

CITY OF TOM BEAN, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2010

**City of Tom Bean, Texas
Annual Financial Report
For the Year Ended September 30, 2010**

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..... | 17-29 |
| <u>Required Supplementary Information:</u> | |
| Budgetary Comparison Schedule - General Fund..... | 30 |

LAFOLLETT & COMPANY PLLC

CERTIFIED PUBLIC ACCOUNTANTS

118 COTTONBELT ROAD

P.O. BOX 717

TOM BEAN, TX 75489-0717

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

Independent Auditor's Report

To the Council
City of Tom Bean, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Tom Bean, Texas (the City), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these 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 activity, each major fund, and the aggregate remaining fund information of the City of Tom Bean, Texas, as of September 30, 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 7 and 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Lafollett & Company PLLC

Tom Bean, Texas
April 7, 2011

**City of Tom Bean, Texas
Management Discussion and Analysis
For the Year Ended September 30, 2010**

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, 2010. 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 FY10 by \$1,958,965. This is an increase in net assets of \$46,503 over FY09's net asset value, as restated, of \$1,912,462. Unrestricted net assets at the close of FY10 are \$105,809 and may be used to meet the City's ongoing obligations to citizens and creditors. This is an increase of \$24,117 over FY09's unrestricted net asset value of \$81,692.
- As of the close of the current fiscal year, the City's governmental funds reported on page 10 have an ending fund balance of \$32,140 due to a current year increase of \$38,083.

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. 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) 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, sales taxes, franchise taxes, and court fines finance most of these activities.

Business-Type Activities - The City uses proprietary (business-type) funds to account for its water, sewer, and sanitation 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 STATEMENTS COMPARISON

Below is a summary of FY2010 government-wide financial statements with a comparison to FY2009 balances:

City of Tom Bean-Statement of Activities

| Revenues: | FY10 | FY09 |
|-----------------------------------|------------|------------|
| Program revenues | | |
| Water Fund charges for services | \$ 397,468 | \$ 412,741 |
| General Fund charges for services | 159,647 | 161,851 |
| Grants and contributions | 22,545 | 123,100 |
| General revenues | 260,575 | 192,971 |
| Total Revenues | 840,235 | 890,663 |
| Expenses: | | |
| General government | 210,915 | 209,632 |
| Water, sewer, and sanitation | 397,615 | 427,959 |
| Emergency medical service | 5,000 | 5,001 |
| Police | 180,202 | 154,280 |
| Total Expenses | 793,732 | 796,872 |
| Increase (Decrease) in Net Assets | \$ 46,503 | \$ 93,791 |

City of Tom Bean-Statement of Net Assets

| | FY10 | FY09 |
|---|--------------|--------------|
| Current and other assets | \$ 272,038 | \$ 247,679 |
| Capital assets | 2,475,807 | 2,481,145 |
| Total assets | 2,747,845 | 2,728,824 |
| Current payables & other liabilities | 76,975 | 74,572 |
| Long-Term Liabilities | 711,905 | 741,790 |
| Total Liabilities | 788,880 | 816,362 |
| Net assets: | | |
| Invested in capital assets, net of debt | 1,760,279 | 1,739,355 |
| Restricted for debt service & other | 92,877 | 91,415 |
| Unrestricted (restated) | 105,809 | 81,692 |
| Total net assets | \$ 1,958,965 | \$ 1,912,462 |

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The City's net assets increased from \$1,912,462 to \$1,958,965. 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 \$105,809 at September 30, 2010. Ninety percent (90%) of the City's net assets are invested in capital assets; land, streets, water systems, buildings, vehicles and other equipment, less any outstanding debt used to acquire these assets.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues and other financing sources for the City's general fund were \$494,976, while total expenditures were \$456,893. This resulted in an increase of revenues over expenditures of \$38,083 from current operations. Last year's result was an excess of revenues over expenditures of \$22,775. The City's general fund revenues for FY10 were \$58,643 more than the previous year. The largest increase in revenues came from new 2010 grant income of \$22,545. Total expenditures increased \$96,735 from 2009 totals. One of the largest increases in expenditures came from a \$58,664 increase in capital outlays. Most of this increase relates to the acquisition of two new police vehicles.

