

CITY OF TOM BEAN, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2009

**City of Tom Bean, Texas
Annual Financial Report
For the Year Ended September 30, 2009**

TABLE OF CONTENTS

	PAGE
Independent Auditor's Report.....	1
<u>Required Supplementary Information:</u>	
Management Discussion and Analysis.....	2-7
<u>Basic Financial Statements</u>	
<u>Government-Wide Financial Statements</u>	
Statement of Net Assets.....	8
Statement of Activities.....	9
<u>Fund Financial Statements</u>	
Balance Sheets - Governmental Funds.....	10
Reconciliation of the Governmental Fund Balance Sheet to the Statement of of Net Assets.....	11
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	12
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	13
Statement of Net Assets - Proprietary Fund.....	14
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund.....	15
Statement of Cash Flows - Proprietary Fund.....	16
Notes to the Financial Statements.....	17-26
<u>Required Supplementary Information:</u>	
Budgetary Comparison Schedule - General Fund.....	27
Report on Internal Controls.....	28

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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, 2009, 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, 2009, 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 April 6, 2010, 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 7 and 27, 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
April 6, 2010

**City of Tom Bean, Texas
Management Discussion and Analysis
For the Year Ended September 30, 2009**

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, 2009. 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 FY09 by \$1,923,461. This is a change in net assets of \$93,791 over FY09's net asset value of \$1,829,670. Unrestricted net assets at the close of FY09 are \$92,691 and may be used to meet the City's ongoing obligations to citizens and creditors. This is an increase of \$13,043 over FY08's unrestricted net asset value of \$79,648.
- As of the close of the current fiscal year, the City's governmental funds reported on page 9 have an ending fund balance of \$5,056 due to a current year increase of \$22,725.

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 8 and 9). 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 10) 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 wastewater operations.

The notes to the financial statements (beginning on page 17) 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 8. 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 an 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 wastewater 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 10 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 11 and 13.

Proprietary Funds – The City uses proprietary (business-type) funds to account for its water and wastewater 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.

Statement of Net Assets

	FY09	FY08
Current and other assets	\$ 247,679	\$ 257,008
Capital assets	2,481,145	2,285,879
Total assets	<u>2,728,824</u>	<u>2,542,887</u>
Current payables & other liabilities	63,573	66,753
L-T bonds & leases payable	741,790	651,491
Total Liabilities	<u>805,363</u>	<u>718,244</u>
Net assets:		
Invested in capital assets,		
Net of related debt	1,739,355	1,651,238
Restricted for debt service & other	91,415	93,757
Unrestricted	92,691	78,890
Total net assets	<u>\$ 1,923,461</u>	<u>\$ 1,823,885</u>

Statement of Activities

	FY09	FY08
Revenues:		
Program revenues		
Water Fund charges for services	\$ 412,741	\$ 371,542
General Fund charges for services	161,851	135,659
Grants and contributions	123,100	5,000
General revenues	192,971	237,081
Total Revenues	<u>890,663</u>	<u>749,282</u>
Expenses:		
General government	209,632	184,954
Water, sewer, and sanitation	427,959	370,616
Emergency medical service	5,001	5,000
Police	154,280	214,322
Total Expenses	<u>796,872</u>	<u>774,892</u>
Increase (Decrease) in Net Assets	<u>\$ 93,791</u>	<u>\$ (25,610)</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The City's net assets increased from \$1,829,670 to \$1,923,461. 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 \$92,691 at September 30, 2009.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues for the City's general fund were \$382,933, while total expenditures were \$360,158. This resulted in an increase of revenues over expenditures of \$22,775 from current operations. Last year's result was an excess of expenditures over revenues of \$21,734.

