

CITY OF TOM BEAN, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2008

**City of Tom Bean, Texas
Annual Financial Report
For the Year Ended September 30, 2008**

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Tom Bean, Texas

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tom Bean, Texas, as of and for the year ended September 30, 2008, 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 of Tom Bean, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tom Bean, Texas, as of September 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with auditing standards generally accepted in the United States of America, we have also issued our report dated March 2, 2009, on our consideration of the City of Tom Bean, Texas' internal control over financial reporting. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the internal control over financial reporting. That report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America and important for assessing the results of our audit.

The management discussion and analysis and budget comparison data on pages 2 through 6 and 28, respectively, are not a required part of the basic financial statements but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Gregg & Company CPAs

Tom Bean, Texas
March 2, 2009

**City of Tom Bean, Texas
Management Discussion and Analysis
For the Year Ended September 30, 2008**

Our discussion and analysis of City of Tom Bean's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2008. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of FY08 by \$1,824,643. This is a change in net assets of \$25,610 over FY07's net asset value of \$1,831,750. Unrestricted net assets at the close of FY08 are \$79,648 and may be used to meet the City's ongoing obligations to citizens and creditors. This is an increase of \$758 over FY07's unrestricted net asset value of \$78,890.
- As of the close of the current fiscal year, the City's governmental funds reported on page 9 have an ending fund balance of (\$16,872) due to a current year decrease of \$21,734.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 7 and 8). These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 9) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements show how services were financed in short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and the appropriations from the State. Proprietary fund financial statements report activity for the City's water and sewer operations.

The notes to the financial statements (beginning on page 16) provide narrative explanations and additional data needed for full disclosures for the government-wide statements and the fund financial statements.

Reporting the City as a Whole – Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities

Government-wide financial statements, which provide an analysis of the City's overall financial condition and operation, begin on page 7. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The Statement of Net Assets includes all the City's assets and liabilities (including long-term items) while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, and 3) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of 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. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, the City has two kinds of activities:

Governmental Activities – City services such as police protection, court services, street maintenance, parks and general administration are reported here. City property taxes and sanitation operations finance most of these activities.

Business-Type Activities - The City uses proprietary (business-type) funds to account for its water and sewer operations. The services are supported by monthly charges to citizens.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 9 and provide detailed information about the most significant funds. The City's two types of funds, governmental and proprietary, use different accounting approaches.

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed, short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules found on pages 10 and 12.

Proprietary Funds – The City uses proprietary (business-type) funds to account for its water and sewer operations. The full-accrual basis of accounting is used for all proprietary type funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Ninety percent (90%) of the City's net assets are invested in capital assets; land, buildings, vehicles and electronic equipment, less any outstanding debt used to acquire these assets. The City uses capital assets to provide services to the citizens they serve; consequently, these assets are not available for future spending.

City of Tom Bean-Statement of Net Assets

	FY08	FY07
Current and other assets	\$ 257,008	\$ 154,789
Capital assets	2,285,879	2,404,958
Total assets	<u>\$ 2,542,887</u>	<u>\$ 2,559,747</u>
Current payables & other liabilities	\$ 66,753	\$ 95,133
L-T bonds & leases payable	651,491	632,864
Total Liabilities	<u>\$ 718,244</u>	<u>\$ 727,997</u>
Net assets:		
Invested in capital assets,		
Net of related debt	\$ 1,651,238	\$ 1,723,930
Restricted for debt service & other	93,757	28,930
Unrestricted	79,648	78,890
Total net assets	<u>\$ 1,824,643</u>	<u>\$ 1,831,750</u>

City of Tom Bean-Statement of Activities

	FY08	FY07
Revenues:		
Program revenues		
Water Fund charges for services	\$ 371,542	\$ 353,903
General Fund charges for services	135,659	242,405
Grants and contributions	5,000	15,000
General revenues	237,081	225,951
Total Revenues	<u>\$ 749,282</u>	<u>\$ 837,259</u>
Expenses:		
General government	\$ 184,954	\$ 203,636
Water, sewer, and sanitation	370,616	412,946
Emergency medical service	5,000	5,000
Police	214,322	126,308
Fire	-	1,800
Total Expenses	<u>774,892</u>	<u>749,690</u>
Increase (Decrease) in Net Assets	<u>\$ (25,610)</u>	<u>\$ 87,569</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The City's net assets decreased from \$1,831,750 to \$1,824,643. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – were \$79,648 at September 30, 2008.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues for the City's general fund were \$325,779, while total expenditures were \$375,346. This resulted in a deficiency of revenues under expenditures of \$49,567 from current operations. Last year's result was an excess of expenditures over revenues of \$47,689.