The governmental fund (as presented in the balance sheet on page 10) reported a fund balance of \$32,140 compared to (\$5,943) in FY09. This represents an increase of \$38,083. This is an increase also resulted in a \$34,455 positive variance with the General Fund's budgeted results as shown on page 30.

Revenues for the City's proprietary fund were \$402,178 while expenses were \$397,615. This resulted in an increase in net assets of \$4,563 that is very consistent with the City's budgeted expectations. Last year's result was an increase in net assets of \$111,302. Non-recurring, significant grant income of \$123,100 in 2009 was the major reason for the exceptional results in 2009.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for all activities as of September 30, 2010 amounts to \$2,475,807, compared to \$2,481,145 (net of accumulated depreciation) at September 30, 2009. This investment in capital assets includes land, buildings and improvements, street improvements, water and wastewater systems, equipment and vehicles. Major capital asset activity during the current fiscal year included acquisition of police vehicles, building improvements, and water and sewer system improvements.

Long-term Debt

At year-end, the City's long-term debt consisted of contractual obligations and notes payable totaling \$711,905. One new \$53,400 note payable was issued for FY2010 in order to acquire new police vehicles. FY2010 principal payments totaled \$79,662 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 property tax and franchise tax revenue. Property taxes are the City's primary source of revenue in the general fund.

These revenues and other factors were considered in preparing the City's budget for the 2010-2011 fiscal year. The operating budget for the 2010-2011 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. Each department head continued to have the responsibility of coming up with their own budget and submitting to the Mayor in midsummer. Each area's budget was discussed, revised, and approved. Each department head is held responsible/accountable for maintaining their budget throughout the year and annual performance evaluations include how they handled their budgeted funds throughout the year.

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 Governmental Type Fund shows to be a little behind the Water Fund or Proprietary Type Fund. The City again 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 continued to be 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 continues to show an increase in revenue due to the decision to increase water/wastewater and tap fees in late 2008. 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. The City hired a company to check/evaluate the condition of the Whitemound well since it had not been serviced in many years. Problems were found and the City is prepared to add this repair expense to next year's budget. 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 but plans are to find a company to help with this situation next fiscal period. 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, they have continued to work aggressively and have found several major leaks in the City and saved many lost gallons of water this year. Many older water meters were changed out this year for more accurate readings (~70). This year's budget will show Water and Wastewater Capital Funding as a separate line item and will be considered a Capital Fund item.

The City purchased a surplus water pump truck from the Tom Bean Volunteer Fire Department to be used for flushing culverts, cleaning out liftstations, washing down equipment at the Waste Water plant and watering plants at the edge of town around the Chamber of Commerce signs.

The recent passing of the increase in sales tax for fiscal year 2011 (1%), this will help stimulate the growth and economic development of the City along with increasing the quality of life for our citizens. Type A Board of Directors and Type B Board of Directors will be comprised of volunteers from our area.

The City has completed approximately 98% 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 continue working with the county with the hot-patching process to repair newly repaired streets which due to the rainy/icy weather, potholes will continue to appear each year. The City plans to stay on top of street repairs during the future 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

BASIC FINANCIAL STATEMENTS

City of Tom Bean, Texas
Statement of Net Assets
September 30, 2010

| | Primary Government | | |
|---|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 39,263 | \$ 30,245 | \$ 69,508 |
| Property Taxes Receivable, net | 13,419 | - | 13,419 |
| Court Receivable, net | 12,664 | - | 12,664 |
| Sales Taxes Receivable, net | 9,501 | - | 9,501 |
| Other Receivables, net | 30,776 | 33,415 | 64,191 |
| Prepaid Bond Issue Costs, net | - | 11,151 | 11,151 |
| Internal Balances | (29,912) | 29,912 | - |
| Restricted Assets: | | | - |
| Deposits held in Trust by GTUA | - | 91,604 | 91,604 |
| Capital Assets not being Depreciated: | | | |
| Land | 7,000 | 9,850 | 16,850 |
| Capital Assets net of Accumulated Depreciation: | | | |
| Buildings | 84,597 | - | 84,597 |
| Furniture and Fixtures | 4,740 | - | 4,740 |
| Machinery and Equipment | 89,281 | 1,500 | 90,781 |
| Public Infrastructure | 967,921 | 1,310,918 | 2,278,839 |
| Total Assets | <u>1,229,250</u> | <u>1,518,595</u> | <u>2,747,845</u> |
| LIABILITIES | | | |
| Accounts Payable and Other Current Liabilities | 27,875 | 24,493 | 52,368 |
| Interest Payable | - | 6,936 | 6,936 |
| Customer Deposits Payable | - | 17,671 | 17,671 |
| Noncurrent Liabilities: | | | |
| Due within One Year | 48,030 | 173,875 | 221,905 |
| Due in More than One Year | - | 490,000 | 490,000 |
| Total Liabilities | <u>75,905</u> | <u>712,975</u> | <u>788,880</u> |
| NET ASSETS | | | |
| Investment in Capital Assets, net of | | | |
| Related Debt | 1,105,509 | 654,770 | 1,760,279 |
| Restricted for Court Security and Technology | 1,273 | - | 1,273 |
| Restricted GTUA deposits | - | 91,604 | 91,604 |
| Unrestricted | 46,563 | 59,246 | 105,809 |
| Total Net Assets | <u>\$ 1,153,345</u> | <u>\$ 805,620</u> | <u>\$ 1,958,965</u> |

