

COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF QUITMAN, TEXAS

FOR

FISCAL YEAR ENDED

SEPTEMBER 30, 2005

PREPARED BY:

CITY OF QUITMAN

FINANCE COMMITTEE

CITY OF QUITMAN, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

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INTRODUCTORY SECTION

City of Quitman

P.O. Box 1855
Quitman, TX 75783

February 14, 2006

Honorable Mayor and City Council
City of Quitman
Quitman, Texas

Dear Mayor and Council Members:

The Comprehensive Annual Financial Report (CAFR) of the City of Quitman, Texas, for the year ended September 30, 2005, 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.

In 2005, the City issued its first year of financial statements under the new reporting model required as part of governmental financial reporting. The new 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 comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. 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. The statistical section includes supplemental information regarding population, commercial and residential property values, and tax rates for other entities within the county.

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 – Manager form of government.

The City's major operations include police and fire protection, parks and recreation, public works, 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 2004-05.

MAJOR INITIATIVES

The City began engineering work for a Community Development Grant Program to replace water and sewer lines in the northern section of town. Six recreational vehicle pads were added at Governor Jim Hogg City Park.

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 both current and proposed year revenue estimates by the City's finance manager, and expenditure estimates by each City department. Budgets are reviewed by the City Manager who makes final decisions and submits a recommended budget to 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 Manager, Finance Manager, 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 principal and interest on outstanding bonds within the limits prescribed by law, and 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>
2002-2003	.3841
2003-2004	.3841
2004-2005	.3881

OTHER INFORMATION

Independent Audit: The City of Quitman has engaged the firm of Conway Company CPAs, P.C. 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, 2004, 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 throughout the organization, especially those employees of the Finance Department 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 submitted,

Anna Hayes
City Secretary/Administrator

City Council

Larry W. Robertson, Mayor

**Randy Bennett, Alderman
Judy Gordon, Alderwoman
Jane Bardwell, Alderwoman
J.R. Evans, Alderman
Troy Robinson, Alderman**

Administrative Staff

Anna K. Hayes, City Secretary/Administrator

FINANCIAL SECTION



Michael Conway, CPA
Neil Conway, CPA

CONWAY COMPANY CPAs PC

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February 14, 2006

Independent Auditor's Report on Financial Statements

City Council
City of Quitman
P.O. Box 1855
Quitman, Texas 75783

Members of the City Council:

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 City of Quitman (the City) as of and for the years ended September 30, 2005 and 2004, 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 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 and the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of Quitman as of September 30, 2005, 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 6 through 13, the respective budgetary comparison for the General Fund and the Schedule of Pension Trust-TMRS Funding Progress and Contributions on page 38 in the table of contents 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 supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Quitman's basic financial statements. The information presented in the financial section of the table of contents labeled as Combining Financial Statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Combining Financial Statements have been subjected to the auditing procedures applied in the audit for the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Section, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Respectfully submitted,

CONWAY COMPANY CPAS, P.C.

Conway Company CPAs, P.C.

CITY OF QUITMAN

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2005

As management of the City of Quitman, we offer readers of the City of Quitman's financial statements this narrative overview and analysis of the financial activities of the City of Quitman for the fiscal year ended September 30, 2005. 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 follow this narrative.

Financial Highlights

- The assets of the City of Quitman exceeded its liabilities at the close of the fiscal year by \$3,778,968 (net assets).
- The government's total net assets increased by \$293,850, due to increases in the business-type activities net assets.
- As of the close of the current fiscal year, the City of Quitman's governmental funds reported combined ending fund balances of \$768,187, an increase of \$112,838 in comparison with the prior year. Approximately 99% of this total amount, or \$759,972, is available for spending at the government's discretion (unreserved fund balance).
- The City of Quitman's total bonded debt decreased by (\$200,000) or 13% during the current fiscal year.