Operating revenues for the City's proprietary fund were \$371,542 while operating expenses were \$332,338. This resulted in an operating net income of \$39,204. Last year's result was an operating net loss of \$34,780. The change in net assets after non operating income and expense and transfers was net income of \$10,106. Last year's result was net income of \$14,635.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 9) reported a combined fund balance of (\$16,872) compared to (\$13,641) in FY07. This represents a decrease of \$3,231. The City's general fund revenues for FY08 were \$87,977 less than the previous year. The largest increase in revenues came from Franchise tax collections. The largest decrease in expenditures came from General Government.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for all activities as of September 30, 2008 amounts to \$2,285,879, compared to \$2,404,958 (net of accumulated depreciation) at September 30, 2007. This investment in capital assets includes land, buildings and improvements, street improvements, water and sewer systems, equipment and vehicles. The total decrease in the City's net investment in capital assets for the current fiscal year was \$119,079. Major capital asset activity during the current fiscal year included the street improvements, acquisition of machinery, furniture and equipment, replacement of two police vehicles, and the acquisition of water and wastewater related items.

Long-term Debt

At year-end, the City had total bonded debt outstanding of \$615,000. Bond principal payments totaled \$35,000 and all payments were made when due.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In spite of economic slowdown, the City continued to experience moderate growth in the collection of property tax, sales and use tax, and franchise tax. Property taxes are the City's primary source of revenue in the general fund.

Each of these factors was considered in preparing the City's budget for the 2008-2009 fiscal year. The operating budget for the 2008-2009 fiscal year developed by city management and approved by the City's elected officials focused on using the City's available resources and maintaining close scrutiny on operating costs.

The City's Operating Budget is prepared each year in September, prior to the commencement of the fiscal year for which the budget is adopted. The City Council is provided a monthly report of revenues and expenditures to review and assess how consistent actual revenue and expenditures are in relation to the budget that was approved.

THE CITY AS A WHOLE

During the year ended September 30, 2008, the City of Tom Bean exceeded its budget in the General Fund, as follows:

Approximately \$5,000 was not budgeted for dental and supplemental insurance. Fuel and vehicle maintenance overages in the amount of \$4,200 are a result of increased fuel prices. Street maintenance expenses exceeded the budget by \$7,000; approximately \$5,000 of this overage is attributed to funds paid to the County from the prior year. Electric and gas utility bills paid by the city exceeded the budget by \$2,000 due to increased fuel costs.

The General Fund was under budget for anticipated police and court revenue. This revenue shortage is due to the city not collecting as many outstanding warrant fees as expected. The police department and court clerk continue to work hard and pursue the funds owed to the city.

In the Proprietary Fund, the city experienced an increase in revenue due to the decision to raise water and sewer service rates and tap fees. The decision to increase the rates was based on the consultation of experts who strongly recommended the higher rates; the increases took effect in July. The city realized the benefits of the rate increase for three months of the year and was therefore able to make equipment repairs and upgrades at the lift stations and Whitemound well.

In March of 2007, the City of Tom Bean was awarded a \$125,000 matching grant from the Office of Rural Community Affairs. The grant funds will be used for the restoration of public infrastructure, including the downtown water tower.

To date, approximately 90% of the streets in Tom Bean are complete. During the upcoming year, the City will consider the feasibility of purchasing an integrated accounting software package for recordkeeping purposes. The City of Tom Bean continues to experience water loss and related lost revenues. City officials are examining alternative for tracing and minimizing the loss.

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 exhibit transparency in 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 201 South Britton, Tom Bean, Texas 75489 or 903.546.6321 or by visiting www.tombean.net.