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

City of Tom Bean, Texas
Statement of Activities
For the Year Ended September 30, 2010

| 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 | \$ 139,035 | \$ 4,658 | \$ - | \$ 22,545 | \$ (111,832) | \$ - | \$ (111,832) |
| Police | 180,202 | - | - | - | (180,202) | - | (180,202) |
| Court | 63,881 | 154,989 | - | - | 91,108 | - | 91,108 |
| Fire Protection and Ambulance | 11,075 | - | - | - | (11,075) | - | (11,075) |
| Interest on Long-Term Debt | 1,924 | - | - | - | (1,924) | - | (1,924) |
| Total Governmental Activities | 396,117 | 159,647 | - | 22,545 | (213,925) | - | (213,925) |
| Business-Type Activities | | | | | | | |
| Water, Sewer, and Sanitation Operations | 397,615 | 397,468 | - | - | - | (147) | (147) |
| Total Business-Type Activities | 397,615 | 397,468 | - | - | - | (147) | (147) |
| Total Primary Government | \$ 793,732 | \$ 557,115 | \$ - | \$ 22,545 | (213,925) | (147) | (214,072) |
| General Revenues: | | | | | | | |
| Property Taxes | | | | | 153,640 | - | 153,640 |
| General Sales and Use Taxes | | | | | 34,881 | - | 34,881 |
| Franchise Taxes | | | | | 50,150 | - | 50,150 |
| Miscellaneous | | | | | 17,006 | 1,900 | 18,906 |
| Investment Earnings | | | | | 188 | 2,810 | 2,998 |
| Transfers In (Out) | | | | | - | - | - |
| Total General Revenues | | | | | 255,865 | 4,710 | 260,575 |
| Change in Net Assets | | | | | 41,940 | 4,563 | 46,503 |
| Net Assets - Beginning | | | | | 1,122,404 | 801,057 | 1,923,461 |
| Prior Period Adjustment | | | | | (10,999) | - | (10,999) |
| Net Assets - Ending | | | | | \$ 1,153,345 | \$ 805,620 | \$ 1,958,965 |

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

**City of Tom Bean, Texas
Balance Sheet
Governmental Funds
September 30, 2010**

| | <u>General Fund</u> |
|--|--------------------------|
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 39,263 |
| Receivables, Net: | |
| Property Taxes | 13,820 |
| Court | 12,664 |
| Sales Taxes | 9,501 |
| Other | <u>30,776</u> |
| Total Current Assets | <u>106,024</u> |
| Total Assets | <u><u>106,024</u></u> |
| LIABILITIES AND FUND BALANCES | |
| Current Liabilities: | |
| Accounts Payable | 27,875 |
| Due to public works fund | 29,912 |
| Deferred Revenue | <u>16,097</u> |
| Total Current Liabilities | <u>73,884</u> |
| Fund Balances: | |
| Reserved | |
| Court Security and Technology | 1,273 |
| Unreserved | <u>30,867</u> |
| Total Fund Balances | <u>32,140</u> |
| Total Liabilities and Fund Balances | <u><u>\$ 106,024</u></u> |

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

City of Tom Bean, Texas
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
For the Year Ended September 30, 2010

| | |
|---|------------------|
| Fund Balance of Governmental Funds | \$ 32,140 |
|---|------------------|

