

CITY OF QUITMAN, TEXAS
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2006

**CITY OF QUITMAN, TEXAS
TABLE OF CONTENTS**

| | <u>Page</u> |
|--|-------------|
| Introductory Section | |
| Letter of Transmittal | 1 |
| Elected Officials and Administrative Officers | 4 |
| Financial Section | |
| Independent Auditor's Report on Financial Statements | 5 |
| Management's Discussion and Analysis | 7 |
| Basic Financial Statements | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 15 |
| Statement of Activities | 17 |
| Fund Financial Statements: | |
| Governmental Fund Financial Statements | |
| Balance Sheet | 19 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets | 20 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | 21 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 23 |
| Proprietary Fund Financial Statements | |
| Statement of Net Assets | 24 |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets | 25 |
| Statement of Cash Flows | 26 |
| Component Units | |
| Balance Sheet | 27 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances | 28 |
| Notes to the Financial Statements | 29 |
| Required Supplementary Information | |
| Budget and Actual Comparison | |
| General Fund | |
| Budgetary Comparison Schedule | 42 |
| Combining Financial Statements | |
| Nonmajor Governmental Funds | |
| Balance Sheet | 43 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances | 44 |

INTRODUCTORY SECTION

Honorable Mayor and City Council
City of Quitman
Quitman, Texas

Mayor and Council Members:

The Comprehensive Annual Financial Report (CAFR) of the City of Quitman, Texas, for the year ended September 30, 2006, 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 comprehensive 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 – 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 2005 – 2006.

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 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 Administrator 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 Administrator, 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 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 |
| 2005-2006 | .4016 |

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, 2006, 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 Yours,

Anna Hayes
City Secretary/ Administrator

CITY COUNCIL

Larry W. Robertson, Mayor

Randy Bennett, Alderman
Richard Kleebauer, Alderman
Jane Bardwell, Alderwoman
J.R. Evans, Alderman
Troy Robinson, Alderman

ADMINISTRATIVE STAFF

Anna K. Hayes, City Secretary/Administrator

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Quitman, Texas

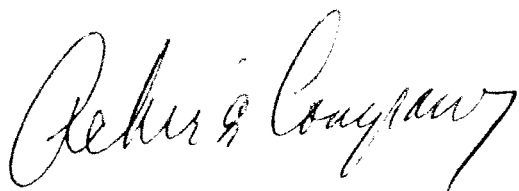
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Quitman, (the City), as of and for the year ended September 30, 2006, which collectively comprise the City's 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 those 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 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, 2006, 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 notes to financial statements 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 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 purpose of additional analysis and is not a required part of the basic financial statements. The Combining Financial Statements have been subject 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, 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 "Ackers & Company". The signature is written in black ink and is positioned above the printed name of the firm.

ACKER & COMPANY
Certified Public Accountants
January 4, 2006

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, 2006. 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 \$4,267,391 (net assets).
- The government's total net assets increased by \$445,107, 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 \$925,760, an increase of \$157,573 in comparison with the prior year. Approximately 87% of this total amount, or \$803,794, is available for spending at the government's discretion (unreserved fund balance).
- The City of Quitman's total bonded debt decreased by (\$195,000) or 15% 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 (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.

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 finance 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 basis 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 call *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 financials 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 29 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Financial Analysis

The government-wide financial statements for the fiscal year ended September 30, 2006 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 | |
|-----------------------------|----------------------------|---------------|-----------------------------|-----------------|-----------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current and Other Assets | \$ 277 | \$ 267 | \$ 654 | \$ 313 | \$ 931 | \$ 580 |
| Capital Assets | 649 | 588 | 4,005 | 4,093 | 4,654 | 4,681 |
| Total Assets | \$ 926 | \$ 855 | \$ 4,659 | \$ 4,406 | \$ 5,585 | \$ 5,261 |
| Current Liabilities | \$ 39 | \$ 36 | \$ 257 | \$ 250 | \$ 296 | \$ 91 |
| Long-term Liabilities | 30 | 51 | 991 | 1,145 | 1,021 | 1,391 |
| Total Liabilities | \$ 69 | \$ 87 | \$ 1,248 | \$ 1,395 | \$ 1,317 | \$ 1,482 |
| Net Assets: | | | | | | |
| Invested in Capital Assets, | | | | | | |
| Net of Related Debt | \$ 610 | \$ 537 | \$ 2,813 | \$ 2,753 | \$ 3,423 | \$ 3,290 |
| Restricted | - | 8 | - | - | - | 8 |
| Unrestricted | 247 | 223 | 598 | 258 | 845 | 481 |
| Total Net Assets | \$ 857 | \$ 768 | \$ 3,411 | \$ 3,011 | \$ 4,268 | \$ 3,779 |

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 net assets of the City of Quitman exceeded liabilities by \$4,267,391 as of September 30, 2006. The City's net assets increased by \$445,107 for fiscal year ended September 30, 2006. However, the largest portion (81%) 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, .23% represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted.

