year	(9,345)
Due in more than one year	<u>(19,952)</u>
Net Assets of Governmental Activities	<u>\$ 1,084,192</u>

See notes to the basic financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended September 30, 2006

	General Fund
REVENUE	
Taxes	
General Property	\$ 126,393
City Sales	36,853
Franchise	21,955
	<u>185,201</u>
Court Fees	66,178
Grants	151,550
Miscellaneous	6,027
Interest Income	82
Total Revenue	<u>409,038</u>
EXPENDITURES	
Current	
General Government	100,605
Public Safety	123,099
Streets	158,752
Debt Service	
Principal	13,608
Interest and Fees	666
Total Expenditures	<u>396,730</u>
Excess of Revenue over Expenditures	12,308
Fund Balance - October 1	<u>(5,186)</u>
Fund Balance - September 30	<u>\$ 7,122</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	\$ 12,308
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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	130,070
Depreciation expense	(42,815)

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.

13,608

Change in Net Assets of Governmental Activities

<u>\$ 113,171</u>

See notes to the basic financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
Year Ended September 30, 2006

	Original Budget	Actual GAAP Basis	Budget Variance Positive (Negative)
REVENUE			
Taxes			
General Property	\$ 125,727	\$ 126,393	\$ 666
City Sales	24,000	36,853	12,853
Franchise	36,000	21,955	(14,045)
	<u>185,727</u>	<u>185,201</u>	<u>(526)</u>
Court Fees	56,000	66,178	10,178
Grants	-	151,550	151,550
Miscellaneous	4,200	6,027	1,827
Interest Income	120	82	(38)
Total Revenue	<u>246,047</u>	<u>409,038</u>	<u>162,991</u>
EXPENDITURES			
Current			
General Government	106,990	100,605	6,385
Public Safety	111,154	137,373	(26,219)
Streets	26,000	158,752	(132,752)
Total Expenditures	<u>244,144</u>	<u>396,730</u>	<u>(152,586)</u>
Excess of Revenue over Expenditures	1,903	12,308	10,405
Fund Balance - October 1	<u>(5,186)</u>	<u>(5,186)</u>	<u>-</u>
Fund Balance - September 30	<u>\$ (3,283)</u>	<u>\$ 7,122</u>	<u>\$ 10,405</u>

See notes to the basic financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
September 30, 2006

	<u>Water and Sewer Fund</u>
ASSETS	
Current Assets	
Cash	\$ 6,039
Accounts Receivable, net	22,755
Due from Other Funds	9,609
Total Current Assets	<u>38,403</u>
Noncurrent Assets	
Capital Assets, net	<u>652,117</u>
Total Noncurrent Assets	<u>652,117</u>
Total Assets	<u>690,520</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	7,035
Customers' Water Deposits	13,151
Current Portion of Capital Lease Obligations	3,817
Accrued Expenses	2,024
Total Current Liabilities	<u>26,027</u>
Long-Term Liabilities	
Capital Lease Obligations	<u>8,083</u>
Total Long-Term Liabilities	<u>8,083</u>
Total Liabilities	<u>34,110</u>
NET ASSETS	
Invested in Capital Assets, net of related debt	640,217
Unrestricted	16,193
Total Net Assets	<u>\$ 656,410</u>

See notes to the basic financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended September 30, 2006

	Water and Sewer Fund
OPERATING REVENUE	
Water Revenue	\$ 209,102
Sewer Revenue	99,047
Sanitation Revenue	38,409
Water and Sewer Tie-on Revenue	2,320
Miscellaneous	469
Total Operating Revenues	<u>349,347</u>
OPERATING EXPENSES	
Personnel Expenses	118,447
Contract Revenue Payments	74,506
Office and Utilities	93,230
Depreciation	46,142
Sanitation Charges	33,989
Repair and Maintenance	30,560
Lab and Chemicals	9,182
Vehicle Expense	4,558
Contract Labor	779
Miscellaneous	8,495
Total Operating Expenses	<u>419,888</u>
Loss from Operations	<u>(70,541)</u>
NONOPERATING REVENUE	
Insurance Proceeds	20,497
Gain on Sale of Capital Assets	1,000
Interest Income	32
Total Nonoperating Revenue	<u>21,529</u>
Net Loss	(49,012)
Net Assets - Beginning of Year	<u>705,422</u>
Net Assets - End of Year	<u>\$ 656,410</u>

See notes to the basic financial statements.