Operating revenues for the City's proprietary fund were \$412,741 while operating expenses were \$384,948. This resulted in an operating net income of \$27,793. Last year's result was an operating net loss of \$39,204. The change in net assets after non operating income and expense and transfers was \$111,302. The significant grant income of \$123,100 was the major contributor for the increase of net income. Last year's increase in net assets was \$10,106.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 10) reported a combined fund balance of \$5,056 compared to (\$16,872) in FY08. This represents an increase of \$21,928. The City's general fund revenues for FY09 were \$57,154 more than the previous year. The largest increase in revenues came from municipal court collections. The largest decrease in expenditures came from general government operations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for all activities as of September 30, 2009 amounts to \$2,481,145, compared to \$2,302,729 (net of accumulated depreciation) at September 30, 2008. This investment in capital assets includes land, buildings and improvements, street improvements, water and wastewater systems, equipment and vehicles. The total increase in the City's net investment in capital assets for the current fiscal year was \$178,416. Major capital asset activity during the current fiscal year included the street improvements, acquisition of machinery, furniture and equipment, and the acquisition of water and wastewater related items.

Long-term Debt

At year-end, the City had total bonded debt outstanding of \$575,000. Bond principal payments totaled \$40,000 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 2009-2010 fiscal year. The operating budget for the 2009-2010 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

The General Fund or Government Fund shows to be a little behind the Water Fund. The City made the decision to not raise property taxes this year due to the already increase in the water/wastewater rates to its citizens. Revenue from old outstanding warrants was down from earlier estimates but the Police and Court Clerk continued to work hard this year to clear out more of the older warrants. The Water Fund or Proprietary Fund realized an increase in revenue due to the decision to increase water/wastewater and tap fees in late 2008. A submersible pump was installed at the Whispering Oaks lift station which eliminated many man hours of repairing every month. Over the years, maintenance was overlooked on some of the city equipment and the decision was made to update/repair in order to stay ahead of the future problems. Water loss (difference in gallons pumped and gallons sold) has been unaccounted for in the city for over 20 years with as much as 40%, and this continues to be an issue for the city. With the resignation of the Public Works Supervisor last fall, the city reduced its Public works employees to two employees who are battling the water loss issue while maintaining all required records for the state. The Public Works employees have been checking/repairing leaks on a weekly basis and due to increased awareness/knowledge of the overall city and its water lines locations, and are working more aggressively. The city decided to start the 1st ever Water and Wastewater Capital Fund of which the city budgeted \$4500 for the year. Actual funding was \$3000. Next year's budget will show Water and Wastewater Capital Funding as a separate line item and will be considered a Capital Fund item. The General Fund has a Capital Fund of \$3,024 due to an unexpected sales tax revenue from the county.

The \$125,000 matching ORCA grant of which was awarded to the city in March 2008 was completed this year in which the downtown water tower (the Icon of the city), enabling the city to meet TCEQ standards for the first time in many years. The new water lines going to the downtown water tower should carry the city's needs for many years to come. Ten new fire hydrants were installed around the city with the Public Works Department and the Tom Bean Volunteer Fire Department identifying the replacement hydrants. The city obtained a loan from the 1st National Bank of Tom Bean to fund the matching side of the ORCA grant.

The city has completed approximately 95% of the streets in Tom Bean and next year's budget of \$24,000 should continue on with the upgrade of the remaining city streets. The city plans to work with the county on a new hot-patching process to repair newly repaired streets which due to the rainy weather, potholes are now appearing. The city plans to stay on top of street repairs during the next year.

This year's budget was prepared differently than in the past years. Each department head was given the responsibility of coming up with their own budget and submitting to the Mayor in midsummer. At this time, several meetings were held and each area's budget was discussed/revised/approved. Each department head is now held responsible for maintaining their budget throughout the year and annual performance evaluations will include how they handled

their budgeted funds throughout the year. This type of responsibility was a challenge for each department head; now they feel like they have a vested part in making sure that their spending is within their allowed budget.

Due to budget constraints, the city was unable to purchase an integrated accounting software package for recordkeeping purposes but the plan is to include it in the next 2-3 years.

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 visit www.tombean.net.