THE CITY OF QUITMAN'S NET ASSETS

Changes in Net Assets

| | 2006 | | | 2005 | | |
|--------------------|------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| | Governmental | Business | Total | Governmental | Business | Total |
| Total Revenue | \$ 1,184,417 | \$ 1,353,653 | \$ 2,538,070 | \$ 928,456 | \$ 1,085,367 | \$2,013,823 |
| Total Expense | 1,130,737 | 1,047,226 | 2,177,963 | (955,800) | (902,820) | (1,858,620) |
| | <u>\$ 53,680</u> | <u>\$ 306,427</u> | <u>\$ 360,107</u> | <u>\$ (27,344)</u> | <u>\$ 182,547</u> | <u>\$ 155,203</u> |
| Transfers and | | | | | | |
| Intergovernmental | \$ (8,297) | \$ 93,297 | \$ 85,000 | \$ 140,182 | \$ (1,535) | \$ 138,647 |
| Increase(decrease) | | | | | | |
| in Net Assets | <u>\$ 45,383</u> | <u>\$ 399,724</u> | <u>\$ 445,107</u> | <u>\$ 112,838</u> | <u>\$ 181,012</u> | <u>\$ 293,850</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental-type Activities

Governmental activities increased the City's net assets by \$45,383, thereby accounting for 10% of the total change in the net assets of the City of Quitman. Key elements of this increase are as follows:

- Franchise fees increased by \$38,000.
- Property & Sales Tax remained steady.

Business-type Activities

Business-type activities increased the City of Quitman's net assets by \$399,724. Key elements of this increase are as follows:

- Water, Sewer, and Solid Waste revenue increased significantly.
- 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 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 \$125,339. 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 15% of the total General Fund expenditures.

At September 30, 2006, the governmental funds of the City of Quitman reported a combined fund balance of \$247,157, a 7% increase from last year.

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 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 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 Fund

The City of Quitman's proprietary funds provide the same type of information found in the government-wide statements but no more detail. Unrestricted net assets of the Utility Fund at the end of the fiscal year amounted to \$3,410,505.

Capital Assets

The City of Quitman's investment in capital assets for its governmental and business-type activities as of September 30, 2006, totals \$4,640,492 (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.

CITY OF QUITMAN CAPITAL ASSETS AS OF SEPTEMBER 30, 2006

| | Governmental Activities | Business Activities | Total |
|--|----------------------------|------------------------|--------------|
| Land | \$ 54,345 | \$ 45,208 | \$ 99,553 |
| Buildings | 559,708 | - | 559,708 |
| Machinery and Equipment | 691,947 | 351,556 | 1,043,503 |
| Water and Sewer System Infrastructure | - | 6,476,368 | 6,476,368 |
| | 225,330 | - | 225,330 |
| Accumulated Depreciation | (882,986) | (2,880,984) | (3,763,970) |
| Total | \$ 648,344 | \$ 3,992,148 | \$ 4,640,492 |

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term Debt

As of September 30, 2006, the City of Quitman has total bonded debt outstanding of \$1,145,000.

**CITY OF QUITMAN
OUTSTANDING BONDS
AS OF SEPTEMBER 30, 2006**

| | |
|------------------|--------------|
| Enterprise Funds | \$ 1,145,000 |
| General Funds | - |
| | - |
| Total | \$ 1,145,000 |

The City of Quitman's bonded debt decreased by \$195,000 (15%) during the past fiscal year.