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. | 1,153,539 |
|---|-----------|

| | |
|---|----------|
| Long term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in Governmental Funds. | (48,030) |
|---|----------|

| | |
|--|--------|
| 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. | 15,696 |
|--|--------|

| | |
|--|----------------------------|
| Net Assets of Governmental Activities | <u>\$ 1,153,345</u> |
|--|----------------------------|

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

City of Tom Bean, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2010

| | <u>General Fund</u> |
|---|-------------------------|
| REVENUES | |
| Taxes: | |
| Property | \$ 154,041 |
| General Sales and Use | 34,881 |
| Franchise | 50,150 |
| Municipal Court | 158,107 |
| Grants | 22,545 |
| Other Revenue | 21,664 |
| Interest Revenue | 188 |
| Total Revenues | <u>441,576</u> |
| EXPENDITURES | |
| Current: | |
| General Government | 113,413 |
| Police Department | 160,119 |
| Municipal Court | 63,881 |
| Emergency Medical Service | 5,000 |
| Fire protection | 6,075 |
| Debt Service: | |
| Principal | 27,800 |
| Interest | 1,924 |
| Capital Outlay: | |
| Infrastructure and Police Vehicles | 78,681 |
| Total Expenditures | <u>456,893</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(15,317)</u> |
| OTHER FINANCING SOURCES/(USES) | |
| Loan proceeds | <u>53,400</u> |
| Net Change in Fund Balance | 38,083 |
| Fund Balance - Beginning | 5,056 |
| Prior Period Adjustment | (10,999) |
| Fund Balance - Ending | <u>\$ 32,140</u> |

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

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, 2010

Net Change in Fund Balance - Total Governmental Funds **\$ 38,083**

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.

| | |
|--|----------|
| Net Capital Assets Added in Current Year | 78,861 |
| Depreciation Expense | (45,705) |

Governmental funds repayment of debt principal as an expenditure and proceeds of new debt as a financing source. However, in the Statement of Activities, these transactions are only considered changes in long-term debt balances.

| | |
|---------------------------------------|----------|
| Long-Term Debt Added in Current Year | (53,400) |
| Long-Term Debt Repaid in Current Year | 27,800 |

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.

| | |
|-----------------------------------|---------|
| Net Amounts Earned in Prior Years | (3,699) |
|-----------------------------------|---------|

| | |
|--|-------------------------|
| Change in net assets of governmental activities | <u>\$ 41,940</u> |
|--|-------------------------|

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

City of Tom Bean, Texas
Statement of Net Assets
Proprietary Fund
September 30, 2010

| | <u>Proprietary Fund</u> |
|---|------------------------------------|
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 30,245 |
| Accounts Receivables, Net | 33,415 |
| Prepaid Bond Issue Costs | 11,151 |
| Due from Other Funds | 29,912 |
| Total Current Assets | <u>104,723</u> |
| Restricted Assets: | |
| Restricted Cash Held by GTUA | 91,604 |
| Total Restricted Assets | <u>91,604</u> |
| Capital Assets: | |
| Land | 9,850 |
| Machinery, Furniture, and Equipment | 82,909 |
| Water and Sewer System | 2,587,582 |
| Less Accumulated Depreciation | (1,358,073) |
| Total Capital Assets, Net | <u>1,322,268</u> |
| Total Assets | <u>1,518,595</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | 24,493 |
| Interest Payable | 6,936 |
| Customer Deposits Payable | 17,671 |
| Notes payable ORCA Match -Current Portion | 128,875 |
| Contractual Obligation - Current Portion | 45,000 |
| Total Current Liabilities | <u>222,975</u> |
| Noncurrent Liabilities: | |
| Contractual Obligation - Long Term Portion | 490,000 |
| Total Noncurrent Liabilities | <u>490,000</u> |
| Total Liabilities | <u>712,975</u> |
| NET ASSETS | |
| Invested in Capital Assets, Net of Related Debt | 654,770 |
| Restricted Deposits with GTUA | 91,604 |
| Unrestricted | 59,246 |
| Total Net Assets | <u>\$ 805,620</u> |