Sherry Howard, Mayor
City of Tom Bean, Texas

City of Tom Bean, Texas
Statement of Net Assets
September 30, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 18,750	\$ 33,491	\$ 52,241
Accounts Receivable, net	-	38,835	38,835
Property Taxes Receivable, net	15,726	-	15,726
Court Receivable, net	17,513	-	17,513
Other Receivables, net	8,107	-	8,107
Prepaid Bond Issue Costs	-	12,704	12,704
Due from Other Funds		11,138	11,138
Restricted Assets:			-
Deposits held in Trust by GTUA	-	91,415	91,415
Capital Assets not being Depreciated:			
Land	7,000	9,850	16,850
Capital Assets net of Accumulated Depreciation:			
Buildings	66,686	-	66,686
Furniture and Fixtures	5,583	-	5,583
Machinery and Equipment	58,352	14,572	72,924
Public Infrastructure	982,942	1,336,160	2,319,102
Total Assets	<u>1,180,659</u>	<u>1,548,165</u>	<u>2,728,824</u>
LIABILITIES			
Accounts Payable & other current liabilities	24,687	4,517	29,204
Customer Deposits Payable	-	15,585	15,585
Due to Other Funds	11,138		11,138
Interest Payable		7,646	7,646
Noncurrent Liabilities:			-
Due within One Year	10,402	49,744	60,146
Due in More than One Year	12,028	669,616	681,644
Total Liabilities	<u>58,255</u>	<u>747,108</u>	<u>805,363</u>
NET ASSETS			
Investment in Capital Assets, net of			
Related Debt	1,098,133	641,222	1,739,355
Restricted for Fiscal Agent	-	91,415	91,415
Unrestricted	24,271	68,420	92,691
Total Net Assets	<u>\$ 1,122,404</u>	<u>\$ 801,057</u>	<u>\$ 1,923,461</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, 2009

				Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Functions/Programs	Expenses	Charges for Services					
Primary Government:							
Governmental Activities:							
General Government	\$ 209,652	\$ 10,261	\$ -	-	\$ (199,391)	-	\$ (199,391)
Police and Court	154,280	151,590	-	-	(2,690)	-	(2,690)
Emergency Medical Service	5,001	-	-	-	(5,001)	-	(5,001)
Total Governmental Activities	368,933	161,851	-	-	(207,082)	-	(207,082)
Business-Type Activities							
Water and Sewer - Debt Service	31,025	-	-	-	\$ (31,025)	(31,025)	(31,025)
Water and Sewer - Operating	396,934	412,741	-	-	15,807	15,807	15,807
Total Business-Type Activities	427,959	412,741	-	-	(15,218)	(15,218)	(15,218)
Component Units:							
Economic Development Corporation	-	-	-	-	-	-	-
Community Development Corporation	-	-	-	-	-	-	-
Total Component Units	-	-	-	-	-	-	-
Total Primary Government	\$ 796,892	\$ 574,592	\$ -	\$ -	(207,082)	(15,218)	(222,300)
General Revenues:							
				119,310	-	-	119,310
				General Property Taxes	32,946	-	32,946
				General Sales and Use Taxes	37,218	-	37,218
				Franchise Taxes	123,100	-	123,100
				Grant Proceeds	97	3,420	3,517
				Investment Earnings			
				Transfers In (Out)			
				Total General Revenues	189,571	126,520	316,091
				Change in Net Assets	(17,511)	111,302	93,791
				Net Assets - Beginning	1,139,915	689,755	1,829,670
				Net Assets - Ending	\$ 1,122,404	\$ 801,057	\$ 1,923,461

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

**City of Tom Bean, Texas
Balance Sheet
Governmental Funds
September 30, 2009**

	<u>General Fund</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 18,750
Receivables, Net:	
Property Taxes	15,726
Court	17,513
Other	<u>8,107</u>
Total Current Assets	<u>60,096</u>
Total Assets	<u><u>60,096</u></u>
LIABILITIES AND FUND BALANCES	
Current Liabilities:	
Accounts Payable	24,687
Due to public works fund	11,138
Deferred Revenue	<u>19,215</u>
Total Current Liabilities	<u>55,040</u>
Fund Balances:	
Unreserved	<u>5,056</u>
Total Fund Balances	<u><u>5,056</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 60,096</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, 2009