BASIC FINANCIAL STATEMENTS

**CITY OF QUITMAN, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

| | <u>Primary Government</u> | | <u>Total</u> | <u>Component Units</u> |
|---|------------------------------------|-------------------------------------|--------------------|----------------------------|
| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | | |
| ASSETS AND OTHER DEBITS | | | | |
| ASSETS: | | | | |
| Cash and Investments | | | | |
| Unrestricted | \$ 201,919 | \$ 563,890 | \$ 765,809 | \$ 111,404 |
| Restricted | - | - | - | - |
| Receivables (net of allow for uncollectibles) | | | | |
| Taxes | 56,175 | - | 56,175 | - |
| Fees and Services | 19,321 | 90,056 | 109,377 | - |
| Intergovernmental Receivable | - | - | - | 12,907 |
| Bond Issuance Cost (net) | - | 12,708 | 12,708 | - |
| Property, Plant, and Equipment | | | | |
| Land | 54,345 | 45,208 | 99,553 | - |
| Machinery and Equipment | 292,792 | 351,556 | 644,348 | - |
| Buildings | 559,708 | - | 559,708 | - |
| Water and Sewer Systems | - | 6,476,368 | 6,476,368 | - |
| Office Equipment | 15,582 | - | 15,582 | - |
| Computers | 42,109 | - | 42,109 | - |
| Vehicles | 100,367 | - | 100,367 | - |
| Infrastructure | 225,331 | - | 225,331 | - |
| Fire Equipment | 241,097 | - | 241,097 | - |
| Accumulated Depreciation | (882,986) | (2,880,984) | (3,763,970) | - |
| Total Assets | <u>\$ 925,760</u> | <u>\$ 4,658,802</u> | <u>\$5,584,562</u> | <u>\$ 124,311</u> |

See accompanying notes to financial statements.

CITY OF QUITMAN, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

| | <u>Primary Government</u> | | <u>Total</u> | <u>Component</u> <u>Units</u> |
|--|--|---|--------------------|----------------------------------|
| | <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> | | |
| LIABILITIES, EQUITY, AND OTHER CREDIT | | | | |
| LIABILITIES: | | | | |
| Accounts Payable | \$ 12,171 | \$ 816 | \$ 12,987 | \$ - |
| Other Liabilities | 5,184 | 55,480 | 60,664 | - |
| Intergovernmental Payable | 12,907 | - | 12,907 | - |
| Current Notes Payable | 8,958 | 200,970 | 209,928 | - |
| Long Term Debt | | | | |
| Notes Payable | 38,612 | 47,001 | 85,613 | - |
| Revenue Bond Payable | - | 1,145,000 | 1,145,000 | - |
| Less: Current Portion | (8,958) | (200,970) | (209,928) | - |
| Total Liabilities | <u>\$ 68,874</u> | <u>\$ 1,248,297</u> | <u>\$1,317,171</u> | <u>\$ -</u> |
| EQUITY AND OTHER CREDITS: | | | | |
| Retained Earnings | | | | |
| Unreserved | - | 563,357 | 563,357 | - |
| Fund Balances | | | | |
| Reserved | 9,776 | - | 9,776 | - |
| Unreserved | 847,110 | 2,847,148 | 3,694,258 | 124,311 |
| Unreserved - Designated | - | - | - | - |
| Unreserved - Undesignated | - | - | - | - |
| Total Equity and Other Credits | <u>\$ 856,886</u> | <u>\$ 3,410,505</u> | <u>\$4,267,391</u> | <u>\$ 124,311</u> |
| Total Liabilities, Equity, and Other Credits | <u>\$ 925,760</u> | <u>\$ 4,658,802</u> | <u>\$5,584,562</u> | <u>\$ 124,311</u> |

See accompanying notes to financial statements.

**CITY OF QUITMAN, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

| Functions/Programs Activities Primary Government | Program Revenues | | | | Net (Expenses) Revenue and Changes in Net Assets | | | Component Units |
|---|------------------|-------------------------|-----------------------------|--|--|---------------------------------|--------------|--------------------|
| | Expenses | Charges for Services | Operating | | Governmental Activities | Business- type Activities | Total | |
| | | | Grants and Contributions | Capital Grants and Contributions | | | | |
| Governmental Activities: | | | | | | | | |
| General Government | \$ 258,306 | \$ - | \$ - | \$ - | \$ (258,306) | \$ - | \$ (258,306) | \$ - |
| Police | 330,896 | 38,579 | - | - | (292,317) | - | (292,317) | - |
| Fire | 99,462 | - | 5,200 | - | (94,262) | - | (94,262) | - |
| Public Services and Operations | 14,534 | - | - | - | (14,534) | - | (14,534) | - |
| Library | 139,661 | 8,708 | 17,872 | - | (113,081) | - | (113,081) | - |
| Parks and Recreation | 62,679 | 49,146 | - | - | (13,533) | - | (13,533) | - |
| Public Works | 193,180 | 113,290 | - | - | (79,890) | - | (79,890) | - |
| Donation | - | - | - | 51,397 | 51,397 | - | 51,397 | - |
| Unallocated Depreciation | 32,019 | - | - | - | (32,019) | - | (32,019) | - |
| Total Governmental Activities | \$1,130,737 | \$ 209,723 | \$ 23,072 | \$ 51,397 | \$ (846,545) | - | \$ (846,545) | - |
| Business-type Activities: | | | | | | | | |
| Water and Sewer | 1,047,226 | 1,327,372 | - | - | - | 280,146 | 280,146 | - |
| Total Business-type Activities | \$1,047,226 | \$1,327,372 | \$ - | \$ - | \$ - | \$ 280,146 | \$ 280,146 | \$ - |
| Total Primary Government | \$2,177,963 | \$1,537,095 | \$ 23,072 | \$ 51,397 | \$ (846,545) | \$ 280,146 | \$ (566,399) | \$ - |
| Component Units | | | | | | | | |
| Economic Development | 91,966 | - | - | - | - | - | - | (91,966) |
| Total Component Units | \$ 91,966 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (91,966) |