Sherry Howard, Mayor
City of Tom Bean, Texas

FINANCIAL SECTION

City of Tom Bean, Texas
Statement of Net Assets
September 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 12,485	\$ 21,061	\$ 33,546
Accounts Receivable, net	-	39,430	39,430
Property Taxes Receivable, net	11,825	-	11,825
Court Receivable, net	38,054	-	38,054
Other Receivables, net	9,289	-	9,289
Prepaid Bond Issue Costs	-	14,257	14,257
Restricted Assets:			
Deposits held in Trust by GTUA	-	93,757	93,757
Capital Assets not being Depreciated:			
Land	7,000	9,850	16,850
Capital Assets net of Accumulated Depreciation:			
Buildings	66,686	-	66,686
Improvements Other than Buildings	6,952	64,632	71,584
Furniture and Fixtures	5,431	-	5,431
Machinery and Equipment	66,342	20,399	86,741
Public Infrastructure	987,330	1,068,107	2,055,437
Total Assets	<u>1,211,394</u>	<u>1,331,493</u>	<u>2,542,887</u>
LIABILITIES			
Accounts Payable	38,646	4,518	43,164
Customer Deposits Payable	-	15,239	15,239
Interest Payable	-	8,350	8,350
Noncurrent Liabilities:			
Due within One Year	10,402	43,658	54,060
Due in More than One Year	22,431	575,000	597,431
Total Liabilities	<u>71,479</u>	<u>646,765</u>	<u>718,244</u>
NET ASSETS			
Investment in Capital Assets, net of			
Related Debt	1,106,908	544,330	1,651,238
Restricted for Fiscal Agent	-	93,757	93,757
Unrestricted	33,007	46,641	79,648
Total Net Assets	<u>\$ 1,139,915</u>	<u>\$ 684,728</u>	<u>\$ 1,824,643</u>

The notes to the financial statements are an integral part of this statement.

City of Tom Bean, Texas
Statement of Activities
For the Year Ended September 30, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 184,954	\$ 8,094	\$ -	-	\$ (176,860)	-	\$ (176,860)
Police and Court	214,322	127,565	-	\$ 5,000	(81,757)	-	(81,757)
Emergency Medical Service	5,000	-	-	-	(5,000)	-	(5,000)
Total Governmental Activities	404,276	135,659	-	5,000	(263,617)	-	(263,617)
Business-Type Activities							
Water and Sewer - Debt Service	38,278	-	-	-	-	\$ (38,278)	(38,278)
Water and Sewer - Operating	332,338	371,542	-	-	-	39,204	39,204
Total Business-Type Activities	370,616	\$ 371,542	-	-	-	926	926
Total Primary Government	\$ 774,892	\$ 507,201	\$ -	\$ 5,000	(263,617)	926	(262,691)
General Revenues:							
Property Taxes					149,949	-	149,949
General Sales and Use Taxes					40,323	-	40,323
Franchise Taxes					42,463	-	42,463
Investment Earnings					166	4,180	4,346
Transfers In (Out)					(5,000)	5,000	-
Total General Revenues					227,901	9,180	237,081
Change in Net Assets					(35,716)	10,106	(25,610)
Net Assets - Beginning					1,157,128	674,622	1,831,750
Prior Period Adjustment					18,503	-	18,503
Net Assets - Ending					\$ 1,139,915	\$ 684,728	\$ 1,824,643

The notes to the financial statements are an integral part of this statement.

City of Tom Bean, Texas
Balance Sheet
Governmental Funds
September 30, 2008

	<u>General Fund</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 12,485
Receivables, Net:	
Property Taxes	11,825
Court	38,054
Other	9,289
Total Current Assets	<u>71,653</u>
Total Assets	<u><u>\$ 71,653</u></u>
LIABILITIES AND FUND BALANCES	
Current Liabilities:	
Accounts Payable	\$ 38,646
Deferred Revenue	49,879
Total Current Liabilities	<u>88,525</u>
Fund Balances:	
Unreserved	<u>(16,872)</u>
Total Fund Balances	<u>(16,872)</u>
Total Liabilities and Fund Balances	<u><u>\$ 71,653</u></u>

The notes to the financial statements are an integral part of this statement.

City of Tom Bean, Texas
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
For the Year Ended September 30, 2008

Fund Balance of Governmental Funds **\$ (16,872)**

Amounts reported for *Governmental Activities* in the Statement of Net Assets differ from the Balance Sheet for the following reasons:

Capital assets used in governmental activities are not financial resources; therefore, they are not reported in Governmental Funds. 1,139,741

Long term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in Governmental Funds. (32,833)

Delinquent property taxes and court revenue are reported as deferred income on the fund financial statement, but the amount should not be shown as a liability on the Statement of Net Assets. 49,879

Net Assets of Governmental Activities \$ 1,139,915

The notes to the financial statements are an integral part of this statement.

