

**CITY OF QUITMAN, TEXAS**

**ANNUAL  
FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**CITY OF QUITMAN, TEXAS  
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## **INTRODUCTORY SECTION**

Honorable Mayor and City Council  
City of Quitman  
Quitman, Texas

Mayor and Council Members:

The Annual Financial Report of the City of Quitman, Texas, for the year ended September 30, 2010, is submitted herewith. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City, on a Government-wide and Fund basis. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City has prepared its financial statements under the GASB 34 reporting model required for governmental financial reporting. The reporting model issued by the Governmental Accounting Standards Board requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A).

The annual financial report is presented in two sections: introductory and financial. The introductory section includes this transmittal letter, the City's organizational chart, and a list of principal officials. The financial section includes the MD&A, Government-wide and Major Fund presentations, Required Supplementary Information, Combining Individual Fund Statements, as well as the independent auditors' report on the financial statements and schedules.

#### GENERAL INFORMATION – CITY OF QUITMAN

The City of Quitman ("City") was incorporated under the provisions of the State of Texas. The City operates under a Council – Mayor form of government with significant authority for management and administration of the city being vested in the City Secretary - Administrator by ordinance.

The City's major operations include police and fire protection, parks and recreation, public works, library and general administrative services. In addition, the City owns and operates a water and sewer system.

## ECONOMIC CONDITIONS AND OUTLOOK

Quitman, Texas is a commercial center for farming and manufacturing. Given Quitman's pro-business attitude, the city continues to prosper economically. Highlights include an increase in tourism and retail-related activities during fiscal year 2009 – 2010.

## FINANCIAL INFORMATION

### Accounting Procedures and Budgetary Controls

The City's accounting records for general government are maintained on a modified accrual basis, with revenues being recorded when available and measurable, and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's water and sewer utility and other proprietary activities are maintained on the accrual basis.

The budgetary process begins each year with the preparation of revenue estimates for both the current and proposed year by the City Administrator, and expenditure estimates by each City department. Budgets are reviewed by the City Secretary - Administrator and Mayor. The City Secretary - Administrator prepares the budget at the direction of the mayor for presentation and action by the City Council.

As part of each year's budget development process, departments are required to update expenditure estimates for the current fiscal year. These estimates are reviewed by the City Secretary - Administrator and the City Council concurrent with review of the proposed budget. This re-estimated budget may require a supplemental appropriation and, if so, such supplemental appropriation is approved by ordinance adopted by the City Council prior to the end of the current fiscal year.

### General Governmental Functions

Tax Rates: All eligible property within the City is subject to assessment, levy, and collection by the City of a continuing, direct ad valorem tax sufficient to provide for the payment of operation and maintenance costs as approved by the City Council. The City's tax rate history as adopted by the City Council is shown below.

	<u>Tax Rate</u>
2006-2007	.4016
2007-2009	.4216
2009-2010	.4472
2010-2011	.4472

## OTHER INFORMATION

Independent Audit: The City of Quitman has engaged the firm of Acker & Company CPAs, to perform the annual audit and their opinion has been included in this report. It should be noted that the auditors included all funds in their audit, performed their audit in accordance with generally accepted auditing standards, and stated that in their opinion, the statements herein present fairly, in all material respects, the financial position of the City at September 30, 2010, and the changes in financial position and cash flows of its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Acknowledgements Many persons are responsible for the preparation of this report, and for the maintenance of records upon which it is based. Appreciation is expressed to the City employees who were instrumental in the successful completion of this report.

Our appreciation is also extended to the Mayor and City Council for providing the resources necessary to maintain the integrity of the City's financial affairs.

Respectfully Yours,

Mike Hall  
City Secretary - Administrator

**CITY COUNCIL**

Jerry Edwards, Mayor

Randy Bennett, Mayor Pro-Tem

Toni Cole, Alderman

Jerry Hirsch, Alderman

Richard Kleebauer, Alderman

Ronnie Wilson, Alderman

**ADMINISTRATIVE STAFF**

Mike Hall, City Secretary - Administrator

**INDEPENDENT AUDITORS' REPORT**

To the City Council  
City of Quitman, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Quitman, (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 of Quitman's, management. Our responsibility is to express an opinion on these financial statements based on our audit.

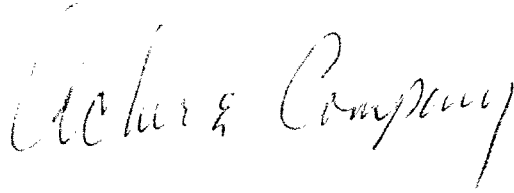
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of Quitman as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 7 through 14 and the respective budgetary comparison for the General Fund 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.



Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Quitman's basic financial statements. The Introductory Section, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in cursive script that reads "Ackler & Company".

ACKER & COMPANY  
Certified Public Accountants, PC  
February 11, 2011

## **FINANCIAL SECTION**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Quitman, we offer readers of the City of Quitman's financial statement this narrative overview and analysis of the financial activities of the City of Quitman for the fiscal year ended September 30, 2010. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follows this narrative.