CITY OF TOM BEAN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended September 30, 2006

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 355,856
Cash Payments for Supplies and Other Services	(250,813)
Cash Payments to Employees for Services	(117,893)
Net Cash Used by Operating Activities	<u>(12,850)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash Received from Other Funds	(2,357)
Insurance Proceeds	20,497
Net Cash Provided in Noncapital Financing Activities	<u>18,140</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(8,866)
Gain on Sale of Capital Assets	1,000
Cash Paid on Capital Lease	(379)
Net Cash Used in Capital and Related Financing Activities	<u>(8,245)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Investment Income Received	32
Net Cash Provided by Investing Activities	<u>32</u>
Net Decrease in Cash	(2,923)
Cash - October 1	<u>8,962</u>
Cash - September 30	<u>\$ 6,039</u>
<i>Reconciliation of Operating Income to Net Cash Used in Operating Activities</i>	
Loss from Operations	\$ (70,541)
Add Back Item not Requiring Cash Outlay	
Depreciation	46,142
Accounts Receivable	3,823
Accounts Payable	5,040
Customer Deposits Payable	<u>2,686</u>
Net Cash Used by Operating Activities	<u>\$ (12,850)</u>

See notes to the basic financial statements.

CITY OF TOM BEAN, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
September 30, 2006

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 States 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). The City implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34 in the fiscal year ended September 30, 2004. 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 activities) 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 BASIC FINANCIAL STATEMENTS
September 30, 2006

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 BASIC FINANCIAL STATEMENTS
September 30, 2006

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 BASIC FINANCIAL STATEMENTS
September 30, 2006

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 include 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. Net 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 BASIC FINANCIAL STATEMENTS
September 30, 2006

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.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. At September 30, 2006, the carrying amount of City deposits was \$45,586 (the Statement of Net Assets includes \$200 of cash on hand) and the bank balances were \$47,393. The City's deposits were adequately insured by the FDIC (Category 1) at all times during the year ended September 30, 2006, and thus had no cash deposits that were exposed to custodial credit risk.

CITY OF TOM BEAN, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
September 30, 2006

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Cost				
Land (non-depreciable)	\$ 7,000	\$ -	\$ -	\$ 7,000
Construction in Progress (non depreciable)	12,575	-	12,575	-
Buildings and Facilities	151,419	-	-	151,419
Improvements other than Building	70,000	-	-	70,000
Infrastructure	1,132,034	144,888	-	1,276,922
Furniture and Fixtures	26,817	-	-	26,817
Machinery & Equipment	124,996	31,867	30,277	126,586
Totals at Historical Cost	<u>1,524,841</u>	<u>176,755</u>	<u>42,852</u>	<u>1,658,744</u>
Less Accumulated Depreciation for:				
Building	62,003	4,446	-	66,449
Improvements other than Building	70,000	814	-	70,814
Infrastructure	293,654	17,026	-	310,680
Furniture and Fixtures	13,883	3,973	-	17,856
Machinery and Equipment	96,056	16,556	26,034	86,578
Total Accumulated Depreciation	<u>535,596</u>	<u>42,815</u>	<u>26,034</u>	<u>552,377</u>
Governmental activities capital assets, net	<u>\$ 989,245</u>	<u>\$ 133,940</u>	<u>\$ 16,818</u>	<u>\$ 1,106,367</u>
Business-Type Activities				
Cost				
Land (non-depreciable)	\$ 9,850	\$ -	\$ -	\$ 9,850
Water and Sewer System	1,333,655	7,846	-	1,341,501
Furniture and Fixtures	1,500	-	-	1,500
Machinery and Equipment	54,469	13,299	5,925	61,843
Totals at Historical Cost	<u>1,399,474</u>	<u>21,145</u>	<u>5,925</u>	<u>1,414,694</u>
Less Accumulated Depreciation for:				
Water and Sewer System	674,274	42,247	-	716,521
Furniture and Fixtures	1,500	-	-	1,500
Machinery and Equipment	46,586	3,895	5,925	44,556
Total Accumulated Depreciation	<u>722,360</u>	<u>46,142</u>	<u>5,925</u>	<u>762,577</u>
Business-type activities capital assets, net	<u>\$ 677,114</u>	<u>\$ (24,997)</u>	<u>\$ -</u>	<u>\$ 652,117</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities	
General Government	\$ 6,095
Public Safety	19,048
Streets	17,672
	<u>\$ 42,815</u>
Business-Type Activities	
Water and Sewer Sales	\$ 46,142
	<u>\$ 46,142</u>

CITY OF TOM BEAN, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
September 30, 2006

NOTE 4 – INTERFUND BALANCES

During the course of its operations, the City has transactions between funds to finance operations and provide services. As of September 30, 2006, the inter-fund receivables and payables are as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ -	\$ 9,609
Water and Sewer Fund	<u>9,609</u>	<u>-</u>
	<u>\$ 9,609</u>	<u>\$ 9,609</u>

Inter-fund receivables and payables have been eliminated in the presentation of the government-wide financial statements.