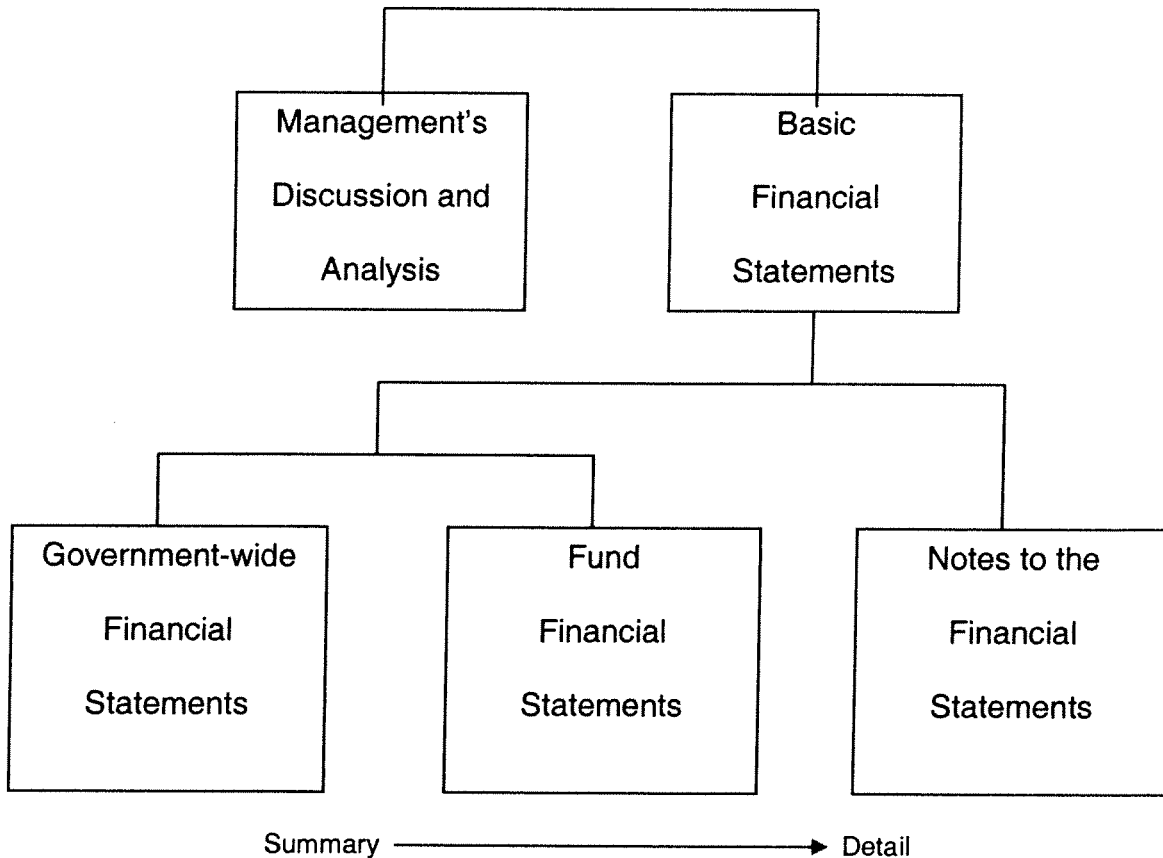
Overview of the Financial Statements

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.

CITY OF QUITMAN, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) 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 (Exhibits 3 through 8) 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.

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.

CITY OF QUITMAN, TEXAS MANAGEMENT DISCUSSION AND ANALYSIS

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 gauge 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 basic 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. Additionally, Emergency Medical Services are offered as services to the citizens 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 Exhibits 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 the 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 provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported 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 or

**CITY OF QUITMAN, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS**

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 two proprietary funds, the Utility Fund, and the EMS 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 30 to 41 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Quitman's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 42 of this report.

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended September 30, 2005 continue the implementation of a new standard of financial reporting for the City of Quitman, and many other units of government across the United States. Prior to fiscal year 2004, the City of Quitman maintained their governmental and proprietary fund groups as two separate and very 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 a 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 changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City of Quitman's financial reports as well as those of many other units of government. While the City of Quitman was required to implement these changes for the fiscal year ended September 30, 2004, other units were required to implement Statement 34 in 2002 and 2003.

**CITY OF QUITMAN, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS**

The City of Quitman's Net Assets

Figure 2

(Rounded to nearest 1000)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 267	\$ 317	\$ 313	\$ 230	\$ 580	\$ 547
Capital assets	588	463	4,093	4,196	4,681	4,659
Total assets	\$ 855	\$ 780	\$ 4,406	\$ 4,426	\$ 5,261	\$ 5,206
Current liabilities	\$ 36	\$ 43	\$ 55	\$ 56	\$ 91	\$ 99
Long-term liabilities	51	82	1,340	1,540	1,391	1,622
Total liabilities	\$ 87	\$ 125	\$ 1,395	\$ 1,596	\$ 1,482	\$ 1,721
Net assets:						
Invested in capital assets, net of related debt	\$ 537	\$ 381	\$ 2,753	\$ 2,656	\$ 3,290	\$ 3,037
Restricted	8		-		8	-
Unrestricted	223	274	258	174	481	448
Total net assets	\$ 768	\$ 655	\$ 3,011	\$ 2,830	\$ 3,779	\$ 3,485

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The net assets of the City of Quitman exceeded liabilities by \$3,778,968 as of September 30, 2005. The City's net assets increased by \$293,850 for fiscal year ended September 30, 2005. However, the largest portion (87.06%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The City of Quitman uses these 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. An additional portion of the City of Quitman's net assets, .21% represents resources that are subject to external restrictions on how they may be used. The remaining balance balance of \$263,522 which comprises of net assets unrelated to capital items is unrestricted.

CITY OF QUITMAN, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS

The City of Quitman Changes in Net Assets

Figure 3

	Governmental		2005 Totals	2004 Totals
	Government Activities	Business Activities		
REVENUE				
Property Taxes including P&I	\$ 331,930	\$ -	\$ 331,930	\$ 320,809
Franchise Fees	168,435	-	168,435	170,692
Sales Tax Collected	310,071	-	310,071	277,437
Hotel/Motel Tax	101	-	101	101
Charge for Services	66,995	1,081,669	1,148,664	1,031,737
Grant Revenue	-	-	-	45,000
Donation	34,336	-	34,336	66,000
Intergovernmental Revenue	-	-	-	-
Miscellaneous	16,588	3,698	20,286	30,143
Total Revenues	\$ 928,456	\$ 1,085,367	\$ 2,013,823	\$ 1,941,919
EXPENDITURES				
Current:				
General Government	\$ 177,197	\$ -	\$ 177,197	\$ 170,216
Administrative	33,341	-	33,341	29,406
Public Safety	361,106	-	361,106	356,303
Public Works	141,833	-	141,833	133,837
Public Services and Operations	106,495	-	106,495	102,837
Parks and Recreation	77,214	-	77,214	40,880
Maintenance and Repair	-	56,840	56,840	64,454
Contractual Services	-	175,627	175,627	170,619
Other	-	-	-	(74,087)
Personal Services	-	383,190	383,190	374,196
Supplies and Materials	-	47,731	47,731	42,211
Depreciation	55,048	193,237	248,285	237,150
Amortization	-	2,500	2,500	2,292
Interest and Fiscal Agent Fees	3,566	43,695	47,261	83,994
Total Expenditures	\$ 955,800	\$ 902,820	\$ 1,858,620	\$ 1,734,308
Excess of revenues over expenditures	\$ (27,344)	\$ 182,547	\$ 155,203	\$ 207,611
Other Revenues and Financing Sources (uses)				
Operating Transfers In	120,000	-	120,000	45,884
Operating Transfers Out	-	(120,000)	(120,000)	(45,884)
Intergovernmental	20,182	118,465	138,647	65,000
Total Other Financing Sources (uses)	\$ 140,182	\$ (1,535)	\$ 138,647	\$ 65,000
Excess of revenues and other financing sources over (under) expenditures	\$ 112,838	\$ 181,012	\$ 293,850	\$ 272,611
Fund Balances/Equity, October 1	655,349	2,829,769	3,485,118	3,212,507
Prior Period Adjustments	-	-	-	-
Fund Balances/Equity, September 30	\$ 768,187	\$ 3,010,781	\$ 3,778,968	\$ 3,485,118