### Financial Highlights

- The assets of the City of Quitman exceeded its liabilities at the close of the fiscal year by \$4,783,679 (net assets).
- The government's total net assets increased by \$153,439, due to an increase in public works net income.
- As of the close of the current fiscal year, the City of Quitman's governmental funds reported combined ending net assets of \$980,068, a slight increase in comparison with the prior year. Approximately 18% of this total amount, or \$181,309, is available for spending at the government's discretion (unreserved fund balance).
- The City of Quitman's total bonded debt decreased by (\$30,000) or 6% during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Quitman's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Quitman.

### Figure 1

#### (Components of Annual Financial Report)

#### Basis Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Basis Financial Statements** (continued)

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the city's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gage the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basis services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the utility services offered by the City of Quitman. The final category is the component unit. Currently, the City of Quitman has one component unit: The City of Quitman Economic Development Corporation.

The government-wide financial statements are on Exhibit 1 and 2 of this report.

### **Fund Financial Statements**

The fund financial statements (see Figure 2) provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Quitman, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or City's budget ordinance. All of the funds of the City of Quitman can be divided into two categories: governmental funds and proprietary funds.

### **Governmental Funds**

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Governmental Funds (continued)

provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps them determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reporting in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Quitman adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language and classifications as the legal budget document. The statement shows three columns: 1) the final budget as amended by the council; 2) the actual resources, charges to appropriations, and ending balances in the General Fund; and 3) the difference of variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

### Proprietary Funds

The City of Quitman has one proprietary fund, the Utility Fund. *Proprietary Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Quitman uses proprietary funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 28 to 41 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Government-wide Financial Analysis

The government-wide financial statements for the fiscal year ended September 30, 2010 reflect the implementation of GASB 34 financial reporting. Prior to its implementation the City maintained their governmental and proprietary fund groups as two separate and distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City of Quitman. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The City's net assets were as follows:

#### THE CITY OF QUITMAN'S NET ASSETS

(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	\$ 299	\$ 285	\$ 352	\$ 296	\$ 651	\$ 581
Capital Assets	780	841	4,039	4,042	4,819	4,883
Total Assets	<u>\$ 1,079</u>	<u>\$ 1,126</u>	<u>\$ 4,391</u>	<u>\$ 4,338</u>	<u>\$ 5,470</u>	<u>\$ 5,464</u>
Current Liabilities	\$ 96	\$ 83	\$ 362	\$ 390	\$ 458	\$ 473
Long-term Liabilities	3	80	225	281	228	361
Total Liabilities	<u>\$ 99</u>	<u>\$ 163</u>	<u>\$ 587</u>	<u>\$ 671</u>	<u>\$ 724</u>	<u>\$ 834</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ 728	\$ 714	\$ 3,434	\$ 3,434	\$ 4,162	\$ 4,148
Restricted	71	54	136	87	207	141
Unrestricted	181	195	234	146	415	341
Total Net Assets	<u>\$ 980</u>	<u>\$ 963</u>	<u>\$ 3,804</u>	<u>\$ 3,667</u>	<u>\$ 4,784</u>	<u>\$ 4,630</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Quitman exceeded liabilities by \$4,783,679 as of September 30, 2010. The City's net assets increased by \$153,439 for fiscal year ended September 30, 2010. The City of Quitman uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Quitman's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

### THE CITY OF QUITMAN'S NET ASSETS

#### Changes in Net Assets

	2010			2009		
	Governmental	Business	Total	Governmental	Business	Total
Total Revenue	\$ 1,128,101	\$ 1,156,383	\$2,284,484	\$ 1,131,477	\$ 1,171,990	\$2,303,467
Total Expense	<u>1,126,479</u>	<u>1,103,549</u>	<u>2,230,028</u>	<u>1,189,798</u>	<u>1,069,174</u>	<u>2,258,972</u>
	<u>\$ 1,622</u>	<u>\$ 52,834</u>	<u>\$ 54,456</u>	<u>\$ (58,321)</u>	<u>\$ 102,816</u>	<u>\$ 44,495</u>
Transfers and						
Intergovernmental	<u>\$ 15,103</u>	<u>\$ 83,880</u>	<u>\$ 98,983</u>	<u>\$ 44,324</u>	<u>\$ (35,660)</u>	<u>\$ 8,664</u>
Increase(decrease)						
in Net Assets	<u><u>\$ 16,725</u></u>	<u><u>\$ 136,714</u></u>	<u><u>\$ 153,439</u></u>	<u><u>\$ (13,997)</u></u>	<u><u>\$ 67,156</u></u>	<u><u>\$ 53,159</u></u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Governmental-type Activities

- Governmental activities increased the City's net assets by \$16,725, thereby accounting for .3% of the total change in the net assets of the City of Quitman.

### Business-type Activities

Business-type activities increased the City of Quitman's net assets by \$136,714. Key elements of this increase are as follows:

- Transfers from the General Fund.
- A small grant received in the current year.

### Financial Analysis of the City's Funds

As noted earlier, the City of Quitman uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### Governmental Funds

The focus of the City of Quitman's governmental fund is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Quitman's financing requirements. Specifically, unreserved fund balance can be a useful measure of the government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of Quitman. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$181,309. As a measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 18% of the total General Fund expenditures.