NOTE 5 – FEDERAL AND STATE FINANCIAL ASSISTANCE

Following is a summary of federal and state financial assistance by contracting source for the fiscal year ending September 30, 2006:

	Federal	State	Total
Office of Rural Community Affairs:			
Texas Community Development Program	\$ -	\$ 114,000	\$ 114,000
Planning and Capacity Building Fund	-	32,750	32,750
Other	-	4,800	4,800
Total	<u>\$ -</u>	<u>\$ 151,550</u>	<u>\$ 151,550</u>

NOTE 6 – LONG-TERM OBLIGATIONS

The following schedule summarizes the changes in long-term obligations for the year ended September 30, 2006:

	Balance October 1, 2005	Additions	Retirements	Balance September 30, 2006
Capital Lease Obligations	<u>\$ 13,038</u>	<u>\$ 42,000</u>	<u>\$ 13,840</u>	<u>\$ 41,198</u>

CITY OF TOM BEAN, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
September 30, 2006

NOTE 6 – LONG-TERM OBLIGATIONS (continued)

Capital Lease Obligations

Property held under capital leases at September 30, 2006, is as follows:

	Governmental Activities	Business Activities	Total
2006 Ford Expedition police vehicle and equipment	\$ 31,867	\$ -	\$ 31,867
2005 Dodge 2500 public works truck	-	13,299	13,299
	<u>31,867</u>	<u>13,299</u>	<u>45,166</u>
Less: Accumulated Depreciation	(6,373)	(2,660)	(9,033)
Net Leased Property	<u>\$ 25,494</u>	<u>\$ 10,639</u>	<u>\$ 36,133</u>

Capital lease obligations payable at September 30, 2006, are comprised of the following:

	Governmental Activities	Business Activities	Total
Master Equipment Lease/Purchase Agreement with a financial institution dated July 1, 2006, for the lease/purchase of a 2006 Ford Expedition police vehicle and certain equipment and a 2004 Dodge 2500 public works truck in the initial amount of \$42,000, due in 36 monthly installments of \$1,309 including interest at approximately 7.2%, beginning September 1, 2006 and ending August 1, 2009			
2006 Ford Expedition police vehicle and equipment	\$ 29,297	\$ -	\$ 29,297
2005 Dodge 2500 public works truck	-	11,900	11,900
	<u>29,297</u>	<u>11,900</u>	<u>41,197</u>
Less: Current Portion of Capital Lease Obligations	(9,345)	(3,817)	(13,162)
	<u>\$ 19,952</u>	<u>\$ 8,083</u>	<u>\$ 28,035</u>

Minimum future lease payments under capital leases, together with the present value of net minimum lease payments at September 30, 2006 is as follows:

Fiscal Year Ending September 30	Governmental Activities	Business Activities	Total
2007	\$ 11,151	\$ 4,555	\$ 15,706
2008	11,151	4,555	15,706
2009	<u>10,269</u>	<u>4,128</u>	<u>14,397</u>
	<u>32,571</u>	<u>13,238</u>	<u>45,809</u>
Less: Implicit Interest in Minimum Future Lease Payments	(3,274)	(1,338)	(4,612)
Present Value of Minimum Future Lease Payments	<u>\$ 29,297</u>	<u>\$ 11,900</u>	<u>\$ 41,197</u>

CITY OF TOM BEAN, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
September 30, 2006

NOTE 7 – 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, 2006, the City paid \$74,506 to the Authority in accordance with these contracts. Future payments under these contracts average approximately \$70,000 per year for the next 14 years.

Below is a schedule of remaining debt service as of September 30, 2006:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 35,000	\$ 38,283	\$ 73,283
2008	35,000	35,842	70,842
2009	40,000	33,401	73,401
2010	40,000	30,582	70,582
2011	45,000	27,745	72,745
2012-2016	250,000	95,180	345,180
2017-2020	240,000	29,930	269,930
	<u>\$ 685,000</u>	<u>\$ 290,963</u>	<u>\$ 975,963</u>

Following is an excerpt from the audited general purpose financial statements of the Authority. 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 BASIC FINANCIAL STATEMENTS
September 30, 2006

NOTE 6 - COMMITMENTS (continued)

Greater Texoma Utility Authority (continued)