Fund Balance of Governmental Funds	\$ 5,056
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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
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Long term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in Governmental Funds.	(10,403)
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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.	(11,990)
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Net Assets of Governmental Activities	<u><u>\$ 1,122,404</u></u>
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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, 2009

	General Fund
REVENUES	
Taxes:	
Property	\$ 150,821
General Sales and Use	32,946
Franchise	37,218
Police Department and Court	151,590
Permits and Fees	4,030
Other Revenue	6,231
Interest Revenue	97
Total Revenues	<u>382,933</u>
EXPENDITURES	
Current:	
General Government	172,051
Police Department and Court	151,281
Emergency Medical Service	5,001
Debt Service:	-
Principal	10,403
Interest	1,405
Capital Outlay:	-
Police Equipment	6,458
Infrastructure	13,559
Total Expenditures	<u>360,158</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>22,775</u>
 Net Change in Fund Balance	 22,775
Fund Balance - Beginning	(17,719)
Fund Balance - Ending	<u>\$ 5,056</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, 2009

Net Change in Fund Balance - Total Governmental Funds	\$ 22,775
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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	20,017
Depreciation Expense	(39,195)

Principal Repayment of Long Term Debt	10,403
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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	(30,664)
Net Amounts Earned in Current Year	(847)

Change in net assets of governmental activities	<u>\$ (17,511)</u>
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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, 2009

	Proprietary Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 33,491
Prepaid Bond Issue Costs	12,704
Accounts Receivables, Net	38,835
Due from Other Funds	11,138
Total Current Assets	<u>96,168</u>
Restricted Assets:	
Restricted Cash	<u>91,415</u>
Total Restricted Assets	<u>91,415</u>
Capital Assets:	
Land	9,850
Improvements other than Buildings	
Furniture and Fixtures	1,500
Machinery and Equipment	74,915
Infrastructure	2,546,608
Less Accumulated Depreciation	<u>(1,272,291)</u>
Total Capital Assets, Net	<u>1,360,582</u>
Total Assets	<u><u>1,548,165</u></u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	4,517
Interest Payable	7,646
Customer Deposits Payable	15,585
Capital Lease - Current Portion	5,000
Contractual Obligation - Current Portion	44,744
Total Current Liabilities	<u>77,492</u>
Noncurrent Liabilities:	
Notes payable ORCA Match -Long Term Portion	130,993
Capital lease - long term portion payable ORCA Match -Long Term Portion	3,623
Contractual Obligation -Long Term Portion	535,000
Total Noncurrent Liabilities	<u>669,616</u>
Total Liabilities	<u><u>747,108</u></u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	641,222
Restricted Deposits	91,415
Unrestricted	68,420
Total Net Assets	<u><u>\$ 801,057</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, 2009

	<u>Proprietary Fund</u>
Operating Revenues:	
Charges for Sales and Services:	
Water	\$ 248,237
Sewer & Sanitation	164,504
Total Operating Revenues	<u>412,741</u>
Operating Expenses:	
Salaries and Wages	101,516
Utilities	75,911
Depreciation	83,557
Sanitation Plant Expense	35,188
Other Operating Expenses	18,086
Employee Benefits	25,070
Supplies, Maintenance & Repairs	45,620
Total Operating Expenses	<u>384,948</u>
Operating Income (Loss)	<u>27,793</u>
Nonoperating Sources (Uses)	
Bond Issuance Costs	(5,993)
Interest income	3,420
Grant proceeds	123,100
Interest Expense	<u>(37,018)</u>
Total Nonoperating Revenue (Expenses)	<u>83,509</u>
Income Before Transfers	111,302
Transfers In (Out)	
Change in Net Assets	<u>111,302</u>
Total Net Assets - Beginning	689,755
Total Net Assets - Ending	<u><u>\$ 801,057</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, 2009