At September 30, 2010, the governmental funds of the City of Quitman reported a combined fund balance of \$252,475, a 3% increase from last year.

#### General Fund Budgetary Highlights

During the fiscal year, the City may revise the budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new fund amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### General Fund Budgetary Highlights (continued)

Revenues were more than the budgeted amounts mainly in the areas of grants. However, expenditures were also more than the budgeted amounts.

### Proprietary Fund

The City of Quitman's proprietary funds provide the same type of information found in the government-wide statements. Unrestricted net assets of the Utility Fund at the end of the fiscal year amounted to \$3,803,611.

### Capital Assets

The City of Quitman's investment in capital assets for its governmental and business-type activities as of September 30, 2010, totals \$4,817,003 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Equipment for Vehicles.
- Water System Improvements.

### CITY OF QUITMAN CAPITAL ASSETS AS OF SEPTEMBER 30, 2010

	Governmental Activities	Business Activities	Total
Land	\$ 54,345	\$ 45,208	\$ 99,553
Buildings	582,978	-	582,978
Machinery and Equipment	1,113,107	542,384	1,655,491
Water and Sewer System	-	7,200,838	7,200,838
Infrastructure	442,912	-	442,912
Accumulated Depreciation	(1,412,977)	(3,751,792)	(5,164,769)
<b>Total</b>	<b>\$ 780,365</b>	<b>\$ 4,036,638</b>	<b>\$ 4,817,003</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Long-term Debt**

As of September 30, 2010, the City of Quitman has total bonded debt outstanding of \$470,000.

**CITY OF QUITMAN  
OUTSTANDING BONDS  
AS OF SEPTEMBER 30, 2010**

Enterprise Funds	\$ 470,000
General Funds	<u>-</u>
Total	<u><u>\$ 470,000</u></u>

The City of Quitman's bonded debt decreased by \$30,000 (6%) during the past fiscal year.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF QUITMAN, TEXAS**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2010**

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
<b>Current Assets:</b>				
Cash, Including Time Deposits	\$ 225,139	\$ 227,363	\$ 452,502	\$ 126,696
Accounts Receivable	-	124,317	124,317	-
Accounts Receivable - Taxes	54,451	-	54,451	12,125
Other Receivables	19,648	-	19,648	-
Total Current Assets	<u>299,238</u>	<u>351,680</u>	<u>650,918</u>	<u>138,821</u>
<b>Noncurrent Assets:</b>				
Restricted Cash	-	-	-	-
Bond Discounts (Net of Amortization)	-	2,708	2,708	-
Capital Assets, Net of Depreciation	780,365	4,036,638	4,817,003	-
Total Noncurrent Assets	<u>780,365</u>	<u>4,039,346</u>	<u>4,819,711</u>	<u>-</u>
Total Assets	<u>1,079,603</u>	<u>4,391,026</u>	<u>5,470,629</u>	<u>138,821</u>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Bonds Payable - Current	-	245,000	245,000	-
Notes Payable - Current	49,558	36,066	85,624	-
Accounts Payable & Accrued Liabilities	46,764	81,349	128,113	-
Total Current Liabilities	<u>96,322</u>	<u>362,415</u>	<u>458,737</u>	<u>-</u>
<b>Noncurrent Liabilities:</b>				
Bonds Payable - Non-Current	-	225,000	225,000	60,000
Notes Payable - Non-Current	3,213	-	3,213	-
Total Noncurrent Liabilities	<u>3,213</u>	<u>225,000</u>	<u>228,213</u>	<u>60,000</u>
Total Liabilities	<u>99,535</u>	<u>587,415</u>	<u>686,950</u>	<u>60,000</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	727,593	3,433,824	4,161,417	-
Reserved	71,166	135,457	206,623	-
Unrestricted	181,309	234,330	415,639	78,821
Total Net Assets	<u>\$ 980,068</u>	<u>\$ 3,803,611</u>	<u>\$ 4,783,679</u>	<u>\$ 78,821</u>

See accompanying notes to financial statements.

**CITY OF QUITMAN, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Functions/Programs Activities Primary Government	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
<b>Governmental Activities:</b>								
General Government	\$ 178,788	\$ 4,054	\$ 55,000	\$ -	\$ (119,734)	\$ -	\$ (119,734)	\$ -
Police	386,432	68,388	20,778	-	(297,266)	-	(297,266)	-
Fire	151,769	-	-	-	(151,769)	-	(151,769)	-
Public Services and Operations	36,845	-	-	-	(36,845)	-	(36,845)	-
Library	106,968	10,985	8,081	-	(87,902)	-	(87,902)	-
Parks and Recreation	58,373	44,831	-	-	(13,542)	-	(13,542)	-
Public Works - Streets	207,304	-	-	-	(207,304)	-	(207,304)	-
Donation	-	-	-	-	-	-	-	-
<b>Total Governmental Activities</b>	<b>\$ 1,126,479</b>	<b>\$ 128,258</b>	<b>\$ 83,859</b>	<b>\$ -</b>	<b>\$ (914,362)</b>	<b>\$ -</b>	<b>\$ (914,362)</b>	<b>\$ -</b>
<b>Business-type Activities:</b>								
Water and Sewer	(1,103,549)	1,146,383	10,000	-	-	52,834	52,834	-
<b>Total Business-type Activities</b>	<b>\$ (1,103,549)</b>	<b>\$ 1,146,383</b>	<b>\$ 10,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 52,834</b>	<b>\$ 52,834</b>	<b>\$ -</b>
<b>Total Primary Government</b>	<b>\$ 22,930</b>	<b>\$ 1,319,228</b>	<b>\$ 93,859</b>	<b>\$ -</b>	<b>\$ (914,362)</b>	<b>\$ 52,834</b>	<b>\$ (861,528)</b>	<b>\$ -</b>
<b>Component Units</b>								
Economic Development	(112,433)	-	-	-	-	-	-	(112,433)
<b>Total Component Units</b>	<b>\$ (112,433)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (112,433)</b>