City of Tom Bean, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2008

	General Fund
REVENUES	
Taxes:	
Property	\$ 147,928
General Sales and Use	40,323
Franchise	42,463
Police Department and Court	86,805
Permits and Fees	6,302
Other Revenue	1,792
Interest Revenue	166
Total Revenues	<u>325,779</u>
EXPENDITURES	
Current:	
General Government	144,563
Police Department and Court	153,048
Emergency Medical Service	5,000
Debt Service:	
Principal	19,126
Interest	1,562
Capital Outlay:	
Police Cars	22,833
Infrastructure	29,214
Total Expenditures	<u>375,346</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(49,567)</u>
OTHER FINANCING SOURCES (USES)	
Transfer In (Out)	(5,000)
Proceeds from Note Payable	32,833
Total Other Financing Sources (Uses)	<u>27,833</u>
Net Change in Fund Balance	(21,734)
Fund Balance - Beginning	(13,641)
Prior Period Adjustment	18,503
Fund Balance - Ending	<u>\$ (16,872)</u>

The notes to the financial statements are an integral part of this statement.

City of Tom Bean, Texas
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2008

Net Change in Fund Balance - Total Governmental Funds **\$ (21,734)**

Amounts reported for *Governmental Activities* in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.

Net Capital Assets Added in Current Year	30,559
Depreciation Expense	(15,340)
	15,219

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of Long Term Debt	(32,833)
Principal Repayment of Long Term Debt	19,126
	(13,707)

Governmental funds report some prior year tax and court revenues as income in the current year. However, in the Statement of Activities, the revenue is recognized in the year in which it is earned. The net effect of deferred revenue is to decrease net assets.

Net Amounts Earned in Prior Years	(17,515)
Net Amounts Earned in Current Year	2,021
	(15,494)

Change in net assets of governmental activities	\$ (35,716)
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The notes to the financial statements are an integral part of this statement.

City of Tom Bean, Texas
Statement of Net Assets
Proprietary Fund
September 30, 2008

	Proprietary Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 21,061
Prepaid Bond Issue Costs	14,257
Accounts Receivables, Net	39,430
Total Current Assets	<u>74,748</u>
Restricted Assets:	
Restricted Cash	<u>93,757</u>
Total Restricted Assets	<u>93,757</u>
Capital Assets:	
Land	9,850
Improvements other than Buildings	124,902
Furniture and Fixtures	1,500
Machinery and Equipment	74,354
Infrastructure	2,141,107
Less Accumulated Depreciation	<u>(1,188,725)</u>
Total Capital Assets, Net	<u>1,162,988</u>
Total Assets	<u><u>1,331,493</u></u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	4,518
Interest Payable	8,350
Customer Deposits Payable	15,239
Capital Lease - Current Portion	3,658
Contractual Obligation - Current Portion	40,000
Total Current Liabilities	<u>71,765</u>
Noncurrent Liabilities:	
Contractual Obligation -Long Term Portion	<u>575,000</u>
Total Noncurrent Liabilities	<u>575,000</u>
Total Liabilities	<u><u>646,765</u></u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	544,330
Restricted Deposits	93,757
Unrestricted	46,641
Total Net Assets	<u><u>\$ 684,728</u></u>

The notes to the financial statements are an integral part of this statement.

City of Tom Bean, Texas
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2008

	Proprietary Fund
Operating Revenues:	
Charges for Sales and Services:	
Water	\$ 231,992
Sewer & Sanitation	139,550
Total Operating Revenues	<u>371,542</u>
Operating Expenses:	
Salaries and Wages	117,869
Utilities	88,379
Depreciation	76,405
Sanitation Plant Expense	34,591
Other Operating Expenses	10,833
Employee Benefits	3,082
Supplies, Maintenance & Repairs	889
Water Expense	290
Total Operating Expenses	<u>332,338</u>
Operating Income (Loss)	<u>39,204</u>
Nonoperating Sources (Uses)	
Interest Income	4,180
Bond Issuance Costs	(6,750)
Interest Expense	(31,528)
Total Nonoperating Revenue (Expenses)	<u>(34,098)</u>
Income Before Transfers	5,106
Transfers In (Out)	5,000
Change in Net Assets	<u>10,106</u>
Total Net Assets - Beginning	674,622
Total Net Assets - Ending	<u><u>\$ 684,728</u></u>

The notes to the financial statements are an integral part of this statement.