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

City of Tom Bean, Texas
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2010

| | <u>Proprietary Fund</u> |
|---------------------------------------|------------------------------------|
| Operating Revenues: | |
| Charges for Sales and Services: | |
| Water | \$ 222,353 |
| Sewer | 113,602 |
| Sanitation | 42,694 |
| Late Charges, Connect Fees, and Other | 18,819 |
| Total Operating Revenues | <u>397,468</u> |
| Operating Expenses: | |
| Salaries and Benefits | 111,150 |
| Utilities | 70,812 |
| Depreciation | 85,782 |
| Sanitation Contract | 39,101 |
| Other Operating Expenses | 25,595 |
| Bad Debt | 2,759 |
| Supplies, Maintenance & Repairs | 24,884 |
| Total Operating Expenses | <u>360,083</u> |
| Operating Income (Loss) | <u>37,385</u> |
| Nonoperating Sources (Uses) | |
| Bond Issuance Costs | (1,553) |
| Interest income | 2,810 |
| Grant proceeds | 1,900 |
| Interest Expense | (35,979) |
| Total Nonoperating Revenue (Expenses) | <u>(32,822)</u> |
| Change in Net Assets | 4,563 |
| Total Net Assets - Beginning | 801,057 |
| Total Net Assets - Ending | <u><u>\$ 805,620</u></u> |

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

City of Tom Bean, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2010

| | Proprietary Fund |
|---|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash Received from Customers | \$ 402,888 |
| Cash Paid to Employees | (87,363) |
| Cash Paid to Suppliers for Goods and Services | (183,650) |
| Net Cash Provided by Operating Activities | <u>131,875</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Transfer (to) from General Fund | - |
| 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 | (189) |
| Acquisition of Capital Assets | (47,466) |
| Proceeds from grants | 1,900 |
| Interest Paid on Capital Debt | (36,689) |
| Principal Paid on Capital Debt | (51,862) |
| Net Cash Provided (Used) by Capital and related Financing Activities | <u>(134,306)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest Received | <u>2,810</u> |
| Net Cash Provided by Investing Activities | <u>2,810</u> |
| Net Increase (decrease) in Cash and Cash Equivalents | 379 |
| Cash and Cash Equivalents, October 1, 2009 | <u>33,491</u> |
| Cash and Cash Equivalents, September 30, 2010 | <u>\$ 33,870</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | |
| Operating Income (Loss) | \$ 37,385 |
| Adjustments to Reconcile Operating Income to Net Cash | |
| Provided (Used) by Operating Activities | |
| Depreciation Expense | 85,782 |
| (Increase) Decrease in Accounts Receivable | 5,420 |
| (Increase) Decrease in Due from other funds | (18,774) |
| Increase (Decrease) in Accounts Payable | 19,978 |
| Increase (Decrease) in Other Current Liabilities | 2,084 |
| Net Cash Provided by Operating Activities | <u><u>\$ 131,875</u></u> |

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

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2010

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, streets, sanitation, public improvements, planning and zoning, and general administrative services. Proprietary Funds are used to account for the operations of the City's water, sewer, and sanitation services. 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's Community Development Corporation (CDC) and Economic Development Corporation (EDC) are component units of the City. Both the EDC and CDC were created in late fiscal year 2010 and both had no 2010 financial transactions. Therefore, no component unit information is presented in these financial statements.

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.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 proprietary fund type. 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 applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued, unless those pronouncements conflict with or contradict GASB pronouncements.

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. Interfund 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 General Fund owes the Water Fund \$29,912 at September 30, 2010 for various operating expenses.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 water, 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 with a cost greater than \$1,000 and useful life over one year is capitalized and depreciated over its useful life. 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 is 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 |

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Compensated Absences

It is the City's policy to not carryover any unused employee vacation time as of each fiscal year-end. Therefore, there is no accrued compensated absences liability shown on these financial statements.

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 Fund Balances and 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, 2010, the Water Fund's reserved portion of net assets totaled \$91,604. This amount includes funds held at GTUA to be used exclusively for water and sewer system capital projects and repayment of contractual obligations. The General Fund also has \$1,273 that is restricted for court security and technology.