See accompanying notes to financial statements.

**CITY OF QUITMAN, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Grants and Contributions	Primary Government			
				Governmental Activities	Business-Type Activities	Total	Component Units
General Revenues:							
Property Taxes				\$ 436,586	\$ -	\$ 436,586	\$ -
Sales Taxes				294,369	-	294,369	147,427
Hotel/ Motel				43	-	192,487	-
Franchise Fees				192,527	-	192,527	-
Investment Income				403	192	1,533	158
Miscellaneous				13,837	4,383	18,220	-
Intergovernmental				22,627	50,000	72,627	(72,627)
Transfers				(29,305)	29,305	-	-
<b>Total General Revenues and Transfers</b>				<b>\$ 931,087</b>	<b>\$ 83,880</b>	<b>\$ 1,014,967</b>	<b>\$ 74,958</b>
Change in Net Assets				\$ 16,725	\$ 136,714	\$ 153,439	\$ (37,475)
Net Assets - Beginning				963,343	3,666,897	4,630,240	116,296
Net Assets - Ending				\$ 980,068	\$ 3,803,611	\$ 4,783,679	\$ 78,821

**CITY OF QUITMAN, TEXAS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2010**

<b>ASSETS AND OTHER DEBITS</b>	<u>General Fund</u>	<u>Other</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Investments			
Unrestricted	\$ 225,139	\$ -	\$ 225,139
Restricted	-	-	-
Receivables (net of allowances for uncollectibles)			
Taxes	54,451	-	54,451
Fees and Services	19,648	-	19,648
Due from Other Funds	-	71,166	71,166
	<u>-</u>	<u>71,166</u>	<u>71,166</u>
Total Assets	<u>\$ 299,238</u>	<u>\$ 71,166</u>	<u>\$ 370,404</u>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 2,609	\$ -	\$ 2,609
Other Liabilities	32,029	-	32,029
Intergovernmental Payable	12,125	-	12,125
Due to Other Funds	71,166	-	71,166
	<u>71,166</u>	<u>-</u>	<u>71,166</u>
Total Liabilities	<u>\$ 117,929</u>	<u>\$ -</u>	<u>\$ 117,929</u>
<b>EQUITY AND OTHER CREDITS</b>			
Fund Balances			
Reserved	-	71,166	71,166
Unreserved	-	-	-
Unreserved - Designated	-	-	-
Unreserved - Undesignated	181,309	-	181,309
	<u>181,309</u>	<u>-</u>	<u>181,309</u>
Total Fund Balances	<u>\$ 181,309</u>	<u>\$ 71,166</u>	<u>\$ 252,475</u>
Total Liabilities and Fund Balances	<u>\$ 299,238</u>	<u>\$ 71,166</u>	<u>\$ 370,404</u>

See accompanying notes to financial statements.

**CITY OF QUITMAN TEXAS**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNEMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2010**

Total Fund Balances per Balance Sheet	\$	252,475
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		780,365
<p>Some long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds</p>		<u>(52,772)</u>
Total Net Assets	\$	<u><u>980,068</u></u>

See accompanying notes to financial statements.



**CITY OF QUITMAN, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Property Taxes including P & I	\$ 226,073	\$ 210,513	\$ 436,586
Franchise Fees	192,527	-	192,527
Sales Tax Collected	295,580	-	295,580
Hotel Tax	43	-	43
Charges for Services	73,932	53,114	127,046
Grant Income	60,535	-	60,535
Miscellaneous	37,190	375	37,565
Total Revenues	<u>\$ 885,880</u>	<u>\$ 264,002</u>	<u>\$ 1,149,882</u>
Expenditures:			
Current			
General Government	\$ 166,998	\$ -	\$ 166,998
Police	363,110	-	363,110
Fire	94,395	-	94,395
Public Works	-	161,316	161,316
Public Services and Operations	35,511	-	35,511
Parks and Recreation	-	54,239	54,239
Library	104,432	-	104,432
Capital Outlay	53,815	30,901	84,716
Debt Service	-	-	-
Principal Retirement	116,227	-	116,227
Total Expenditures	<u>\$ 934,488</u>	<u>\$ 246,456</u>	<u>\$ 1,180,944</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	<u>\$ (48,608)</u>	<u>\$ 17,546</u>	<u>\$ (31,062)</u>

See accompanying notes to financial statements.