**CITY OF QUITMAN, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS**

Governmental-type activities - Governmental activities increased the City's net assets by \$112,838, thereby accounting for 38% of the total change in the net assets of the City of Quitman. Key elements of this increase are as follows:

- Parks expenditures revenues increased by \$37,000.
- Property & Sales Tax remained steady.

Business-type activities - Business-type activities increased the City of Quitman's net assets by \$181,012. Key elements of this increase are as follows:

- Water, Sewer and Solid Waste revenue increased by 5% over last year.
- Operating expenses increased slightly.

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 funds 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 a 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 \$759,972. 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 99% of total General Fund expenditures.

At September 30, 2005, the governmental funds of the City of Quitman reported a combined fund balance of \$3,778,968, an 8% increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Proprietary Funds.

General Fund Budgetary Highlights: During the fiscal year, the City revised the budget on several occasions. 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 funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Revenues were slightly more than the budgeted amounts mainly in the areas of property taxes and sales taxes. However, expenditures were generally in line with budgeted amounts.

Proprietary Funds - The City of Quitman's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Utility Fund at the end of the fiscal year amounted to \$3,010,780.

**CITY OF QUITMAN, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS**

Capital assets - The City of Quitman's investment in capital assets for its governmental and business-type activities as of September 30, 2005, totals \$4,665,333 (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):

- The city continued work on street improvements.
- No major demolitions were recorded this year.

Figure 4

**City of Quitman
Capital Assets
As of September 30, 2005**

	Governmental Activities	Business Activities	Total
Land	54,345	45,208	\$ 99,553
Buildings	541,392	5,140,850	5,682,242
Machinery & Equipment	585,456	241,853	827,309
Improvements	-	1,315,243	1,315,243
Infrastructure	225,330	20,275	245,605
Construction in Progress	-	-	-
Accumulated Depreciation	(818,964)	(2,685,655)	(3,504,619)
<i>Total</i>	<u>\$ 587,559</u>	<u>\$ 4,077,774</u>	<u>\$ 4,665,333</u>

Long-term Debt - As of September 30, 2004, the City of Quitman had total bonded debt outstanding of \$1,340,000.

**City of Quitman
Outstanding Bonds
As of September 30, 2005**

<i>Enterprise Funds</i>	\$ 1,340,000
<i>General Funds</i>	-
<i>Total</i>	<u>\$ 1,340,000</u>

The City of Quitman's bonded debt decreased by \$200,000 (12%) during the past fiscal year.

BASIC FINANCIAL STATEMENTS

**CITY OF QUITMAN, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005**

	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
ASSETS AND OTHER DEBITS				
ASSETS				
Cash and Investments				
Unrestricted	\$ 181,075	\$ 222,473	\$ 403,548	\$ 179,798
Restricted	11,398	-	11,398	-
Receivables (net of allow for uncollectibles)				
Taxes	55,464	-	55,464	-
Fees and Services	18,570	90,115	108,685	-
Intergovernmental Receivable	-	-	-	12,805
Unamortized Bond Issuance	-	20,000	20,000	-
Accumulated Amortization	-	(4,792)	(4,792)	-
Property, Plant & Equipment				
Land	54,345	45,208	99,553	-
Machinery & Equipment	225,592	241,853	467,445	-
Buildings	541,392	5,140,850	5,682,242	-
Improvements	-	1,315,243	1,315,243	-
Office Equipment	15,582	-	15,582	-
Computers	42,109	-	42,109	-
Vehicles	80,528	-	80,528	-
Infrastructure	225,330	20,275	245,605	-
Fire Equipment	221,645	-	221,645	-
Accumulated Depreciation	(818,964)	(2,685,655)	(3,504,619)	-
Total Assets	\$ 854,066	\$ 4,405,570	\$ 5,259,636	\$ 192,603
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities				
Accounts Payable	\$ 3,406	\$ 5,858	\$ 9,264	\$ -
Other Liabilities	18,273	48,931	67,204	-
Intergovernmental Payable	12,805	-	12,805	-
Current Notes Payable	38,293	195,000	233,293	-
Long Term Debt				
Notes Payable	51,395	-	51,395	-
Revenue Bond Payable	-	1,340,000	1,340,000	-
Less: Current Portion	(38,293)	(195,000)	(233,293)	-
Total Liabilities	\$ 85,879	\$ 1,394,789	\$ 1,480,668	\$ -
Equity and other credits:				
Retained Earnings:				
Unreserved	-	181,012	181,012	-
Fund Balances				
Reserved	8,215	-	8,215	-
Unreserved	759,972	2,829,769	3,589,741	192,603
Unreserved-Designated	-	-	-	-
Unreserved-Undesignated	-	-	-	-
Total equity and other credits	\$ 768,187	\$ 3,010,781	\$ 3,778,968	\$ 192,603
Total Liabilities, Equity & Other Credits	\$ 854,066	\$ 4,405,570	\$ 5,259,636	\$ 192,603