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, 2010, the City maintains 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, 2010, the City's deposits in its depository bank totaled \$69,308 with the full balance insured by the Federal Deposit Insurance Corporation.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2010

NOTE B - CASH AND INVESTMENTS (continued)

Reconciliation of Balance Sheet Cash:

| | |
|--|------------------|
| Primary Government Cash on Balance Sheet | \$ 161,112 |
| Restricted Cash and Investments on Balance Sheet | |
| (Less) Cash Deposits Held by GTUA | (91,604) |
| (Less) Petty Cash on Balance Sheet | (200) |
| Deposits with Financial Institutions: | <u>\$ 69,308</u> |

NOTE C – RECEIVABLES

Government-wide receivables as of September 30, 2010, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Proprietary Fund | Totals |
|-------------------------------|------------------|---------------------|------------------|
| Receivables: | | | |
| Franchise taxes | \$ 8,231 | \$ - | \$ 8,231 |
| Ad valorem taxes | 13,820 | - | 13,820 |
| Sales taxes | 9,501 | - | 9,501 |
| Court | 78,173 | - | 78,173 |
| Other | 22,545 | - | 22,545 |
| Accounts | - | 38,074 | 38,074 |
| Gross receivables | <u>132,270</u> | <u>38,074</u> | <u>170,344</u> |
| Less: Uncollectible allowance | (65,910) | (4,659) | (70,569) |
| Net total receivables | <u>\$ 66,360</u> | <u>\$ 33,415</u> | <u>\$ 99,775</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, 2010:

| | October 1, 2009 | Additions | Deletions | September 30, 2010 |
|------------------------------------|---------------------|--------------------|-------------|-----------------------|
| Capital assets, non-depreciable | | | | |
| Land | \$ 9,850 | \$ - | \$ - | \$ 9,850 |
| Capital assets, being depreciated | | | | |
| Machinery & equipment | 74,915 | 6,495 | - | 81,410 |
| Furniture & fixtures | 1,500 | - | - | 1,500 |
| Water & sewer system | <u>2,546,608</u> | <u>40,971</u> | <u>-</u> | <u>2,587,579</u> |
| Total business-type capital assets | 2,632,873 | 47,466 | - | 2,680,339 |
| Less: accumulated depreciation | (1,272,291) | (85,782) | - | (1,358,073) |
| Business-type capital assets, net | <u>\$ 1,360,582</u> | <u>\$ (38,316)</u> | <u>\$ -</u> | <u>\$ 1,322,266</u> |

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2010

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, 2010:

| | October 1, 2009 | Additions | Deletions | September 30, 2010 |
|---|---------------------|------------------|-------------|-----------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 7,000 | \$ - | \$ - | \$ 7,000 |
| Capital assets, being depreciated | | | | |
| Parks | 46,223 | - | - | 46,223 |
| Buildings | 88,914 | 22,545 | - | 111,459 |
| Other improvements | 86,282 | - | - | 86,282 |
| Vehicles and equipment | 163,895 | 52,358 | - | 216,253 |
| Streets and other infrastructure | 1,346,035 | 3,779 | - | 1,349,814 |
| Furniture and fixtures | 28,317 | - | - | 28,317 |
| Total capital assets | 1,766,666 | 78,682 | - | 1,845,348 |
| Less: accumulated depreciation | (646,103) | (45,705) | - | (691,808) |
| Governmental capital assets, net | \$ 1,120,563 | \$ 32,977 | \$ - | \$ 1,153,540 |

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:

| | |
|--------------------|------------------|
| Public Safety | \$ 20,083 |
| General Government | 25,622 |
| Total | <u>\$ 45,705</u> |

NOTE E – 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, 2010 the tax rate was \$.49998 per \$100 assessed valuation.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2010

NOTE F - 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 hundreds 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 |
| Member Vested After: | 5 years of service |
| Retirement Eligibility: | Minimum age 60 with 5 years of service. Any age with 20 years of service |

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2010

NOTE F - RETIREMENT PLAN (continued)

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, 2009 valuation is effective for rates beginning January 2010). The annual pension cost and net pension obligation/asset are as follows:

Schedule of Actuarial Liabilities and Funding Progress

| <u>Actuarial Valuation Date</u> | <u>12/31/2009</u> | <u>12/31/2008</u> | <u>12/31/2007</u> |
|---|-------------------|-------------------|-------------------|
| Value of Assets | \$ 111,165 | \$ 94,833 | \$ 78,570 |
| Accrued Liability | 134,724 | 118,071 | 106,101 |
| (Unfunded) Accrued Liability | \$ (23,559) | \$ (23,238) | \$ (27,531) |
| Percentage Funded | 82.5% | 80.3% | 92.5% |
| Annual Covered Payroll | \$ 217,224 | \$ 218,253 | \$ 147,134 |
| Ratio of Unfunded to Annual Covered Payroll | 10.8% | 10.6% | 18.7% |
| <u>Financial Year Ended September 30,</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| Contributions Made | \$ 6,265 | \$ 5,598 | \$ 3,774 |