**CITY OF QUITMAN, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	General Fund	Other Governmental Fund	Total Governmental Funds
Other Revenue and Financing Sources (Uses):			
Loan Proceeds	\$ 40,783	\$ -	\$ 40,783
Operating Transfers In/(Out)	(21,677)	-	(21,677)
Intergovernmental	15,000	-	15,000
Total Other Financing Sources (Uses)	<u>\$ 34,106</u>	<u>\$ -</u>	<u>\$ 34,106</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ (14,502)	\$ 17,546	\$ 3,044
Fund Balance/ October 1	195,811	53,620	249,431
Fund Balance/ September 30	<u>\$ 181,309</u>	<u>\$ 71,166</u>	<u>\$ 252,475</u>

See accompanying notes to financial statements.

**CITY OF QUITMAN, 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 balances - total governmental funds	\$	3,044
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report expenditures for capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period		(61,205)
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The issuance of long-term debt (e.g. bonds, tax anticipation notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		74,886
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Change in net assets of governmental activities - statement of activities	\$	16,725
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See accompanying notes to financial statements.

**CITY OF QUITMAN, TEXAS  
STATEMENT OF NET ASSETS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

<b>ASSETS AND OTHER DEBITS</b>	<u>Water and Sewer Fund</u>
<b>ASSETS:</b>	
Cash and Investments	
Unrestricted	\$ 227,363
Receivables (net of allow for uncollectibles)	
Fees and Services	124,317
Bond Issuance Fees (net of amortization of \$9,792)	2,708
Property, Plant, and Equipment	
Land	45,208
Machinery and Equipment	542,384
Water and Sewer Systems	7,200,838
Accumulated Depreciation	<u>(3,751,792)</u>
Total Assets	<u><u>\$ 4,391,026</u></u>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES:</b>	
Accounts Payable and Other Liabilities	\$ 15,620
Other Liabilities	65,729
Long Term Debt	
Bonds Payable	470,000
Notes Payable	36,066
Total Liabilities	<u>\$ 587,415</u>
 <b>NET ASSETS:</b>	
Invested in Capital Assets, Net of Related Debt	\$ 3,530,572
Reserved	135,457
Unrestricted	137,582
Total Net Assets	<u>\$ 3,803,611</u>
Total Liabilities and Net Assets	<u><u>\$ 4,391,026</u></u>

See accompanying notes to financial statements.

**CITY OF QUITMAN, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>Enterprise Fund</u>
<b>OPERATING REVENUES:</b>	
Charges for Services	\$ 1,146,383
Miscellaneous	4,383
Total Operating Revenues	<u>\$ 1,150,766</u>
<b>OPERATING EXPENSES:</b>	
Personnel Services	\$ 450,592
Supplies and Materials	47,917
Maintenance and Repair	111,311
Contractual Services	48,461
Depreciation	227,870
Sanitation	105,469
Utilities	55,637
Sabine River Authority	37,026
Miscellaneous	1,404
Total Operating Expenses	<u>\$ 1,085,687</u>
Net Income from Operations	<u>\$ 65,079</u>
<b>OTHER INCOME AND EXPENSE:</b>	
Grant Income	\$ 10,000
Interest Income	192
Interest Expense	<u>(17,862)</u>
NET INCOME	57,409
Transfers In	\$ 79,305
Transfers Out	-
Total Increase in Net Assets	<u>136,714</u>
Net Assets, October 1	<u>3,666,897</u>
Net Assets, September 30	<u><u>\$ 3,803,611</u></u>

See accompanying notes to financial statements.

**CITY OF QUITMAN, TEXAS  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Customers	\$ 1,125,954
Cash Received from Other Sources	4,383
Cash Paid to Employees and Suppliers	(838,989)
Net Cash Provided by Operating Activities	\$ 291,348
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Interest Expense	\$ (17,862)
Grants	10,000
Operating Transfers from Other Governments	79,305
Operating Transfers to Other Government	-
Net Cash Provided by Non-Capital Financing Activities	\$ 71,443
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition or Construction of Capital Assets	\$ (225,000)
Long-term Borrowing	225,000
Reduction of Bonds Payable and Notes Payable	(327,326)
Net Cash Used for Capital and Related Financing Activities	\$ (327,326)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Income	192
Net Increase in Cash and Cash Equivalents	\$ 35,657
Cash and Cash Equivalents - Beginning of Year	191,706
Cash and Cash Equivalents - End of Year	\$ 227,363

**Reconciliation of Operating Income to  
Net Cash Provided by Operating Activities**

Operating Income	\$ 65,079
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation & Amortization	227,870
Change in Assets and Liabilities:	
(Increase)/Decrease in Receivables	(20,428)
Increase/(Decrease) in Accounts Payable	18,827
Net Cash Provided by Operating Activities	\$ 291,348

See accompanying notes to financial statements.