The accompanying notes are an integral part of these financial statements

CITY OF QUITMAN, TEXAS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Function/Program Activities			
Primary Government			
Governmental Activities:			
General Government	\$ 177,196	\$ -	\$ -
Administrative	33,341	-	-
Police	296,523	30,595	1,058
Fire	64,584	-	-
Public services and operations	6,200	-	-
Library	100,295	9,146	-
Parks and recreation	77,214	27,254	-
Public works	131,076	-	-
Other	10,757	-	-
Interest on Long-Term Debt	3,566	-	-
Donation	-	-	34,336
Unallocated Depreciation	55,048	-	-
Total governmental activities	\$ 955,800	\$ 66,995	\$ 34,336
Business-type Activities:			
Water and sewer	902,820	1,081,989	-
Total business-type activities	\$ 902,820	\$ 1,081,989	\$ -
Total primary government	\$ 1,858,620	\$ 1,148,984	\$ 34,336
Component units:			
Economic Development	1,335	-	-
Total component units	\$ 1,335	\$ -	\$ -

General revenues:
 Property taxes
 Sales taxes
 Hotel/Motel tax
 Franchise fees
 Investment income
 Miscellaneous
 Sale
 Intergovernmental
 Transfers
 Total general revenues and transfers
 Change in net assets
 Net assets - beginning
 Prior Period Adjustment
 Net assets - ending

The accompanying notes are an integral part of these financial statements

**Net (Expense) Revenue
and Changes in Net Assets**

Primary Government			
Governmental Activities	Business Activities	Total	Component Units
\$ (177,196)		\$ (177,196)	
(33,341)		(33,341)	
(264,870)		(264,870)	
(64,584)		(64,584)	
(6,200)		(6,200)	
(91,149)		(91,149)	
(49,960)		(49,960)	
(131,076)		(131,076)	
(10,757)		(10,757)	
(3,566)		(3,566)	
34,336		34,336	
(55,048)		(55,048)	
\$ (853,411)	\$ -	\$ (853,411)	\$ -
	179,169	179,169	
\$ -	\$ 179,169	\$ 179,169	\$ -
\$ (853,411)	\$ 179,169	\$ (674,242)	\$ -
			(1,335)
\$ -	\$ -	\$ -	\$ (1,335)
\$ 331,930	\$ -	\$ 331,930	\$ -
310,071	-	310,071	154,991
101	-	101	
168,435	-	168,435	
3,399	3,378	6,777	2,731
12,131	-	12,131	
-	-	-	
20,182	118,465	138,647	(138,647)
120,000	(120,000)	-	-
\$ 966,249	\$ 1,843	\$ 968,092	\$ 19,075
\$ 112,838	\$ 181,012	\$ 293,850	\$ 17,740
655,349	2,829,769	3,485,118	174,863
-	-	-	-
\$ 768,187	\$ 3,010,781	\$ 3,778,968	\$ 192,603

The accompanying notes are an integral part of these financial statements

**CITY OF QUITMAN, TEXAS
BALANCE SHEET - GOVERNMENT FUNDS
SEPTEMBER 30, 2005**

	General Fund	Other Governmental Funds	Total
ASSETS AND OTHER DEBITS			
ASSETS			
Cash and Investments			
Unrestricted	\$ 150,607	\$ 30,469	\$ 181,076
Restricted	-	11,398	11,398
Receivables (net of allowances for uncollectibles)			
Taxes	55,464	-	55,464
Fees and Services	18,321	250	18,571
Total Assets	\$ 224,392	\$ 42,117	\$ 266,509
LIABILITIES, EQUITY AND OTHER CREDITS			
LIABILITIES			
Accounts Payable	\$ 3,406	\$ -	\$ 3,406
Other Liabilities	18,269	5	18,274
Intergovernmental Payable	12,805	-	12,805
Due to Other Funds	-	-	-
Total Liabilities	\$ 34,480	\$ 5	\$ 34,485
EQUITY AND OTHER CREDITS			
Fund Balances			
Reserved	-	8,215	8,215
Unreserved			
Unreserved-Designated	-	-	-
Unreserved-Undesignated	189,912	33,897	223,809
Total equity and other credits	\$ 189,912	\$ 42,112	\$ 232,024
Total Liabilities, Equity & Other Credits	\$ 224,392	\$ 42,117	\$ 266,509

The accompanying notes are an integral part of these financial statements

CITY OF QUITMAN, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2005

Total fund balances - governmental funds balance sheet	\$	232,024
Amounts reported for governmental activities in the statement of net assets are different because:		
Asset Adjustments during current year		642,606
Depreciation		(55,048)
Current Note Payment Items		(51,395)
Net assets of governmental activities - statement of net assets	\$	<u>768,187</u>