City of Tom Bean, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2008

	<u>Proprietary Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 371,542
Cash Paid to Employees	(117,869)
Cash Paid to Suppliers for Goods and Services	(141,768)
Net Cash Provided by Operating Activities	<u>111,905</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer from General Funds	5,000
Net Cash Provided by Noncapital Financing Activities	<u>5,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash to Restricted Account held by GTUA	(64,827)
Acquisition of Capital Assets	(33,998)
Disposal of Capital Assets	75,041
Cash Used for Bond Issue Costs	(6,749)
Interest Paid on Capital Debt	(35,658)
Principal Paid on Capital Debt	(39,111)
Net Cash Provided (Used) by Capital and related Financing Activities	<u>(105,302)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	4,180
Net Cash Provided by Investing Activities	<u>4,180</u>
Net Increase (decrease) in Cash and Cash Equivalents	15,783
Cash and Cash Equivalents, October 1, 2007	<u>5,278</u>
Cash and Cash Equivalents, September 30, 2008	<u>\$ 21,061</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 39,204
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	76,405
(Increase) Decrease in Accounts Receivable	(2,035)
(Increase) Decrease in Prepaid Bond Issue Costs	(14,257)
Increase (Decrease) in Accounts Payable	4,518
Increase (Decrease) in Interest Payable	5,363
Increase (Decrease) in Other Current Liabilities	2,707
Net Cash Provided by Operating Activities	<u>\$ 111,905</u>

The notes to the financial statements are an integral part of this statement.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A – General Statement

The City of Tom Bean, Texas (City), was established in 1887 and was incorporated in 1897. The City operates under a council-mayor form of government. The general government functions include law enforcement, fire and other public safety activities, streets, sanitation, public improvements, planning and zoning, and general administrative services. Proprietary 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 financial statements of the City of Tom Bean are prepared in accordance with Generally Accepted Accounting Principles (GAAP) 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 publications entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (where applicable.) The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements. The following is a summary of the more significant policies:

B – Financial Reporting Entity

In evaluating how to define the City for financial statement purposes, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in Generally Accepted Accounting Principles and Government Accounting Standards Board Statement No. 14. The basic, but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability to exercise oversight responsibility, includes, but is not limited to: the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters.

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

The financial statements include government-wide statements prepared on an accrual basis of accounting and fund financial statements that present information for individual major funds rather than by fund type.

C – Basis of Presentation

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from proprietary activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C – Basis of Presentation (Continued)

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

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, in 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 funds:

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.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 related to the timing of the measurement made, regardless of the measurement focus applied.

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.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E – Budgetary Control (Continued)

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 Proprietary 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.

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 flow (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 proprietary-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 costs 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 method. Estimated useful lives are as follows:

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

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F – Assets, Liabilities and Equity (Continued)

Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles of the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G – Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

NOTE 2 – CASH AND DEPOSITS

Cash

As of September 30, 2008, the City maintains all bank accounts at First National Bank of Tom Bean. The City's investments are limited to demand deposits and certificates of deposits in financial institutions that are members of the FDIC. At September 30, 2008, the City's deposits in its depository bank totaled \$36,980, all of which was insured by the Federal Deposit Insurance Corporation. For purposes of the statement of cash flows, the City considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Reconciliation of Balance Sheet Cash

Primary Government Cash on Balance Sheet	\$ 33,546
Restricted Cash and Investments on Balance Sheet	93,757
(Less) Cash Held by GTUA	(93,757)
(Less) Petty Cash on Balance Sheet	(200)
Deposits with Financial Institutions:	<u>\$ 33,346</u>

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* – the following disclosures are presented:

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2008

NOTE 2 – CASH AND DEPOSITS (Continued)

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 saving 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, 2008, the carrying amount of City deposits was \$33,546 (the Statement of Net Assets includes \$200 of cash on hand) and the bank balances were \$37,478. The City's deposits were adequately insured by the FDIC (Category 1) at all times during the year ended September 30, 2008, and thus had no cash deposits that were exposed to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. As of September 30, 2008, the City had no investments that were exposed to concentration of credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy specifies that, in order to mitigate investment rate risk, the investment portfolio should be structured so that securities mature to meet cash requirements, limiting the needs to sell securities on the open market before maturity.