	<u>Proprietary Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 412,741
Cash Paid to Employees	(101,516)
Cash Paid to Suppliers for Goods and Services	(214,617)
Net Cash Provided by Operating Activities	<u>96,608</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer from General Funds	-
Net Cash Provided by Noncapital Financing Activities	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Increase for Restricted Cash Account held by GTUA	1,747
Acquisition of Capital Assets	(270,022)
Proceeds from grants	123,100
Disposal of Capital Assets	(21)
Interest Paid on Capital Debt	(37,018)
Principal Paid on Capital Debt	94,616
Net Cash Provided (Used) by Capital and related Financing Activities	<u>(87,598)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	<u>3,420</u>
Net Cash Provided by Investing Activities	<u>3,420</u>
Net Increase (decrease) in Cash and Cash Equivalents	12,430
Cash and Cash Equivalents, October 1, 2008	<u>21,061</u>
Cash and Cash Equivalents, September 30, 2009	<u><u>\$ 33,491</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 27,793
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	83,557
(Increase) Decrease in Accounts Receivable	595
(Increase) Decrease in Due from other funds	(11,138)
Cash Used for Bond Issue Costs	(9,926)
Increase (Decrease) in Accounts Payable	(1)
Increase (Decrease) in Interest Payable	(704)
Increase (Decrease) in Other Current Liabilities	6,432
Net Cash Provided by Operating Activities	<u><u>\$ 96,608</u></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, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 a separate entity, 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:

1. 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.

2. Government-wide Fund Financial Statements

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.

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.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2009

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary (business-type activity) fund. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue when eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is made.

Governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as current assets. Gross receipts and sales taxes are considered measurable and recognizable when in the control of the intermediary collecting government that presents information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts, which are comprised of fund's assets, liabilities, fund equity, revenues and expenses, as appropriate. Government resources are allocated to and for individual funds based on the purposes and functions for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two broad fund categories as follows:

GOVERNMENTAL FUND TYPES

The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

ENTERPRISE FUND TYPES

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is to recover costs (expenses, including depreciation) of providing goods or services to the general public through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control accountability, or other purposes. The Water and Sewer Fund is accounted for under this fund type.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued, unless those pronouncements conflict with or contradict GASB pronouncements. 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:

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2009

4. Cash and Cash Equivalents

The City considers all cash on hand, demand deposits, and highly liquid investments available for current use with an initial maturity of three months or less to be cash and cash equivalents.

5. Inter-fund Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year is recorded as "Amounts Due To" and "Amounts Due From" other funds appropriately. The Water Fund owes the General Fund \$11,138 at September 30, 2009 for various operating expenses.

6. Property Taxes

Ad valorem taxes are levied on October 1st and are due and payable at that time. All unpaid taxes levied October 1st become delinquent February 1st of the following year. Property taxes attach as an enforceable lien on property as of January 1st. Property tax revenues are recognized when they become available. Available includes those property taxes receivable, which are expected to be collected within sixty days after year-end.

7. Bad Debts

The City uses the allowance method of recording wastewater, ambulance, court fines, and forfeiture bad debts. The City has established an allowance for doubtful accounts for delinquent taxes to the extent that their collection is improbable.

8. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods are recorded as prepaid in the government-wide fund financial statements.

9. Property, Plant and Equipment

Property, plant and equipment used in governmental fund type operations are shown on the statement of net assets, rather than governmental funds. Accumulated depreciation has been provided on such property, plant and equipment. Depreciation expense is allocated in the general fund by function and is included as expense on the statement of activities.