The accompanying notes are an integral part of these financial statements

**CITY OF QUITMAN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENT FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUE			
Property Taxes including P&I	\$ 222,464	\$ 109,466	\$ 331,930
Franchise Fees	168,435	-	168,435
Sales Tax Collected	309,229	842	310,071
Hotel Tax	101	-	101
Charge for Services	39,718	27,277	66,995
Donations	34,336	-	34,336
Miscellaneous	9,287	7,301	16,588
Total Revenues	<u>\$ 783,570</u>	<u>\$ 144,886</u>	<u>\$ 928,456</u>
EXPENDITURES			
Current:			
General Government	\$ 177,196	\$ -	\$ 177,196
Administrative	33,341	-	33,341
Police	296,600	773	297,373
Fire	64,584	-	64,584
Public Works	-	129,747	129,747
Public Services and Operations	15,533	-	15,533
Parks and Recreation	-	87,264	87,264
Library	94,134	6,161	100,295
Capital Outlay	48,299	123,141	171,440
Debt Service			-
Principal Retirement	30,770	-	30,770
Interest and Fiscal Agent Fees	3,566	-	3,566
Total Expenditures	<u>\$ 764,023</u>	<u>\$ 347,086</u>	<u>\$ 1,111,109</u>
Excess (deficiency) of revenues (under) expenditures	\$ 19,547	\$ (202,200)	\$ (182,653)
Other Revenues and Financing Sources (uses)			
Operating Transfers In	\$ -	\$ 120,000	\$ 120,000
Operating Transfers Out	-	-	-
Intergovernmental	182	20,000	20,182
Total Other Financing Sources (uses)	<u>\$ 182</u>	<u>\$ 140,000</u>	<u>\$ 140,182</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	\$ 19,729	\$ (62,200)	\$ (42,471)
Fund Balances/Equity, October 1	170,183	104,312	274,495
Prior Period Adjustments	-	-	-
Fund Balances/Equity, September 30	<u>\$ 189,912</u>	<u>\$ 42,112</u>	<u>\$ 232,024</u>

The accompanying notes are an integral part of these 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, 2005**

Net change in fund balances - total governmental funds \$ (42,471)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period 124,538

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 costs 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. 30,771

Change in net assets of governmental activities - statement of activities \$ 112,838

**CITY OF QUITMAN, TEXAS
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
SEPTEMBER 30, 2005**

ASSETS AND OTHER DEBITS

ASSETS

Cash and Investments		
Unrestricted	\$	222,473
Restricted		-
Receivables (net of allow for uncollectibles)		
Fees and Services		90,115
Unamortized Bond Issuance Fees		20,000
Accumulated Amortization		(4,792)
Property, Plant & Equipment		
Land		45,208
Machinery & Equipment		241,853
Buildings		5,140,850
Infrastructure		20,275
Improvements		1,315,243
Accumulated Depreciation		(2,685,655)
Total Assets	\$	<u>4,405,570</u>

LIABILITIES, EQUITY AND OTHER CREDITS

Liabilities

Accounts Payable and Other Liabilities	\$	5,859
Other Liabilities		48,931
Long Term Debt		
Bonds Payable		1,340,000
Due to Other Funds		-
Total Liabilities	\$	<u>1,394,790</u>

Equity and other credits:

Retained Earnings:		
Unreserved	\$	3,010,780
Reserved		-
Total equity and other credits	\$	<u>3,010,780</u>
Total Liabilities, Equity & Other Credits	\$	<u>4,405,570</u>

The accompanying notes are an integral part of these financial statements

CITY OF QUITMAN, TEXAS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN FUND NET ASSETS-ENTERPRISE FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

	<u>Enterprise Fund</u>
OPERATING REVENUES:	
Charges for Services	\$ 1,081,669
Miscellaneous	3,698
Total Operating Revenues	<u>\$ 1,085,367</u>
OPERATING EXPENSES:	
Personal Services	\$ 383,190
Supplies and Materials	47,731
Maintenance and Repair	56,840
Contractual Services	175,627
Depreciation	193,237
Amortization	2,500
Interest Expense	43,695
Miscellaneous	-
Total Operating Expenses	<u>\$ 902,820</u>
Net Income	<u>\$ 181,012</u>
Retained Earnings/Fund Balances, October 1	2,829,768
Prior Period Adjustments	-
Retained Earnings/Fund Balances, September 30	<u>\$ 3,010,780</u>

The accompanying notes are an integral part of these financial statements

**CITY OF QUITMAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>Enterprise Funds</u>
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 1,095,258
Cash Received from Other Sources	3,697
Cash Paid to Employees and Suppliers	(714,042)
Net Cash Provided by Operating Activities	<u>\$ 384,913</u>
Cash Flows from Non-capital Financing Activities	
Interest Expense	\$ (43,696)
Principal Proceeds	(199,998)
Operating Transfers from Primary Government	(1,535)
Net Cash Provided by Non-capital Financing Activities	<u>\$ (245,229)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition or Construction of Capital Assets	\$ (92,384)
Disposal of Capital Assets	-
Net Cash Used for Capital & Related Financing Activities	<u>\$ (92,384)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 47,300</u>
Cash and Cash Equivalents at Beginning of Year	175,173
Cash and Cash Equivalents at End of Year	<u><u>\$ 222,473</u></u>

The accompanying notes are an integral part of these financial statements

**CITY OF QUITMAN, TEXAS
 STATEMENT OF NET ASSETS - COMPONENT UNITS
 ECONOMIC DEVELOPMENT CORPORATION
 SEPTEMBER 30, 2005**

ASSETS AND OTHER DEBITS

ASSETS

Cash and Investments		
Unrestricted	\$	179,798
Restricted		-
Receivables (net of allowances for uncollectibles)		
<i>Taxes</i>		-
<i>Fees and Services</i>		-
<i>Intergovernmental Receivable</i>		12,805
Due from General Fund		-
Total Assets	\$	<u>192,603</u>