**CITY OF QUITMAN, TEXAS  
 BALANCE SHEET - COMPONENT UNITS  
 ECONOMIC DEVELOPMENT CORPORATION  
 SEPTEMBER 30, 2010**

**ASSETS AND OTHER DEBITS**

ASSETS:

Cash and Investments	
Unrestricted	\$ 126,696
Restricted	-
Receivables (net of allowance for uncollectibles)	
<i>Intergovernmental Receivable</i>	12,125
Total Assets	\$ 138,821

**LIABILITIES AND FUND BALANCE**

**LIABILITIES**

LIABILITIES:

Long Term Debt	
Bonds Payable	60,000

EQUITY AND OTHER CREDITS:

Fund Balances	
Reserved	\$ -
Unreserved	78,821
Total Fund Balance	78,821
Total Liabilities and Fund Balance	\$ 138,821

See accompanying notes to financial statements.

**CITY OF QUITMAN, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**COMPONENT UNITS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<b>Program Revenues</b>			
<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Component Units</b>
<b>Component Units:</b>				
Economic Development	\$ (185,060)	\$ -	-	-
<b>Total</b>	\$ (185,060)	\$ -	\$ -	\$ (185,060)
		General Revenues:		
		Property Taxes		
		Sales Taxes	\$ 147,427	
		Investment Income	158	
		Total General Revenues	147,585	
		Intergovernmental Transfer	-	
		Changes in Net Assets	(37,475)	
		Net Assets - Beginning as Previously Reported	116,296	
		Net Assets - Ending	\$ 78,821	

See accompanying notes to financial statements.



**CITY OF QUITMAN, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**A. – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The combined financial statements of the City of Quitman have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**1. Reporting Entity**

The City's combined financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

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

Based on these criteria, the city has one component unit, Quitman Economic Development Corporation.

The City of Quitman is not a component unit of any other reporting entity as defined by the GASB Statement.

**2. Basis of Presentation, Basis of Accounting**

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

**CITY OF QUITMAN, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**2. Basis of Presentation, Basis of Accounting (continued)**

a. Basis of Presentation

The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

The City reports the following major governmental funds:

General Fund

The City reports the following major business-type funds:

Water Sewer Fund

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Funds: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are reported when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

**CITY OF QUITMAN, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**2. Basis of Presentation, Basis of Accounting (continued)**

a. Basis of Presentation

Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are recorded as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

**3. Financial Statement Amounts**

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**CITY OF QUITMAN, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**3. Financial Statement Amounts (continued)**

c. Inventories and Prepaid Items

Inventories (if any) on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when they are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following useful lives.

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30-50
Buildings	50
Building Improvements	15-20
Vehicles	5
Office Equipment	3-10
Computer Equipment	3-7

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

**CITY OF QUITMAN, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**3. Financial Statement Amounts** (continued)

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

**B. – COMPLIANCE AND ACCOUNTABILITY**

**1. Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statements Note Disclosure," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

**2. Deficit Fund Balance or Net Assets of Individual Funds**

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None reported	Not applicable

**C. – DEPOSITS AND INVESTMENTS**

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect the City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository banks dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

**CITY OF QUITMAN, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**C. – DEPOSITS AND INVESTMENTS (continued)**

Cash Deposits:

At September 30, 2010, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$452,502 and the bank balance was \$504,154. The City's cash deposits at September 30, 2010, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

- |              |   |
|--------------|---|
| Category 1 - | Deposits which are insured or collateralized with securities held by the City or by its agent in the City's name.                           |
| Category 2 - | Deposits which are collateralized with securities held by the pledging financial institutions trust department or agent in the City's name. |
| Category 3 - | Deposits which are not collateralized or insured.   |

Based on these three levels of risk, all of the City's cash deposits are classified as category 2.

Investments:

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements to the Act. Additionally, investment practices of the City were in accordance with local policies.

Investment Accounting Policy:

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time purchased. The term "non-participating" means that the investments value does not vary with market interest rate changes. Non-negotiable certificates of deposits are examples of nonparticipating interest-earning investment contracts.

**CITY OF QUITMAN, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**D. – CAPITAL ASSETS**

Capital asset activity for the period ended September 30, 2010 was as follows:

	Beginning Balances	Additions	Decreases	Ending Balances
<b>GOVERNMENT ACTIVITIES:</b>				
<b>General Fund</b>				
Land	\$ 54,345	\$ -	\$ -	\$ 54,345
Building and Improvements	582,978	-	-	582,978
Machinery and Equipment	1,064,414	48,693	-	1,113,107
Infrastructure	<u>406,890</u>	<u>36,022</u>	-	<u>442,913</u>
Total	<u>\$ 2,108,627</u>	<u>\$ 84,716</u>	<u>\$ -</u>	<u>\$ 2,193,342</u>
<i>Accumulated Depreciation</i>	<u>\$ 1,267,057</u>	<u>\$ 145,920</u>	<u>\$ -</u>	<u>\$ 1,412,977</u>
<b>Water Sewer Fund</b>				
Land	\$ 45,208	\$ -	\$ -	\$ 45,208
Water and Sewer System	6,975,838	225,000	-	7,200,838
Machinery and Equipment	<u>542,384</u>	-	-	<u>542,384</u>
Total	<u>\$ 7,563,431</u>	<u>\$ 225,000</u>	<u>\$ -</u>	<u>\$ 7,788,430</u>
<i>Accumulated Depreciation</i>	<u>\$ 3,526,422</u>	<u>\$ 225,370</u>	<u>\$ -</u>	<u>\$ 3,751,792</u>