See accompanying notes to financial statements.

**CITY OF QUITMAN, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

| Functions/Programs | Program Revenues | | | | Net (Expenses) Revenue and Changes in Net Assets | | | | |
|---|------------------|----------------------|--------------------------|----------------------------------|--|--------------------------|---------------------|-------------------|--|
| | Expenses | Charges for Services | Operating | | Primary Government | | | | |
| | | | Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total | Component Units | |
| General Revenues: | | | | | | | | | |
| Property Taxes | | | | | \$ 352,341 | \$ - | \$ 352,341 | \$ - | |
| Sales Taxes | | | | | 299,407 | - | 299,407 | 147,298 | |
| Hotel/ Motel | | | | | 106 | - | 106 | - | |
| Franchise Fees | | | | | 206,722 | - | 206,722 | - | |
| Investment Income | | | | | 16,648 | 12,632 | 29,280 | 4,692 | |
| Miscellaneous | | | | | 25,001 | 13,649 | 38,650 | - | |
| Intergovernmental Transfers | | | | | 35,000 | 50,000 | 85,000 | (85,000) | |
| | | | | | (43,297) | 43,297 | - | - | |
| Total General Revenues and Transfers | | | | | <u>\$ 891,928</u> | <u>\$ 119,578</u> | <u>\$ 1,011,506</u> | <u>\$ 66,990</u> | |
| Change in Net Assets | | | | | \$ 45,383 | \$ 399,724 | \$ 445,107 | \$ (24,976) | |
| Net Assets - Beginning Restatement | | | | | 768,187 | 3,010,781 | 3,778,968 | 192,603 | |
| | | | | | 43,316 | - | 43,316 | (43,316) | |
| Net Assets - Ending | | | | | <u>\$ 856,886</u> | <u>\$3,410,505</u> | <u>\$ 4,267,391</u> | <u>\$ 124,311</u> | |

**CITY OF QUITMAN, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006**

| ASSETS AND OTHER DEBITS | <u>General Fund</u> | <u>Other</u> | <u>Total</u> |
|--|-----------------------|----------------------|-----------------------|
| ASSETS | | | |
| Cash and Investments | | | |
| Unrestricted | \$ 201,919 | \$ - | \$ 201,919 |
| Restricted | - | - | - |
| Receivables (net of allowances for uncollectibles) | | | |
| Taxes | 56,175 | - | 56,175 |
| Fees and Services | 19,321 | - | 19,321 |
| Due from Other Funds | <u>-</u> | <u>78,498</u> | <u>78,498</u> |
| Total Assets | <u>\$ 277,415</u> | <u>\$ 78,498</u> | <u>\$ 355,913</u> |
| LIABILITIES, EQUITY AND OTHER CREDITS | | | |
| LIABILITIES | | | |
| Accounts Payable | \$ 12,171 | \$ - | \$ 12,171 |
| Other Liabilities | 5,184 | - | 5,184 |
| Intergovernmental Payable | 12,907 | - | 12,907 |
| Due to Other Funds | <u>78,498</u> | <u>-</u> | <u>78,498</u> |
| Total Liabilities | <u>\$ 108,760</u> | <u>\$ -</u> | <u>\$ 108,760</u> |
| EQUITY AND OTHER CREDITS | | | |
| Fund Balances | | | |
| Reserved | - | 12,619 | 12,619 |
| Unreserved | - | - | - |
| Unreserved - Designated | - | 65,879 | 65,879 |
| Unreserved - Undesignated | <u>168,655</u> | <u>-</u> | <u>168,655</u> |
| Total Equity and Other Credits | <u>\$ 168,655</u> | <u>\$ 78,498</u> | <u>\$ 247,153</u> |
| Total Liabilities, Equity, and Other Credits | <u>\$ 277,415</u> | <u>\$ 78,498</u> | <u>\$ 355,913</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, 2006