LIABILITIES, EQUITY AND OTHER CREDITS

Equity and other credits:		
Fund Balances		
Reserved		-
Unreserved		192,603
Total equity and other credits		<u>192,603</u>
Total Liabilities, Equity & Other Credits	\$	<u>192,603</u>

The accompanying notes are an integral part of these financial statements

CITY OF QUITMAN, TEXAS
 STATEMENT OF ACTIVITIES - COMPONENT UNITS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Program Revenues			Component Units
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Expenses				
Component units:				
Economic Development	\$ 1,335	\$ -		\$ (1,335)
Total	\$ 1,335	\$ -	\$ -	\$ (1,335)

General revenues:

Property taxes	
Sales taxes	\$ 154,991
Investment income	2,731
Intergovernmental	(138,647)
Miscellaneous	
Total general revenues and transfers	<u>\$ 19,075</u>
Change in net assets	\$ 17,740
Net assets - beginning	174,863
Prior Period Adjustment	-
Net assets - ending	<u>\$ 192,603</u>

The accompanying notes are an integral part of these financial statements

CITY OF QUITMAN, TEXAS
RECONCILIATION OF THE BALANCE SHEET
OF COMPONENT UNITS TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

Total fund balances per balance sheet	\$	192,603
Amounts reported for governmental activities in the statement of activities are different because:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		-
Some long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		-
Total net assets - component units	\$	<u>192,603</u>

The accompanying notes are an integral part of these financial statements

**CITY OF QUITMAN, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Net change in fund balances - total component units	\$	17,740
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Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	-
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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 costs 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.	-
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Change in net assets of component units	<u>\$</u>	<u>17,740</u>
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**CITY OF QUITMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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 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 of 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 nonexchange 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. 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.

CITY OF QUITMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

A. Summary of Significant Accounting Policies

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation (continued)

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.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings result from nonexchange transactions or ancillary activities.

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 recorded 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.

**CITY OF QUITMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

A. Summary of Significant Accounting Policies

2. Basis of Presentation, Basis of Accounting

b. Measurement Focus, Basis of Accounting (continued)

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 the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. 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 reported 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 resources 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.

**CITY OF QUITMAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005**

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts

b. Property Taxes (continued)

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.

c. Inventories and Prepaid Items

Inventories 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 estimated 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 THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005**

A. Summary of Significant Accounting Policies

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 Transfers 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 Statement Note Disclosures," 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 Fund 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 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 THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

C. Deposits and Investments (continued)

Cash Deposits:

At September 30, 2005, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$414,537 and the bank balance was \$513,649. The City's cash deposits at September 30, 2005 and during the year ended September 30, 2004, 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 of 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 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 of purchase. 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 THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

D. Capital Assets

Capital asset activity for the period ended September 30, 2005 was as follows:

	Beginning Balances	Prior Period Adjustments	Additions	Decreases	Ending Balances
Governmental activities:					
Land	\$ 54,345	\$ -	-	-	\$ 54,345
Buildings & Improvements	513,714	-	27,679	-	541,393
Machinery & Equipment	518,651	-	77,600	(10,795)	585,456
Infrastructure	151,021	-	74,309	-	225,330
Total	\$ 1,237,731	\$ -	\$ 179,588	\$ (10,795)	\$ 1,406,524
Accumulated Depreciation					
	Beginning Balances	Prior Period Adjustments	Additions	Decreases	Ending Balances
Buildings & Improvements	\$ (359,416)	\$ -	\$ (12,134)	\$ -	\$ (371,550)
Machinery & Equipment	(393,430)	-	(34,957)	10,795	(417,592)
Infrastructure	(21,865)	-	(7,956)	-	(29,821)
Total	\$ (774,711)	\$ -	\$ (55,047)	\$ 10,795	\$ (818,963)
Water Sewer Fund					
	Beginning Balances	Prior Period Adjustments	Additions	Decreases	Ending Balances
Land	\$ 45,208	\$ -	\$ -	\$ -	\$ 45,208
Buildings	18,277	-	-	-	18,277
Water Plant	3,127,324	-	77,738	-	3,205,062
Sewer Plant	2,815,249	-	2,623	-	2,817,872
Machinery & Equipment	664,987	-	12,023	-	677,010
Total	\$ 6,671,045	\$ -	\$ 92,384	\$ -	\$ 6,763,429
Accumulated Depreciation					
	Beginning Balances	Prior Period Adjustments	Additions	Decreases	Ending Balances
Buildings	\$ (6,557)	\$ -	\$ (432)	\$ -	\$ (6,989)
Water Plant	(743,418)	-	(96,518)	-	(839,936)
Sewer Plant	(1,134,929)	-	(76,234)	-	(1,211,163)
Machinery & Equipment	(607,515)	-	(20,053)	-	(627,568)
Total	\$ (2,492,419)	\$ -	\$ (193,237)	\$ -	\$ (2,685,656)

CITY OF QUITMAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

E. Long-Term Obligations

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

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30 2004	Issued	Retired	Amounts Outstanding September 30 2005
Fire Apparatus	6.25%	162,754	73,102		(21,707)	51,395
Fire Truck	3.99%	61,000	9,063		(9,063)	-
		\$ 223,754	\$ 82,165	\$ -	\$ (30,770)	\$ 51,395

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2006	38,293	2,816	41,109
2007	13,102	1,440	14,542
Totals	\$ 51,395	\$ 4,256	\$ 55,651