All property, plant and equipment are reported at historical cost or estimated historical cost if actual historical cost is not available. Property, plant and equipment acquired through donation are recorded at estimated fair value on the date of donation. Depreciation is provided in the enterprise funds in amounts sufficient to relate the cost of the depreciable assets to operations over the estimated service life on the straight-line basis. The service lives by asset classification are follows:

Furniture, Fixtures and Equipment	5-10 years
Buildings and Improvements	12-40 years
Public Infrastructure	20 years
Water and Sewer Systems	20-50 years
Water and Sewer Improvements	50 years

10. Compensated Absences

It is the City's policy to permit employees to accumulate certain earned but unused sick and holiday pay benefits. When an employee separates from service with the City, the employee is entitled to

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2009

receive pay for all earned but unused sick and holiday pay. All such vacation and sick pay is accrued when incurred in the government-wide financial statements. The amount is immaterial for the period.

11. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

12. Restricted Net Assets

The City reserves a portion of each fund's equity balance, which represents assets not available for general operating use. For the year ended September 30, 2009, the Water Fund's reserved portion of net assets totaled \$732,637. This amount includes funds held at GTUA to be used exclusively for water and sewer system capital projects and repayment of contractual obligations.

13. Budget and Budgetary Accounting

Prior to September 1, the City Council submits a proposed budget for the ensuing fiscal year. At the meeting of the City Council at which the budget is submitted, the City Council fixes the time and place of the public hearing on the budget and causes to be published a notice of the budget hearing. After the budget hearing the budget may be adopted by a favorable vote of the majority vote of the Council. The City adopts a budget for the Governmental Fund Type and the Proprietary Fund Type during the month of September.

NOTE B - CASH AND INVESTMENTS

As of September 30, 2009, 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, 2009, the City's deposits in its depository bank totaled \$362,936 with \$250,000 insured by the Federal Deposit Insurance Corporation. \$331,192 of securities has been pledged by the depository bank to collateralize all remaining deposits.

Reconciliation of Balance Sheet Cash:

Primary Government Cash on Balance Sheet	\$143,656
Restricted Cash and Investments on Balance Sheet	
(Less) Cash held by GTUA	(91,415)
(Less) Petty Cash on Balance Sheet	(200)
Deposits with Financial Institutions:	<u>\$52,041</u>

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2009

NOTE C – RECEIVABLES

Government-wide receivables as of September 30, 2009, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Proprietary Fund Water	Total
Receivables:			
Ad Valorem Taxes	\$ 16,828	\$ -	\$ 16,828
Sales Taxes	8,107	-	8,107
Fines and Forfeitures - Court	89,796	-	89,796
Ambulance Services		-	-
Other	5,972	-	5,972
Public Works	-	40,735	40,735
Gross Receivables	120,703	40,735	161,438
Less: Uncollectible Allowance	(79,357)	(1,900)	(81,257)
Net Total Receivables	<u>\$ 41,346</u>	<u>\$ 38,835</u>	<u>\$ 80,181</u>

NOTE D – PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the property, plant and equipment of the proprietary funds at September 30, 2009:

	Oct. 1, 2008	Additions	Deductions	Sept. 30, 2009
Land	\$9,850	\$ -	\$ -	\$9,850
Machinery & equipment	74,354	561	-	74,915
Furniture and fixtures	1,500		-	1,500
Infrastructure	2,266,009	280,599		2,546,608
Total Assets	2,351,713	281,160	-	2,632,873
Accumulated Depreciation	(1,188,725)	(83,566)		(1,272,291)
Total Net Assets	<u>\$1,162,988</u>	<u>\$197,594</u>	<u>\$ -</u>	<u>\$1,360,582</u>

Depreciation expense for the year ended September 30, 2009 is \$83,557.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2009

NOTE D – PROPERTY, PLANT AND EQUIPMENT (continued)

The following is a summary of changes in capital assets for governmental activities for the year ended September 30, 2009:

	Oct. 1, 2008	Additions	Deductions	Sept. 30, 2009
Land	\$7,000	\$ -	\$ -	\$7,000
Buildings	88,914			88,914
Improvements	132,505			132,505
Furniture and Equipment	28,317		-	28,317
Machinery & Equipment	157,437	\$ 6,458		163,895
Infrastructure	1,332,476	13,559	-	1,346,035
Total Assets	1,746,649	20,017	-	\$1,766,666
Accumulated Depreciation	(606,908)	(39,195)	-	(646,103)
Total Net Assets	\$1,139,741	(\$19,178)	\$ -	\$1,120,563