| | |
|---|-------------------|
| Total Fund Balances per Balance Sheet | \$ 247,153 |
| 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. | 648,344 |
| Some long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds | <u>(38,611)</u> |
| Total Net Assets - Component Units | <u>\$ 856,886</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, 2006

| | General Fund | Other Governmental Fund | Total Governmental Funds |
|--|--------------------|-------------------------------|--------------------------------|
| Revenues: | | | |
| Property Taxes including P & I | \$ 187,332 | \$ 165,009 | \$ 352,341 |
| Franchise Fees | 206,722 | - | 206,722 |
| Sales Tax Collected | 299,407 | - | 299,407 |
| Hotel Tax | 106 | - | 106 |
| Charges for Services | 48,853 | 162,436 | 211,289 |
| Donations | 51,395 | - | 51,395 |
| Miscellaneous | 38,051 | 25,104 | 63,155 |
| Total Revenues | <u>\$ 831,866</u> | <u>\$ 352,549</u> | <u>\$ 1,184,415</u> |
| Expenditures: | | | |
| Current | | | |
| General Government | \$ 258,306 | \$ - | \$ 258,306 |
| Police | 342,655 | 5,052 | 347,707 |
| Fire | 91,099 | - | 91,099 |
| Public Works | - | 139,661 | 139,661 |
| Public Services and Operations | 14,534 | - | 14,534 |
| Parks and Recreation | - | 80,302 | 80,302 |
| Library | 95,151 | 4,932 | 100,083 |
| Capital Outlay | - | 121,216 | 121,216 |
| Debt Service | | | |
| Principal Retirement | 51,397 | - | 51,397 |
| Total Expenditures | <u>\$ 853,142</u> | <u>\$ 351,163</u> | <u>\$ 1,204,305</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>\$ (21,276)</u> | <u>\$ 1,386</u> | <u>\$ (19,890)</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, 2006

| | <u>General Fund</u> | <u>Other Governmental Fund</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|--|---|
| Other Revenue and Financing Sources (Uses): | | | |
| Operating Transfers Out | \$ (43,297) | \$ - | \$ (43,297) |
| Intergovernmental | <u>-</u> | <u>35,000</u> | <u>35,000</u> |
| Total Other Financing Sources (Uses) | <u>\$ (43,297)</u> | <u>\$ 35,000</u> | <u>\$ (8,297)</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | \$ (64,573) | \$ 36,386 | \$ (28,187) |
| Fund Balance/ Equity, October 1 | 189,912 | 42,112 | 232,024 |
| Restatement | <u>43,316</u> | <u>-</u> | <u>43,316</u> |
| Fund Balance/ Equity, September 30 | <u>\$ 168,655</u> | <u>\$ 78,498</u> | <u>\$ 247,153</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, 2006**

| | |
|--|-------------|
| Net change in fund balances - total governmental funds | \$ (28,187) |
|--|-------------|

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 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 | 60,784 |
|--|--------|

| | |
|--|--------|
| 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. | 12,786 |
|--|--------|

| | |
|---|-----------|
| Change in net assets of governmental activities - statement of activities | \$ 45,383 |
|---|-----------|

See accompanying notes to financial statements.

**CITY OF QUITMAN, TEXAS
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

| | <u>Water and Sewer Fund</u> |
|---|---------------------------------|
| ASSETS AND OTHER DEBITS | |
| ASSETS: | |
| Cash and Investments | |
| Unrestricted | \$ 563,890 |
| Receivables (net of allow for uncollectibles) | |
| Fees and Services | 90,056 |
| Bond Issuance Fees (net of amortization of \$7,292) | 12,708 |
| Property, Plant, and Equipment | |
| Land | 45,208 |
| Machinery and Equipment | 351,556 |
| Water and Sewer Systems | 6,476,368 |
| Accumulated Depreciation | <u>(2,880,984)</u> |
| Total Assets | <u>\$ 4,658,802</u> |
| LIABILITIES, EQUITY, AND OTHER CREDITS | |
| LIABILITIES: | |
| Accounts Payable and Other Liabilities | \$ 816 |
| Other Liabilities | 55,480 |
| Long Term Debt | |
| Bonds Payable | 1,145,000 |
| Notes Payable | <u>47,001</u> |
| Total Liabilities | <u>\$ 1,248,297</u> |
| EQUITY AND OTHER CREDITS: | |
| Retained Earnings | |
| Unreserved | \$ 3,410,505 |
| Reserved | <u>-</u> |
| Total Equity and Other Credits | <u>\$ 3,410,505</u> |
| Total Liabilities, Equity, and Other Credits | <u>\$ 4,658,802</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, 2006