Changes in Proprietary Bonded Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30 2003	Issued	Retired	Amounts Outstanding September 30 2004
Series 2003	1.45-3.85%	1,750,000	1,540,000	-	(200,000)	1,340,000
		\$ 1,750,000	\$ 1,540,000	\$ -	\$ (200,000)	\$ 1,340,000

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2006	195,000	40,047	235,047
2007	190,000	35,625	225,625
2008	195,000	30,326	225,326
2009	260,000	23,095	283,095
2010	255,000	14,086	269,086
Thereafter	245,000	4,716	249,716
Totals	\$ 1,340,000	\$ 147,895	\$ 1,487,895

**CITY OF QUITMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

F. Pension Plan

1. Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 794 administered by TMRS, an agent multiple-employer public employee retirement system. Benefits depend upon the sum of the employees contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employees 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 employees 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 employees salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employees 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):	2-1
A member is vested after	10 yrs
Members can retire at certain ages, based on the years of service with the City.	
The Service Retirement Eligibilities for the City are: 10 yrs/age 60, 25 yrs/any age.	

2. Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employees retirement date, not at the time the employees contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarially liability (asset) over the remainder of the plans 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2003 valuations effective for rates beginning January 2005).

**CITY OF QUITMAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005**

F. Pension Plan (continued)

City of Quitman
 Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	<u>12/31/02</u>	<u>12/31/03</u>	<u>12/31/04</u>
Actuarial Value of Assets	\$ 1,276,622	\$ 1,414,795	\$ 1,593,283
Actuarial Accrued Liability	1,675,685	1,784,172	1,962,213
Percentage Funded	76%	79%	81%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	399,063	369,377	368,930
Annual Covered Payroll	600,020	585,578	650,616
UAAL as a Percentage of Covered Payroll	66.5%	63.1%	56.7%
Net Pension Obligation (NPO) at the Beginning of Period	-	-	-
Annual Pension Cost:			
Annual required contribution (ARC) Plus	63,645	69,214	70,792
Contributions Made Less	63,645	69,214	70,792
NPO at the end of the period	-	-	-

G. Health Care Coverage

During the year ended September 30, 2005, 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 the 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 THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005**

H. Insurance Coverage

Below is a schedule of insurance in force.

Company	Policy Number	Description of Coverage	Amount of Coverage	Period Covered	Premium	Deductible
Liability Coverage:						
TX Municipal League	5855	General	1,000,000 per occurrence	10/01/04 to 10/01/05	\$ 4,579	\$ -
TX Municipal League Joint Self Ins Fund	5855	Automotive	1,000,000 per occurrence	10/01/04 to 10/01/05	\$ 4,244	\$ 1,000
TX Municipal League Joint Self Ins Fund	5855	Law Enforcement	1,000,000 per claim	10/01/04 to 10/01/05	\$ 2,668	\$ 1,000
TX Municipal League	5855	Errors & Omissions	1,000,000 per claim	10/01/04 to 10/01/05	6,361	1,000
Property Coverage:						
TX Municipal League Joint Self Ins Fund	5855	Real and Personal	Replacement Cost	10/01/04 to 10/01/05	\$ 8,626	\$ 5,000
TX Municipal League Joint Self Ins Fund	5855	Mobile Equipment	Replacement Cost	10/01/04 to 10/01/05	\$ 46	-
TX Municipal League Joint Self Ins Fund	5855	Automobile-Phys. Damage	Comprehensive Scheduled	10/01/04 to 10/01/05	\$ 3,707	\$ 1,000
TX Municipal League Joint Self Ins Fund	5855	Crime Fidelity & Theft		10/01/04 to 10/01/05	217	-
TX Municipal League Joint Self Ins Fund	5855	Boiler and Machinery	Comprehensive Scheduled	10/01/04 to 10/01/05	N/A	N/A

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, 2004, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred, but not reported.

**CITY OF QUITMAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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 formation 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.

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 charged 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 any money received may be required and the collectibility 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	120,307,000
Gallons Billed	85,896,700

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF QUITMAN, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Budget		Actual	Difference
	Original	Final		
REVENUE				
Property Taxes including P&I	\$ 215,056	\$ 215,056	\$ 222,464	\$ 7,408
Franchise Fees	166,400	166,400	168,435	2,035
Sales Tax Collected	245,000	245,000	309,229	64,229
Hotel/Motel Tax	100	100	101	1
Charge for Services	44,200	44,200	39,718	(4,482)
Licenses & Permits	100	100	-	(100)
Donations	-	-	34,336	34,336
Miscellaneous	2,900	2,900	9,287	6,387
Total Revenues	\$ 673,756	\$ 673,756	\$ 783,570	\$ 109,814
EXPENDITURES				
Current:				
General Government:				
Legislative (City Council)	\$ 180,026	\$ 180,026	\$ 177,196	\$ 2,830
Administration (City Manager) and Public Information (City Secretary)	41,442	41,442	33,341	8,101
Judicial (Municipal Court)	-	-	-	-
Total General Government	\$ 221,468	\$ 221,468	\$ 210,537	\$ 10,931
Public Safety				
Police	\$ 314,850	\$ 314,850	\$ 296,600	\$ 18,250
Fire	70,262	70,262	64,584	5,678
Total Public Safety	\$ 385,112	\$ 385,112	\$ 361,184	\$ 23,928
Library	95,188	95,188	94,134	1,054
Public Services and Operations	23,288	23,288	15,533	7,755
Capital Outlay	28,700	28,700	48,299	(19,599)
Debt Service				
Principal Retirement	-	-	30,770	(30,770)
Interest and Fiscal Agent Fees	-	-	3,566	(3,566)
Total Expenditures	\$ 753,756	\$ 753,756	\$ 764,023	\$ (10,267)
Excess (deficiency) of revenues (under) expenditures	\$ (80,000)	\$ (80,000)	\$ 19,547	\$ 99,547
Other Revenues and Financing Sources (uses)				
Intergovernmental	-	-	182	182
Total Other Financing Sources (uses)	-	-	182	-
Excess of revenues and other financing sources over (under) expenditures and other financing use	(80,000)	(80,000)	19,729	99,729
Fund Balances/Equity, October 1	\$ 170,182	\$ 170,182	\$ 170,183	
Prior Period Adjustments				
Fund Balances/Equity, September 30	\$ 90,182	\$ 90,182	\$ 189,912	