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2010

NOTE G – LONG-TERM LIABILITIES

The following is a summary of the changes in long-term liabilities for the year ended September 30, 2010:

Governmental Activities

| <u>Description</u> | <u>Interest Rate Payable</u> | <u>Balance October 1, 2009</u> | <u>Additions</u> | <u>Retired</u> | <u>Balance September 30, 2010</u> | <u>Due Within One Year</u> |
|--------------------------------|--------------------------------------|--|------------------|----------------|---|------------------------------------|
| Note Payable - Crown Victorias | 5.0% | \$ 22,430 | \$ - | \$ (22,430) | \$ - | \$ - |
| Demand Note Payable - Trucks | 5.0% | - | 53,400 | (5,370) | 48,030 | 9,564 |
| | | \$ 22,430 | \$ 53,400 | \$ (27,800) | \$ 48,030 | \$ 9,564 |

On September 19, 2008, the City of Tom Bean entered a loan agreement for the purchase of police cars. The original principal balance was \$32,833 and the loan was paid off early in 2010. On February 22, 2010, the City entered into a \$53,400 loan agreement to purchase two police trucks. The note is payable upon demand, but if no demand is made, there will be sixty-two monthly payments and will mature on April 22, 2015. Collateral for these City notes are the related financed vehicles.

The following is a schedule of future vehicle demand note payable payments:

| <u>Year Ending September 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|------------------|-----------------|--------------|
| 2011 | \$ 9,564 | \$ 2,184 | \$ 11,748 |
| 2012 | 10,049 | 1,699 | 11,748 |
| 2013 | 10,568 | 1,180 | 11,748 |
| 2014 | 11,109 | 639 | 11,748 |
| 2015 | 6,740 | 113 | 6,853 |
| Totals | \$ 48,030 | \$ 5,815 | \$ 53,845 |

Due to the demand provisions of this note, the entire \$48,030 balance is presented as current portions of long-term debt on the statement of net assets.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2010

NOTE G – LONG-TERM LIABILITIES (continued)

Business-Type Activities (Proprietary Fund)

| <u>Description</u> | <u>Interest Rate Payable</u> | <u>Balance October 1, 2009</u> | <u>Additions</u> | <u>Retired</u> | <u>Balance September 30, 2010</u> | <u>Due Within One Year</u> |
|--------------------------------|--------------------------------------|--|------------------|----------------|---|------------------------------------|
| GTUA Contractual Obligations: | | | | | | |
| Series 1988 Obligation | 7.44% | \$ 120,000 | \$ - | \$ (35,000) | \$ 85,000 | \$ 40,000 |
| Series 2000 Obligation | 4.74% | 455,000 | - | (5,000) | 450,000 | 5,000 |
| Total Contractual Obligations: | | 575,000 | - | (40,000) | 535,000 | 45,000 |
| Notes Payable: | | | | | | |
| ORCA demand note payable | 4.50% | 140,737 | - | (11,862) | 128,875 | 8,073 |
| Total Long-Term Debt: | | \$ 715,737 | \$ - | \$ (51,862) | \$ 663,875 | \$ 53,073 |

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.

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%. 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%. 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.

On January 7, 2009, the City of Tom Bean entered into a \$147,000 note agreement to finance the City's matching portion required for a state grant. The note is payable upon demand, but if no demand is made, then there will be one-hundred and forty-four (144) monthly payments and mature in January of 2021. The loan's interest rate is 4.5% at September 30, 2010. The rate is adjusted annually to equal the Wall Street Journal's published prime rate, but may not go below 4.5% or above 12%. Collateral for the note is proprietary fund accounts receivable.