Foreign Currency Risk

Foreign currency risk is the risk that an investment dominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. At September 30, 2008, the City was not exposed to foreign currency risk.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2008

NOTE 3 – RECEIVABLES

Receivables as of the year ended September 30, 2008 for the governmental funds and the proprietary-type funds, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities	Proprietary- Type Activities	Total
Property Taxes	\$ 11,825	-	\$ 11,825
Municipal Court	88,497	-	88,497
Other Receivables	9,289	\$ 11,972	21,261
Water	-	22,553	22,553
Sewer	-	7,880	7,880
Total	109,611	42,405	152,016
Allowance for Doubtful Accounts	(50,443)	(2,975)	(53,418)
Net Receivables	<u>\$ 59,168</u>	<u>\$ 39,430</u>	<u>\$ 98,598</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered available to liquidate liabilities of the current period. At September 30, 2008, the various components of the deferred revenue are as follows:

Delinquent Property Taxes	\$11,825
Municipal Court Fines	<u>38,054</u>
Total Deferred Revenue	<u>\$49,879</u>

NOTE 4 – CAPITAL ASSETS

Depreciation expense for the year ended September 30, 2008 was charged to functions of the primary government and the proprietary-type activities as follows:

Governmental Activities

General Government	\$ 38,829
Police Department and Court	<u>2,999</u>
	<u>\$ 41,828</u>

Proprietary-Type Activities

Water & Sewer	<u>\$ 76,405</u>
	<u>\$ 76,405</u>

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2008

NOTE 4 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended September 30, 2008 was as follows:

Governmental Activities	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 7,000	-	-	\$ 7,000
Construction in Progress	26,340	-	\$ (26,340)	-
Infrastructure	1,276,922	\$ 55,554	-	1,332,476
City Parks	46,223	-	-	46,223
Buildings	88,914	-	-	88,914
Improvements other than Buildings	86,282	-	-	86,282
Furniture and Fixtures	26,817	1,500	-	28,317
Machinery and Equipment	157,592	62,549	(62,704)	157,437
Total Historical Cost	1,716,090	119,603	(89,044)	1,746,649
Less Accumulated Depreciation	(591,568)	(41,828)	26,488	(606,908)
Capital Assets, Net	<u>\$ 1,124,522</u>	<u>\$ 77,775</u>	<u>\$ (62,556)</u>	<u>\$ 1,139,741</u>
Proprietary-Type Activities				
Land	\$ 9,850	-	-	\$ 9,850
Improvements other than Buildings	117,702	\$ 7,200	-	124,902
Furniture and Fixtures	1,500	-	-	1,500
Machinery and Equipment	61,841	12,513	-	74,354
Infrastructure	2,201,863	14,285	\$ (75,041)	2,141,107
Total Historical Cost	2,392,756	33,998	(75,041)	2,351,713
Less Accumulated Depreciation	(1,112,320)	(76,405)	-	(1,188,725)
Capital Assets, Net	<u>\$ 1,280,436</u>	<u>\$ (42,407)</u>	<u>\$ (75,041)</u>	<u>\$ 1,162,988</u>
Total Primary Government Net Capital Assets	<u>\$ 2,404,958</u>	<u>\$ 35,368</u>	<u>\$ (137,597)</u>	<u>\$ 2,302,729</u>

NOTE 5 – CHANGE IN LONG TERM DEBT

The following schedule summarizes the changes in long-term debt for the year ended September 30, 2008:

	Balance 10/1/2007	Additions	Retirements	Balance 9/30/2008	Due Within One Year
Governmental Activities					
Capital Lease Obligations	\$ 19,126	-	\$ (19,126)	-	-
Notes Payable	-	\$ 32,833	-	\$ 32,833	\$ 10,402
Total	<u>19,126</u>	<u>32,833</u>	<u>(19,126)</u>	<u>32,833</u>	<u>10,402</u>
Proprietary-Type Activities					
Capital Lease Obligations	7,769	-	(4,111)	3,658	3,658
1998 Contractual Obligations	185,000	-	(30,000)	155,000	35,000
2001 Contractual Obligations	465,000	-	(5,000)	460,000	5,000
Total	<u>657,769</u>	<u>-</u>	<u>(39,111)</u>	<u>618,658</u>	<u>43,658</u>
Total Long Term Debt	<u>\$ 676,895</u>	<u>\$ 32,833</u>	<u>\$ (58,237)</u>	<u>\$ 651,491</u>	<u>\$ 54,060</u>

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2008

NOTE 6 – LONG TERM DEBT

LONG-TERM DEBT OF THE GOVERNMENTAL ACTIVITIES

Capital Leases

During the year ended September 30, 2008, the City of Tom Bean retired a capital lease with Old National Commercial Leasing regarding a 2006 Ford Expedition. The lease obligation was part of the lease described below, in the business-type activities. The City paid \$19,126 in principal and \$2,036 in interest during the year ended September 30, 2008.