Depreciation for general fixed assets is included as an expense for governmental activities on the statement of activities. Depreciation is allocated to each governmental function of the primary government as follows:

Police and court	\$ 12,455
Furniture and fixtures	1,540
Machinery & equipment	7,253
Infrastructure	17,947
Total	<u>\$ 39,195</u>

NOTE E – DELINQUENT PROPERTY TAX

Delinquent property taxes at September 30, 2009, are as follows:

Tax Year	Amount
2007 and prior	\$ 10,097
2008	6,731
Subtotal	16,828
Less allowance for doubtful accounts	(1,102)
	<u>\$ 15,726</u>

NOTE F – PROPERTY TAX REVENUE

Property and personal taxes are billed and collected by the Office of John Ramsey, Grayson County Tax Assessor/Collector. For the year ended September 30, 2009 the tax rate was \$.49980 per \$100 assessed valuation.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2009

NOTE G - RETIREMENT PLAN

Plan Description

The City provides pension benefits for full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 833 administered by TMRS, an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues publically available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition the report is available on TMRS' website at www.TMRS.com.

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/her salary in the last three years that are one year before the effective date. At retirement (any age with 20 years of service), 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 1.5
Member Vested After:	5 years of service
Retirement Eligibility:	Minimum age 60 with 5 years of service Any age with 25 years of service

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and the prior service contribution rate include recognition of the projected impact of annually repeating the benefits, such as Updated Service Credits and Annuity Increases. The City contributes to the TMRS Plan at an actuarial determined 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, 2008 valuation is effective for rates beginning January 2009). The annual pension cost and net pension obligation/asset are as follows:

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2009

NOTE G - RETIREMENT PLAN (continued)

Schedule of Actuarial Liabilities and Funding Progress

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2006</u>
Actuarial Valuation Date			
Actuarial Value of Assets	\$ 406,763	\$ 78,570	\$ 87,965
Actuarial Accrued Liability	\$ 391,144	\$ 106,101	\$ 125,769
Unfunded Actuarial Accrued Liability	(15,619)	(27,531)	(37,804)
Percentage funded	104.00%	74.05%	69.94%
Annual Covered Payroll	\$ 494,015	\$ 147,134	\$ 189,226
Ratio of Unfunded to Annual Covered Payroll	-3.16%	18.71%	19.98%
Net Pension Obligation at Beginning of Period	-	-	-
Annual Required Contribution (ARC)	\$ 7,706	\$ 7,706	\$ 7,706
Contributions Made	20,717	24,335	19,433
NPO at the End of the Period	\$ -	\$ -	\$ -

NOTE H – CHANGES IN LONG-TERM LIABILITIES

The following is a summary of the changes in long-term liabilities for the year ended September 30, 2009:

Governmental Activities

	Balance			Balance	Amounts
	10/1/2008	Additons	Retirements	9/30/2009	Due in One Year
Leases Payable	\$ 32,860	-	\$ (10,430)	\$ 22,430	\$ 10,430

Business-Type Activities (Water Fund)

	Balance			Balance	Amounts
	10/1/2008	Additons	Retirements	9/30/2009	Due in One Year
Note Payable	\$ -	\$ 147,000	\$ (6,263)	\$ 140,737	\$ 9,744
Totals	\$ -	\$ 147,000	\$ (6,263)	\$ 140,737	\$ 9,744

NOTE I – PROPRIETARY FUND LONG-TERM CONTRACTUAL OBLIGATIONS

The City entered into two separate long-term water supply and sewer service contracts with Greater Texoma Utility Authority (GTUA) on October 3, 2000 and June 1, 1988. The City has an obligation to make payments specified by the contract to GTUA to pay the principal and interest on the bonds, maintain a Reserve Fund for the security and payment of bonds similarly secured, and pay the administrative and overhead expenses by GTUA in connection with the bonds.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2009

Under the terms of the contracts, the City's obligation to make payments to GTUA terminates when all GTUA bonds issued in connection with construction of the facilities have been paid in full, are retired, and are no longer outstanding.