City of Tom Bean, Texas
Notes to the Financial Statements
September 30, 2010

NOTE G – LONG-TERM LIABILITIES (continued)

The following is a schedule of future GTUA payments:

| <u>Year Ending September 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|-------------------|-------------------|-------------------|
| 2011 | \$ 45,000 | \$ 27,745 | \$ 72,745 |
| 2012 | 50,000 | 24,527 | 74,527 |
| 2013 | 45,000 | 20,930 | 65,930 |
| 2014 | 50,000 | 18,882 | 68,882 |
| 2015 | 50,000 | 16,582 | 66,582 |
| 2016-2020 | 295,000 | 44,188 | 339,188 |
| Totals | <u>\$ 535,000</u> | <u>\$ 152,854</u> | <u>\$ 687,854</u> |

The following is a schedule of future ORCA note payable payments:

| <u>Year Ending September 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|-------------------|------------------|-------------------|
| 2011 | \$ 8,073 | \$ 7,804 | \$ 15,877 |
| 2012 | 10,645 | 5,232 | 15,877 |
| 2013 | 11,149 | 4,728 | 15,877 |
| 2014 | 11,661 | 4,216 | 15,877 |
| 2015 | 12,196 | 3,681 | 15,877 |
| 2016-2020 | 69,908 | 9,476 | 79,384 |
| 2021 | 5,243 | 44 | 5,287 |
| Totals | <u>\$ 128,875</u> | <u>\$ 35,179</u> | <u>\$ 164,054</u> |

Due to the demand provisions of the ORCA note, the entire \$128,875 balance is presented as current portions of long-term debt on the financial statements.

NOTE H – INSURANCE COVERAGE

The Texas Municipal League Inter-Governmental Risk Pool provides insurance coverage for the City. For the period October 1, 2009 to September 30, 2010 the City maintained insurance coverage as follows:

Type of Coverage

| | | |
|----------------------|------------------------------|---------------------------|
| 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, 2010

NOTE I – PRIOR PERIOD ADJUSTMENTS

The General Fund balance was restated at September 30, 2009 due to the identification of an unaccrued liability at that date. The following are the original and restated balances:

| | <u>As restated</u> | <u>Original audited balance</u> |
|------------------------------------|--------------------|---------------------------------|
| General Fund balance | \$ (5,943) | \$ 5,056 |
| Governmental Activities net assets | \$1,111,405 | \$1,122,404 |

NOTE J – SUBSEQUENT EVENTS

On March 14, 2011, the ORCA note payable described at Note G above was paid off with the issuance of a new bank note payable in the amount of \$183,766. In addition to retiring all \$123,766 of ORCA note debt remaining on that date, the note also provided an additional \$60,000 of funding for the City to make water well improvements. The note has a fixed 4.5% interest rate and is secured by accounts receivable for the proprietary fund. The terms of the agreement allow the bank to demand payment in full at any time, but if no such demand is made, this will be a thirteen year note with monthly payments and will mature on March 14, 2024.

REQUIRED SUPPLEMENTARY INFORMATION

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, 2010

| | <u>Budgeted Amounts</u> <u>Original & Final</u> | <u>Actual</u> <u>Amounts</u> | <u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u> |
|---|--|---------------------------------|---|
| REVENUES | | | |
| Police Department and Court | \$ 150,100 | \$ 158,107 | \$ 8,007 |
| Property Taxes | 160,414 | 154,041 | (6,373) |
| Franchise Taxes | 42,000 | 50,150 | 8,150 |
| Grants, Permits and Other | 3,785 | 44,397 | 40,612 |
| General Sales and Use Taxes | 36,000 | 34,881 | (1,119) |
| Total Revenues | <u>392,299</u> | <u>441,576</u> | <u>49,277</u> |
| EXPENDITURES | | | |
| Police Department | 150,271 | 160,119 | (9,848) |
| General Government | 124,542 | 113,413 | 11,129 |
| Court | 64,850 | 63,881 | 969 |
| Fire Protection | 6,200 | 6,075 | 125 |
| Emergency & Medical Service | 5,000 | 5,000 | - |
| Debt Service | 11,808 | 29,724 | (17,916) |
| Capital Outlay | 26,000 | 78,681 | (52,681) |
| Total Expenditures | <u>388,671</u> | <u>456,893</u> | <u>(68,222)</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>3,628</u> | <u>(15,317)</u> | <u>(18,945)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Loan Proceeds | - | 53,400 | 53,400 |
| Total Other financing Sources (Uses) | <u>-</u> | <u>53,400</u> | <u>53,400</u> |
| Net Change in Fund Balances | <u>\$ 3,628</u> | <u>\$ 38,083</u> | <u>\$ 34,455</u> |

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