**CITY OF QUITMAN, TEXAS
ECONOMIC DEVELOPMENT CORPORATION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Budget		Actual	Difference
	Original	Final		
REVENUE				
Sales Tax	\$ 20,000	\$ 20,000	\$ 154,991	\$ 134,991
Miscellaneous	-	-	2,731	2,731
Total Revenues	\$ 20,000	\$ 20,000	\$ 157,722	\$ 137,722
EXPENDITURES				
Current:				
Administrative	\$ -	\$ -	\$ 1,335	\$ 1,335
Total Expenditures	\$ -	\$ -	\$ 1,335	\$ 1,335
Excess (deficiency) of revenues (under) expenditures	\$ 20,000	\$ 20,000	\$ 156,387	\$ (136,387)
Other Revenues and Financing Sources (uses)				
Intergovernmental Transfer	\$ -	\$ -	\$ (138,647)	\$ (138,647)
Sources (uses)	\$ -	\$ -	\$ (138,647)	\$ (138,647)
Excess of revenues and other financing sources over (under) expenditures	\$ 20,000	\$ 20,000	\$ 17,740	\$ (2,260)
Fund Balances/Equity, October 1	\$ 174,863	\$ 174,863	\$ 174,863	
Prior Period Adjustments		\$ -		
Fund Balances/Equity, September 30	\$ 194,863	\$ 194,863	\$ 192,603	

COMBINING FINANCIAL STATEMENTS

CITY OF QUITMAN, TEXAS
 BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2005

	Street Fund	Library Memorial Fund	Police Education Fund	Park Fund	Library Grant Fund	Total Other Governmental Funds
ASSETS AND OTHER DEBITS						
ASSETS						
Cash and Investments:						
Unrestricted	\$ 10,254	\$ 3,647	\$ -	\$ 16,567	\$ -	\$ 30,468
Restricted	-	-	6,146	-	5,252	11,398
Receivables (net of allow. for uncoll)						
Taxes	-	-	-	-	-	-
Fees and Services	-	-	-	250	-	250
Total Assets	\$ 10,254	\$ 3,647	\$ 6,146	\$ 16,817	\$ 5,252	\$ 42,116
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	-	-	-
Other Liabilities	5	-	-	-	-	5
Total Liabilities	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 5
FUND BALANCES						
Restricted	\$ -	\$ -	\$ 6,146	\$ 16,817	\$ 5,252	\$ 28,215
Unrestricted	10,249	3,647	-	-	-	13,896
Total Fund Balances	\$ 10,249	\$ 3,647	\$ 6,146	\$ 16,817	\$ 5,252	\$ 42,111
Total Liabilities and Fund Balances	\$ 10,254	\$ 3,647	\$ 6,146	\$ 16,817	\$ 5,252	\$ 42,116

CITY OF QUITMAN, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Street Fund	Library Memorial Fund	Police Education Fund	Park Fund	Library Grant Fund	Total Other Governmental Funds
REVENUE						
Property Taxes including P&I	\$ 109,466	\$ -	\$ -	\$ -	\$ -	\$ 109,466
Non-Property Taxes	-	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-	-
Sales Tax	842	-	-	-	-	842
Charge for Services	23	-	-	27,254	-	27,277
Intergovernmental	-	-	-	20,000	-	20,000
Grant Revenue	-	-	-	-	-	-
Miscellaneous	663	3,296	1,141	372	1,829	7,301
Total Revenues	\$ 110,994	\$ 3,296	\$ 1,141	\$ 47,626	\$ 1,829	\$ 164,886
EXPENDITURES						
Current:						
Public Works	\$ 129,746	\$ -	\$ -	\$ -	\$ -	\$ 129,746
Public Services and Operations	-	-	772	-	-	772
Parks and Recreations	-	-	-	87,264	-	87,264
General Government	-	-	-	-	-	-
Capital Outlay	123,141	-	-	-	-	123,141
Library	-	2,145	-	-	4,018	6,163
Other	-	-	-	-	-	-
Debt Service						
Installment Payments	-	-	-	-	-	-
Interest and Fiscal Agent Fees	-	-	-	-	-	-
Total Expenditures	\$ 252,887	\$ 2,145	\$ 772	\$ 87,264	\$ 4,018	\$ 347,086
Net Change In Fund Balances	\$ (21,893)	\$ 1,151	\$ 369	\$ (39,638)	\$ (2,189)	\$ (62,200)
Fund Balances/Equity, October 1	32,142	2,496	5,777	56,455	7,442	104,312
Fund Balances/Equity, September 30	\$ 10,249	\$ 3,647	\$ 6,146	\$ 16,817	\$ 5,253	\$ 42,112