**CITY OF QUITMAN, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**D. – LONG-TERM OBLIGATIONS**

Changes in Governmental Long-Term Debt (non-bonded)

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30, 2009	Issued	Retired	Amounts Outstanding September 30, 2010
Fire Truck	4.09%	188,000	117,287	-	(75,000)	42,287
Dump Truck	5.00%	49,500	10,371	-	(10,371)	-
Police Equipment	3.24%	40,783	-	40,783	(30,299)	10,484
		<u>\$278,283</u>	<u>\$ 127,658</u>	<u>\$ 40,783</u>	<u>\$(115,670)</u>	<u>\$ 52,771</u>

Debt service requirements are as follows:

Year Ended September 30:	Principal	Interest	Total Requirements
2011	49,559	4,790	54,349
2012	3,213	131	3,344
2013	-	-	-
Total	<u>\$ 52,772</u>	<u>\$ 4,921</u>	<u>\$ 57,693</u>

Changes in Proprietary Bonded Debt:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30, 2009	Issued	Retired	Amounts Outstanding September 30, 2010
Series 2003	1.45%- 3.85%	\$1,750,000	500,000	-	(255,000)	245,000
Series 2010	3.45%	225,000	-	225,000	-	225,000
		<u>\$ 1,975,000</u>	<u>\$ 760,000</u>	<u>\$ -</u>	<u>\$(255,000)</u>	<u>\$ 470,000</u>



**CITY OF QUITMAN, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**D. – LONG-TERM OBLIGATIONS** (continued)

Debt service requirements are as follows:

Year Ended September 30:	Principal	Interest	Total Requirements
2011	259,691	14,817	274,448
2012	43,965	6,693	50,658
2013	45,521	5,156	50,677
2014	47,112	3,565	50,677
2015	48,758	1,919	50,677
2016	25,013	324	25,337
Total	\$ 470,000	\$ 32,474	\$ 502,474

The proprietary fund has a note payable for a generator bearing interest at 4.7%. The City pays \$10,137 per year for principal and interest. The balance on the note is \$9,682. The proprietary fund incurred a note payable for a sludge press in the current year. The original amount of the note was for \$149,960 with quarterly payments of \$13,208.10 at 3.99% interest. The balance on the note is \$26,078. Combined future maturities are as follows:

2011	35,760
------	--------

**F. – PENSION PLAN****1. Plan Description**

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (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 a publicly 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 TMRS, P.O. Box 149153, Austin, TX. 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

**CITY OF QUITMAN, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**F. – PENSION PLAN (continued)**

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Deposit Rate:	5%
Matching Ratio (City to Employee):	2-1
Years Required for Vesting	10
Updated Service Credit	100% Repeating
Annuity Increase (to retirees)	70% of CPI Repeating
Members can retire at certain ages, based on the years of service with the City.	
The Service Retirement Eligibilities for the City are: 10 years/age 60, 25 years/any age.	

**2. 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 cost contribution rate, which is calculated to be a level percent of payroll form 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 that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both 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.

**Actuarial Assumptions**

Actuarial Valuation Date	12/31/2009
Actuarial Cost Method -	Projected Unit Credit
Amortization Method -	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	28 Years - Closed Period
New Gains/Losses Amortization Period	30 Years
Asset Valuation Method -	10 Year Smoothed Market
Investment Rate of Return -	7.5%
Projected Salary Increases -	Varies
Includes Inflation at -	3.0%
Cost-of-Living Adjustments -	2.1%

**CITY OF QUITMAN, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**F. – PENSION PLAN** (continued)

The annual pension cost and net pension obligation/(asset) are as follows:

<b>CITY OF QUITMAN</b>			
<b>SCHEDULE OF ACTUARIAL LIABILITIES AND FUNDING PROGRESS</b>			
Actuarial Valuation Date	12/31/2007	12/31/2008	12/31/2009
Actuarial Value if Assets	\$ 1,283,966	\$ 1,285,711	\$ 1,433,557
Actuarial Accrued Liability	1,777,973	1,788,080	1,935,006
Percentage Funded	72.2%	71.9%	74.1%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	494,007	502,369	501,449
Annual Covered Payroll	678,362	792,461	739,291
UAAL as a Percentage of Covered Payroll	72.8%	63.4%	67.8%
Net Pension Obligation (NPO) at the Beginning of the Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required Contribution (ARC)	Plus 70,827	72,315	73,883
Contributions Made	Less 70,827	72,315	73,883
NPO at the End of the Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**G. – HEALTH CARE COVERAGE**

During the year ended September 30, 2010, employees of the City were covered by a health insurance plan (the Plan). The City paid 100% of the premiums per pay period for each employee to the Plan and employees, at their option, authorized payroll withholding to pay premiums for dependents. All contributions were paid to a self-funded pool administered by the Texas Municipal League Group Benefits Risk Pool.

The City also pays the premiums for \$10,000 life insurance policies for each employee. Employees can, at their option, obtain coverage for cancer and additional life insurance through the Plan. Employees pay 100% of the premiums for any such additional insurance coverage.

The contract between the City and other participants of the self-funded pool is renewable October 1 and the terms of coverage and premium costs are included in the contractual provision.