Notes Payable

On September 19, 2008, the City of Tom Bean entered into a 36- month note agreement in the original principal amount of \$32,833 with First National Bank of Tom Bean. The proceeds were used to pay off the principal balance of the capital lease, as described above, to Old National Commercial Leasing and to purchase two (2) 2008 Ford Crown Victoria Interceptor police cars. The outstanding principal balance has a stated annual interest rate of 5.0%. The note requires monthly payments of \$983.96 for principal and interest. The payments began on October 19, 2008 and end on the maturity date of September 19, 2011. Interest expense for the year ended September 30, 2008 is \$0. The outstanding principal balance at September 30, 2008 was \$32,833. The note is collateralized by the two police cars.

The principal and interest requirements related to the note at September 30, 2008 are as follows:

Fiscal Year Ending	Principal	Interest	Total
2009	\$ 10,402	\$ 1,405	\$ 11,807
2010	10,934	779	11,713
2011	11,496	408	11,904
	<u>\$ 32,832</u>	<u>\$ 2,592</u>	<u>\$ 35,424</u>

LONG-TERM DEBT OF THE BUSINESS-TYPE ACTIVITIES

Capital Leases

On July 1, 2006, the City of Tom Bean entered a lease agreement with Old National Commercial Leasing for the purchase of a 2004 Dodge 2500 Utility Truck. Lease terms are 36 months at 10.65% interest. The final lease payment will be made on the maturity date of August 1, 2009. During the year ended September 30, 2008, the City of Tom Bean paid \$4,111 principal and \$426 interest for the lease. At September 30, 2008, the principal balance of the lease was \$3,658. The future minimum lease payments at September 30, 2008 are principal of \$3,658 and interest of \$389, which will be paid during the fiscal year ending September 30, 2009.

Contractual Obligations

The City has entered into various contracts with the Greater Texoma Utility Authority (GTUA), whereby GTUA provides water and sewer services to the City. As part of the contractual agreements, GTUA 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 pledging of water and sewer revenues. The structure of the debt falls into the category of a capital lease therefore the debt and assets are presented as a capital lease in accordance with GASB. Assets and Liabilities were not carried on the financial records in Fiscal Year 2006. Treatment was that of an operating lease. In fact, the arrangement with GTUA has the qualities of a capital lease and are now included in the financial records as capital assets and long-term liabilities with the associated accumulated depreciation.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2008

NOTE 6 – LONG TERM DEBT (CONTINUED)

LONG-TERM DEBT OF THE BUSINESS-TYPE ACTIVITIES (Continued)

The original total principal obligation of the 1988 series sewer debt was \$395,000, with interest rates varying between 6.90% and 7.50%. At September 30, 2008, the outstanding principal balance of the obligation was \$155,000. The City's obligation to GTUA under the 1988 long term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2012. At that time, the undivided interest in the property transfers from GTUA to the City.

The original total principal obligation of the 2000 series sewer debt was \$500,000, with interest rates varying between 3.65% and 4.90%. At September 30, 2008, the outstanding principal balance of the obligation was \$460,000. The City's obligation to GTUA under the 2000 long term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2020. At that time, the undivided interest in the property transfers from GTUA to the City.

Interest paid for the 1988 Series and 2000 Series sewer debt for the year ended September 30, 2008 was \$6,921, and \$22,000, respectively.

The principal and interest requirements related to the long term debt at September 30, 2008 are as follows:

Schedule of Long Term Debt for Proprietary Fund

1988 Series Sewer Debt			
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
9/30/2009	\$ 35,000	\$ 11,608	\$ 46,608
9/30/2010	35,000	9,000	44,000
9/30/2011	40,000	6,375	46,375
9/30/2012	45,000	3,375	48,375
Totals	\$ 155,000	\$ 30,358	\$ 185,358

2000 Series Sewer Debt			
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
9/30/2009	\$ 5,000	\$ 21,792	\$ 26,792
9/30/2010	5,000	21,583	26,583
9/30/2011	5,000	21,370	26,370
9/30/2012	5,000	21,152	26,152
9/30/2013	45,000	16,583	61,583
2014-2019	330,000	76,467	406,467
9/30/2020	65,000	3,185	68,185
Totals	\$ 460,000	\$ 182,132	\$ 642,132
Total	\$ 615,000	\$ 212,490	\$ 827,490

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2008

NOTE 7 – 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 827 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

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 contributions 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.