| | <u>Enterprise Fund</u> |
|---|----------------------------|
| OPERATING REVENUES: | |
| Charges for Services | \$ 1,327,372 |
| Miscellaneous | <u>13,649</u> |
| Total Operating Revenues | <u>\$ 1,341,021</u> |
| OPERATING EXPENSES: | |
| Personal Services | \$ 385,312 |
| Supplies and Materials | 67,707 |
| Maintenance and Repair | 113,488 |
| Contractual Services | 37,458 |
| Depreciation | 195,329 |
| Sanitation | 73,573 |
| Utilities | 52,104 |
| Sabine River Authority | 43,809 |
| Miscellaneous | <u>35,901</u> |
| Total Operating Expenses | <u>\$ 1,004,681</u> |
| Net Income from Operations | <u>\$ 336,340</u> |
| OTHER INCOME AND EXPENSE: | |
| Interest Income | 12,632 |
| Interest Expense | <u>(42,545)</u> |
| NET INCOME | 306,427 |
| Transfers In | <u>93,297</u> |
| Total Increase in Retained Earnings | 399,724 |
| Retained Earnings/Fund Balances, October 1 | <u>3,010,781</u> |
| Retained Earnings/Fund Balances, September 30 | <u>\$ 3,410,505</u> |

See accompanying notes to financial statements.

**CITY OF QUITMAN, TEXAS
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

| | Fund |
|---|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash Received from Customers | \$ 1,327,431 |
| Cash Received from Other Sources | 26,281 |
| Cash Paid to Employees and Suppliers | (805,346) |
| Net Cash Provided by Operating Activities | \$ 548,366 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | |
| Interest Expense | \$ (42,544) |
| Operating Transfers from Other Governments | 93,297 |
| Net Cash Provided by Non-Capital Financing Activities | \$ 50,753 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition or Construction of Capital Assets | \$ (109,703) |
| Long-term Borrowing | 47,001 |
| Reduction of Bonds Payable | (195,000) |
| Net Cash Used for Capital and Related Financing Activities | \$ (257,702) |
| Net Increase in Cash and Cash Equivalents | \$ 341,417 |
| Cash and Cash Equivalents - Beginning of Year | 222,473 |
| Cash and Cash Equivalents - End of Year | \$ 563,890 |

See accompanying notes to financial statements.

CITY OF QUITMAN, TEXAS
BALANCE SHEET - COMPONENT UNITS
ECONOMIC DEVELOPMENT CORPORATION
SEPTEMBER 30, 2006

ASSETS AND OTHER DEBITS

ASSETS:

| | |
|---|--------------------------|
| Cash and Investments | |
| Unrestricted | \$ 111,404 |
| Restricted | - |
| Receivables (net of allowance for uncollectibles) | |
| <i>Intergovernmental Receivable</i> | <u>12,907</u> |
| Total Assets | <u><u>\$ 124,311</u></u> |

LIABILITIES, EQUITY, AND OTHER CREDITS

EQUITY AND OTHER CREDITS:

| | |
|--|--------------------------|
| Fund Balances | |
| Reserved | \$ - |
| Unreserved | <u>124,311</u> |
| Total Equity and Other Credits | <u>124,311</u> |
| Total Liabilities, Equity, and Other Credits | <u><u>\$ 124,311</u></u> |

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, 2006

| | <u>Program Revenues</u> | | | <u>Component Units</u> | |
|-------------------------|-------------------------|-----------------------------|---|------------------------|---|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | | <u>Capital Grants and Contributions</u> |
| Component Units: | | | | | |
| Economic Development | \$ (91,966) | \$ - | - | - | \$ (91,966) |
| Total | <u>\$ (91,966)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (91,966)</u> |

General Revenues:

| | |
|---|-------------------|
| Property Taxes | |
| Sales Taxes | \$ 147,298 |
| Investment Income | <u>4,692</u> |
| Total General Revenues | 151,990 |
| Intergovernmental Transfer | <u>(85,000)</u> |
| Changes in Net Assets | (24,976) |
| Net Assets - Beginning as Previously Reported | 192,603 |
| Restatement | <u>(43,316)</u> |
| Net Assets - Ending | <u>\$ 124,311</u> |

See accompanying notes to financial statements.