COMPARATIVE BALANCE SHEETS

	2006	2005
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 10	\$ 793
Restricted Cash and Cash Equivalents	24,292	31,460
Total Current Assets	<u>24,302</u>	<u>32,253</u>
Noncurrent Assets		
Restricted Assets		
Cash and Cash Equivalents	67,442	3,268
Temporary Investments	-	71,145
Interest Receivable	-	90
Bond Issuance Costs (net)	17,364	18,918
Property Plant and Equipment (net)	521,272	573,834
Total Noncurrent Assets	<u>606,078</u>	<u>667,255</u>
TOTAL ASSETS	<u>630,380</u>	<u>699,508</u>
 LIABILITIES AND RETAINED EARNINGS		
Current Liabilities		
Accrued Interest Payable	9,571	10,180
Due to Other Funds	5,329	19,988
Deferred Revenue	8,750	8,750
Revenue Bonds Payable Current Portion	35,000	35,000
Total Current Liabilities	<u>58,650</u>	<u>73,918</u>
Noncurrent Liabilities		
Revenue Bonds Payable	650,000	685,000
Total Noncurrent Liabilities	<u>650,000</u>	<u>685,000</u>
TOTAL LIABILITIES	<u>708,650</u>	<u>758,918</u>
 NET ASSETS (DEFICIT)		
Invested in Capital Assets, Net of Related Debt	(163,728)	(146,166)
Restricted for Debt Service	73,414	86,943
Unrestricted	12,044	(187)
TOTAL NET ASSETS (DEFICIT)	<u>\$ (78,270)</u>	<u>\$ (59,410)</u>

CITY OF TOM BEAN, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
September 30, 2006

NOTE 7 - COMMITMENTS (continued)

Greater Texoma Utility Authority (continued)

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	2006	2005
Charges for Services	\$ 74,506	\$ 71,648
Operating Expenses	(56,503)	(57,535)
Operating Income	18,003	14,113
Nonoperating Revenues (Expenses)		
Investment Income	4,801	2,597
Interest Expense	(40,111)	(42,257)
Amortization of Bond Issuance Costs	(1,553)	(1,553)
Total Nonoperating Expenses	(36,863)	(41,213)
Change in Net Assets	(18,860)	(27,100)
Net Assets (Deficit), October 1	(59,410)	(32,310)
Net Assets (Deficit), September 30	\$ (78,270)	\$ (59,410)

NOTE 8 - 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 811 municipalities administered by TMRS, an agent multiple-employer public employee retirement system. All assumptions for the December 31, 2005 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to the following address:

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

Benefits

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 at least 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 BASIC FINANCIAL STATEMENTS
September 30, 2006

NOTE 8 – OTHER INFORMATION (continued)

Pension Plan (continued)

Benefits (continued)

The Plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows (as of 4/19/06):

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 (expressed as years of service/age) are:

5 years /age 60
20 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 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 serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2005 valuation is effective for rates beginning January 2007.)

Schedule of Funding Progress and Trend Information

	For Fiscal Years Ended September 30,	
	2006	2005
Actuarial Valuation Date	12/31/05	12/31/04
Actuarial Value of Assets	\$ 87,965	\$ 69,956
Actuarial Accrued Liability	\$ 125,769	\$ 103,021
Unfunded Actuarial Accrued Liability	\$ 37,804	\$ 33,065
Funded Ratio	69.9%	67.9%
Annual Covered Payroll	\$ 157,387	\$ 136,083
Unfunded Actuarial Accrued Liability as a		
Percentage of Covered Payroll	24.0%	24.3%
Annual Pension Cost (APC)	\$ 14,281	\$ 13,803
% of APC Contributed	100%	100%
Net Pension Obligation	\$ -	\$ -

CITY OF TOM BEAN, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
September 30, 2006

NOTE 7 – OTHER INFORMATION (continued)

Pension Plan (continued)

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
Investment Rate of Return -	7%
Projected Salary Increases -	None
Includes Inflation at -	3.5%
Cost-of-Living Adjustments -	None

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, 2006, 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, 2006, property taxes still receivable for the year 2005 assessment are \$5,989 and property taxes receivable for prior periods amounted to \$3,150

Property ad valorem tax rate for the year 2005 was .49117 per \$100 of assessed value.

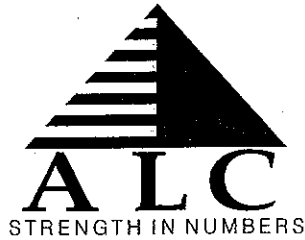
Risk Management

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 9 – SUBSEQUENT EVENTS

No events have occurred subsequent to September 30, 2006 that would require adjustment to, or disclosure in, these financial statements.

INTERNAL CONTROL SECTION



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DAROLD P. ADAMI, JR.
BELINDA W. DEVINCENTIS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the accompanying financial statements of the governmental activities and the business-type activities of the City of Tom Bean, Texas (the City) as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 5, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor, city council, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Adami, Lindsey & Company, LLP
May 5, 2007