The original principal obligation of the series 2000 contract was \$500,000, with interest rates of 4.74%. As of September 30, 2009, the principal balance of the obligation was \$455,000. The City's obligation to GTUA under the 2000 contract expires with the retirement of the GTUA bonds in the fiscal year ending July 1, 2020.

The original principal obligation of the 1988 contract was \$480,000, with interest rates 7.44%. As of September 30, 2009, the principal balance of the obligation was \$120,000. The City's obligation to GTUA under the 1988 contract expires with the retirement of the GTUA bonds in the fiscal year ending July 1, 2012.

1988 Series Wastewater Debt		
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
9/30/2010	\$ 35,000	\$ 9,000
9/30/2011	40,000	6,375
9/30/2012	45,000	3,375
Totals	120,000	18,750

2000 Series Wastewater Debt		
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
9/30/2010	5,000	21,583
9/30/2011	5,000	21,370
9/30/2012	5,000	21,152
9/30/2013	45,000	16,583
2014-2019	330,000	76,467
9/30/2020	65,000	3,185
Totals	\$ 455,000	\$ 160,340

NOTE J – NOTES AND CAPITAL LEASES PAYABLES

On September 19, 2008, the City of Tom Bean entered a three-year lease-purchase agreement for the purchase of a police car. The original principal balance was \$32,833 and the lease carried an interest rate of 5.00%. Interest expense for the year was \$872 and the remaining principal balance of the lease is \$22,430 at September 30, 2009.

NOTE K – INSURANCE COVERAGE

The Texas Municipal League Inter-Governmental Risk Pool provides insurance coverage for the City. For the period October 1, 2008 to September 30, 2009 the City maintained insurance coverage as follows:

<i>Type of Coverage</i>		
General Liability	Errors & Omissions Liability	Law Enforcement Liability
Automobile Liability	Real & Personal Property	
Auto Physical Damage	Mobile Equipment	

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2009

NOTE L – RESTATEMENT OF FUND BALANCES

The fund balances were restated at September 30, 2008 due to changes in general fund deferred revenue and public works fund original cost of infrastructure as follows:

	As restated	Original audited fund balance
General Fund	\$ (17,719)	\$ (16,782)
Public Works	\$ 689,755	\$ 684,728

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, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Property Taxes	\$ 147,776	\$ 150,605	\$ 150,821	\$ 216
General Sales and Use Taxes	42,000	42,000	32,946	(9,054)
Police Department and Court	165,000	165,000	151,590	(13,410)
Franchise Taxes	45,000	45,000	37,218	(7,782)
Permits and Fees	8,374	8,374	10,358	1,984
Total Revenues	408,150	410,979	382,933	(28,046)
EXPENDITURES				
General Government	192,029	196,746	172,051	24,695
Emergency & Medical Service	5,000	5,000	5,001	(1)
Police Department and Court	168,349	168,109	151,281	16,828
Debt Service	13,140	13,121	11,808	1,313
Capital Outlay	22,275	22,244	20,017	2,227
Total Expenditures	400,793	405,220	360,158	45,062
Excess (Deficiency) of Revenues over Expenditures	7,357	5,759	22,775	17,016
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	-	-	-	-
Total Other financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	\$ 7,357	\$ 5,759	\$ 22,775	\$ 17,016

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

GREGG & COMPANY

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AMERICAN INSTITUTE OF CPAs

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, 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, 2009, which collectively comprise the City of Tom Bean, Texas's financial statements and have issued our report thereon dated April 6, 2010. 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's 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.

- 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's 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 April 6, 2010.

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
April 6, 2010