**CITY OF QUITMAN, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

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 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.

**CITY OF QUITMAN, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

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, 2006**

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, 2006**

3. Financial Statement Amounts (continued)

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 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, 2006**

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, 2006**

C. – DEPOSITS AND INVESTMENTS (continued)

Cash Deposits:

At September 30, 2006, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$765,809 and the bank balance was \$774,273. The City's cash deposits at September 30, 2006 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 to the Act. Additionally, investment practices of the City were in accordance with local polices.

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, 2006**

D. – CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2006 was as follows:

| | Beginning Balances | Additions | Decreases | Ending Balances |
|---------------------------------|-----------------------|-------------------|-------------|---------------------|
| GOVERNMENT ACTIVITIES: | | | | |
| General Fund | | | | |
| Land | \$ 54,345 | \$ - | \$ - | \$ 54,345 |
| Building and Improvements | 541,393 | 18,315 | - | 559,708 |
| Machinery and Equipment | 585,456 | 106,491 | - | 691,947 |
| Infrastructure | <u>225,330</u> | <u>-</u> | <u>-</u> | <u>225,330</u> |
| Total | <u>\$ 1,406,524</u> | <u>\$ 124,806</u> | <u>\$ -</u> | <u>\$ 1,531,330</u> |
| <i>Accumulated Depreciation</i> | <u>\$ 818,963</u> | <u>\$ 64,023</u> | <u>\$ -</u> | <u>\$ 882,986</u> |
| Water Sewer Fund | | | | |
| Land | \$ 45,208 | \$ - | \$ - | \$ 45,208 |
| Water and Sewer System | 6,476,368 | - | - | 6,476,368 |
| Machinery and Equipment | <u>241,853</u> | <u>109,703</u> | <u>-</u> | <u>351,556</u> |
| Total | <u>\$ 6,763,429</u> | <u>\$ 109,703</u> | <u>\$ -</u> | <u>\$ 6,873,132</u> |
| <i>Accumulated Depreciation</i> | <u>\$ 2,685,655</u> | <u>\$ 195,329</u> | <u>\$ -</u> | <u>\$ 2,880,984</u> |

CITY OF QUITMAN, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

D. – LONG-TERM OBLIGATIONS

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

| Description | Interest Rate Payable | Amounts Original Issue | Amounts Outstanding September 30, 2005 | Issued | Retired | Amounts Outstanding September 30, 2006 |
|----------------|-----------------------|------------------------|--|------------------|-------------------|--|
| Fire Apparatus | 6.25% | 162,745 | 51,395 | - | (51,395) | - |
| Fire Truck | 3.99% | <u>38,612</u> | <u>-</u> | <u>38,612</u> | <u>-</u> | <u>38,612</u> |
| | | <u>\$201,357</u> | <u>\$ 51,395</u> | <u>\$ 38,612</u> | <u>\$(51,395)</u> | <u>\$ 38,612</u> |

Debt service requirements are as follows:

| Year Ended September 30: | Principal | Interest | Total Requirements |
|--------------------------|------------------|-----------------|--------------------|
| 2007 | 8,958 | 1,931 | 10,889 |
| 2008 | 9,406 | 1,483 | 10,889 |
| 2009 | 9,876 | 1,012 | 10,888 |
| 2010 | <u>10,371</u> | <u>519</u> | <u>10,890</u> |
| Total | <u>\$ 38,611</u> | <u>\$ 4,945</u> | <u>\$ 43,556</u> |

Changes in Proprietary Bonded Debt

| Description | Interest Rate Payable | Amounts Original Issue | Amounts Outstanding September 30, 2005 | Issued | Retired | Amounts Outstanding September 30, 2006 |
|-------------|-----------------------|------------------------|--|-------------|--------------------|--|
| Series 2003 | 1.45%- 3.85% | <u>1,750,000</u> | <u>1,340,000</u> | <u>-</u> | <u>(195,000)</u> | <u>1,145,000</u> |
| | | <u>\$1,750,000</u> | <u>\$ 1,340,000</u> | <u>\$ -</u> | <u>\$(195,000)</u> | <u>\$ 1,145,000</u> |