Additional assessments cannot be made by the Plan during the year. Because of the terms of the agreement with the Plan, no reserve for self-insurance has been established.

**CITY OF QUITMAN, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**H. – INSURANCE COVERAGE**

Below is a schedule of insurance in force.

<b>Company Liability Coverage:</b>	<b>Policy Number</b>	<b>Description of Coverage</b>	<b>Amount of Coverage</b>	<b>Period Covered</b>	<b>Premium</b>	<b>Deductible</b>
TX Municipal League	5855	General	1,000,000 Per Occurrence 2,000,000 Annual Aggregate	10/01/10 to 10/1/2011	\$ 2,891	\$ -
TX Municipal League Joint Self Ins Fund	5855	Automotive	1,000,000 Per Occurrence 25,000 Each Person	10/01/10 to 10/1/2011	\$ 5,290	\$ 1,000
TX Municipal League Joint Self Ins Fund	5855	Law Enforcement	1,000,000 Per Occurrence 2,000,000 Annual Aggregate	10/01/10 to 10/1/2011	\$ 3,471	\$ 1,000
TX Municipal League	5855	Errors & Omissions	1,000,000 per claim 2,000,000 Annual Aggregate	10/01/10 to 10/1/2011	\$ 4,215	\$ 2,500

**CITY OF QUITMAN, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**H. – INSURANCE COVERAGE** (continued)

Company Liability Coverage:	Policy Number	Description of Coverage	Amount of Coverage	Period Covered	Premium	Deductible
Property Coverage:						
TX Municipal League	5855	Automobile- Phys. Damage	10,000 Each Occurrence	10/01/10 to 10/1/2011	\$ 5,261	\$ 1,000

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$125,000 and for aggregate loss. According to the latest actuarial opinion dated October 1, 2009, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred, but not reported.

**I. – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City had general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the information of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**CITY OF QUITMAN, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**J. - LITIGATION**

Currently, management is unaware of significant pending litigation against the City of Quitman, Texas.

**K. – COMMITMENTS AND CONTINGENCIES**

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charges to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of the money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**L. – ADDITIONAL WATER AND SEWER INFORMATION**

The following information is included at the request of the Texas Water Development Board for the year under audit.

Water Accountability Report:

Gallons Pumped	110,400,000
Gallons Billed	77,090,680

**M. – RESERVED FUND BALANCE**

The City passed an ordinance establishing a street maintenance fund, a utility maintenance fund, a utility capital improvement fund and a utility operating assistance fund. The following is a schedule of the reserve at September 30, 2010:

	<u>General Fund</u>	<u>Water &amp; Sewer</u>
Police Department Fund	\$ 482	\$ -
Library Memorial Fund	14,250	-
Library State Grant	1,121	-
Library Verizon	1,457	-
Municipal Court	2,030	-
Accrued Liabilities	32,029	10,731
Streets Maintenance Reserve	51,625	-
Miscellaneous	200	-
Deposits	-	46,304
Capital Projects	-	30,293
	<u>\$ 103,194</u>	<u>\$ 135,457</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF QUITMAN, TEXAS  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**BUDGET**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Difference</u>
<b>Revenues:</b>				
Property Taxes including P & I	\$ 439,000	\$ 439,000	\$ 436,586	\$ (2,414)
Franchise Fees	200,000	200,000	192,527	(7,473)
Sales Tax Collected	308,760	308,760	295,580	(13,180)
Hotel/Motel Tax	40	40	43	3
Charges for Services	130,550	130,550	127,046	(3,504)
Grant Income	18,400	18,400	60,535	42,135
Miscellaneous	10,000	10,000	37,565	27,565
Total Revenues	<u>\$1,106,750</u>	<u>\$1,106,750</u>	<u>\$1,149,882</u>	<u>\$ 43,132</u>
<b>Expenditures:</b>				
<b>Current</b>				
General Government	\$ 165,673	\$ 165,673	\$ 166,998	\$ (1,325)
Public Safety				
Police	366,201	366,201	363,110	3,091
Fire	124,002	124,002	94,395	29,607
Municipal Court	30,014	30,014	35,511	(5,497)
Total Public Safety	\$ 685,890	\$ 685,890	\$ 660,014	25,876
Library	92,630	92,630	104,432	(11,802)
Public Services and Operations	56,212	56,212	161,316	(105,104)
Streets & Other	\$ 272,018	\$ 272,018	\$ 255,182	16,836
Total Expenditures	<u>\$1,106,750</u>	<u>\$1,106,750</u>	<u>\$1,180,944</u>	<u>\$ (74,194)</u>
Excess (Deficiency) of Revenues (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	\$ (31,062)	\$ (31,062)
<b>Other Revenues and Financing Sources (uses)</b>				
Intergovernmental Transfers			15,000	15,000
Operating Transfers In/(Out)			(21,677)	(21,677)
Loan Proceeds			40,783	40,783
Total Other Financing Sources (uses)			<u>34,106</u>	<u>\$ 3,044</u>
Excess of Revenue and Other Financing sources over (under) expenditures and other financing use			3,044	
Fund Balance/Equity, October 1			<u>249,431</u>	
Fund Balance/Equity, September 30			<u>\$ 252,475</u>	