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 (expressed as years of service/age) are: 5 years/age 60, 20 years/any age.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2008

NOTE 7 – PENSION PLAN (Continued)

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 (over funded) 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, 2007 valuation is effective for rate beginning January 2009.)

Schedule of Actuarial Liabilities and Funding Progress

Fiscal Year Ending September 30:	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarial Valuation Date	12/31/2007	12/31/2006	12/31/2005
Actuarial Value of Assets	\$ 78,570	\$ 63,540	\$ 87,965
Actuarial Accrued Liability	106,101	93,336	125,769
Unfunded Actuarial Accrued Liability	(27,531)	(29,796)	(37,804)
Percentage Funded	74.05%	68.08%	69.94%
Annual Covered Payroll	189,226	147,134	189,226
Ratio of Unfunded to Annual Covered Payroll	14.55%	20.25%	19.98%
Annual Required Contribution	7,706	7,706	7,706
Contributions Made	(7,706)	(7,706)	(7,706)
Net Pension Obligation at Year End	\$ -	\$ -	\$ -

NOTE 8 – OTHER INFORMATION

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.

Property ad valorem tax rate for the year was .49998 per \$100 of assessed value.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2008

NOTE 8 – OTHER INFORMATION (CONTINUED)

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 disaster. 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."

Restricted Net Assets

The Water Fund has restricted cash held by GTUA in amount of \$93,757 that will be used for water and sewer system capital improvements and repayment of contractual obligation.

Inter-fund Balances

For the year ended September 30, 2008, a transfer from the general fund to the water fund was made in the amount of \$5,000 for operating expenses.

Prior Period Adjustment

For the period ended September 30, 2008, an adjustment was made in the amount of \$18,503 in the General Fund to remove a liability that related to a prior period. There was no prior period adjustment required for the Proprietary Fund.

City of Tom Bean, Texas
General Fund Budgetary Comparison
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended September 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 142,686	\$ 142,686	\$ 147,928	\$ 5,242
General Sales and Use Taxes	24,000	24,000	40,323	16,323
Police Department and Court	95,000	95,000	86,805	(8,195)
Franchise Taxes	38,000	38,000	42,463	4,463
Permits and Fees	10,450	10,450	8,260	(2,190)
Total Revenues	310,136	310,136	325,779	15,643
EXPENDITURES				
General Government	251,857	251,857	144,563	107,294
Emergency Medical Service	5,000	5,000	5,000	-
Police Department and Court	52,752	52,752	153,048	(100,296)
Debt Service	-	-	20,688	(20,688)
Capital Outlay	-	-	52,047	(52,047)
Total Expenditures	309,609	309,609	375,346	(65,737)
Excess (Deficiency) of Revenues over Expenditures	527	527	(49,567)	(50,094)
OTHER FINANCING SOURCES (USES)				
Proceeds from Notes Payable	-	-	32,833	32,833
Transfers In (Out)	-	-	(5,000)	(5,000)
Total Other financing Sources (Uses)	-	-	27,833	27,833
Net Change in Fund Balances	527	527	(21,734)	(22,261)

The notes to the financial statements are an integral part of this statement.

COMPLIANCE AND INTERNAL CONTROL SECTION

GREGG & COMPANY

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA*

To the City Council
City of Tom Bean, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tom Bean, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City of Tom Bean, Texas's financial statements and have issued our report thereon dated March 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In planning and performing our audit, we considered the City of Tom Bean, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Tom Bean, Texas' internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Tom Bean, Texas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Tom Bean, Texas' financial statements that is more than inconsequential will not be prevented or detected by the City of Tom Bean, Texas' internal control. We consider the following deficiencies to be significant deficiencies in internal control.

- Significant proposed adjustments to the financial records were necessary to record the accounts and transactions in a manner consistent with generally accepted accounting principles.
- The Statement on Auditing Standards no. 112 requires that we document the City does not have the capability to prepare financial statements and the related notes.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Tom Bean, Texas' internal controls. We believe the significant deficiencies described above constitute material weaknesses.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We noted certain matters that we reported to management of the City of Tom Bean, Texas, in a letter dated March 2, 2009.

This report is intended solely for the information and use of management, City Council, others within the entity, 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.

Grigg & Company CPAs

Tom Bean, Texas
March 2, 2009