**CITY OF QUITMAN, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

D. – LONG-TERM OBLIGATIONS (continued)

Debt service requirements are as follows:

| Year Ended September 30: | <u>Principal</u> | <u>Interest</u> | <u>Total Requirements</u> |
|--------------------------|---------------------|-------------------|-------------------------------|
| 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 | <u>245,000</u> | <u>4,716</u> | <u>249,716</u> |
| Total | <u>\$ 1,145,000</u> | <u>\$ 107,848</u> | <u>\$ 1,252,848</u> |

The proprietary fund also has a note payable for equipment of \$47,000 bearing interest at 4.6%. The original loan was \$60,133. The City pays \$13,132 per year for 4 years, principal and interest.

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 811 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 employees, 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.

CITY OF QUITMAN, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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 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
 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 obligations of the City as of an employees retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost methods are 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, 2005 valuation is effective for rates beginning January 2007).

CITY OF QUITMAN
SCHEDULE OF ACTUARIAL LIABILITIES AND FUNDING PROGRESS

| Actuarial Valuation Date | 12/31/2003 | 12/31/2004 | 12/31/2005 |
|--|--------------|--------------|--------------|
| Actuarial Value if Assets | \$ 1,414,795 | \$ 1,593,283 | \$ 1,658,956 |
| Actuarial Accrued Liability | 1,784,172 | 1,962,213 | 2,051,951 |
| Percentage Funded | 79% | 81% | 80.8% |
| Unfunded (Over-funded) Actuarial Accrued Liability (UAAL) | 369,377 | 368,930 | 392,955 |
| Annual Covered Payroll | 585,578 | 650,616 | 645,233 |
| UAAL as a Percentage of Covered Payroll | 63.1% | 56.7% | 60.9% |
| Net Pension Obligation (NPO) at the Beginning of the Period | \$ - | \$ - | \$ - |
| Annual Pension Cost: | | | |
| Annual Required Contribution (ARC) | Plus 69,214 | 70,792 | 73,009 |
| Contributions Made | Less 69,214 | 70,792 | 73,009 |
| NPO at the End of the Period | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

**CITY OF QUITMAN, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

G. – HEALTH CARE COVERAGE (continued)

During the year ended September 30, 2006, 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.

H. – INSURANCE COVERAGE

Below is a schedule of insurance in force.

| Company Liability Coverage: | Policy Number | Description of Coverage | Amount of Coverage | Period Covered | Premium | Deductible |
|--|----------------------|--------------------------------|-----------------------------|------------------------|----------------|-------------------|
| TX Municipal League | 5855 | General | 1,000,000 per occurrence | 10/01/06 to 10/1/07 | \$ 5,286 | \$ - |
| TX Municipal League | 5855 | Automotive | 1,000,000 per occurrence | 10/01/06 to 10/1/07 | \$ 5,085 | \$ 1,000 |
| Joint Self Ins Fund TX Municipal League | 5855 | Law Enforcement | 1,000,000 per claim | 10/01/06 to 10/1/07 | \$ 2,668 | \$ 1,000 |
| Joint Self Ins Fund TX Municipal League | 5855 | Errors & Omissions | 1,000,000 per claim | 10/01/06 to 10/1/07 | \$ 6,570 | \$ 2,500 |

**CITY OF QUITMAN, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

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 | Real and Personal | Replacement Cost | 10/01/06 to 10/1/07 | \$ 8,626 | \$ 1,000 |
| Joint Self Ins Fund TX Municipal League | 5855 | Mobile Equipment | Replacement Cost | 10/01/06 to 10/1/07 | \$ 9,427 | \$ - |
| Joint Self Ins Fund TX Municipal League | 5855 | Automobile- Phys. Damage | Comprehensive Schedule | 10/01/06 to 10/1/07 | \$ 4,416 | \$ 1,000 |
| Joint Self Ins Fund TX Municipal League | 5855 | Crime Fidelity & Theft | 5,000 | 10/01/06 to 10/1/07 | \$ 102 | \$ - |

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, 2005, 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.

J. - LITIGATION

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

**CITY OF QUITMAN, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

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 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 | 142,770,000 |
| Gallons Billed | 98,062,270 |

M. – RESTATEMENT OF COMPONENT UNIT NET ASSETS

For the year ended September 30, 2005, the Quitman Development Corporation reported net assets of \$192,603. During 2006, the Corporation determined that \$43,316 of investment funds reported by the Corporation but held by the City belonged to the City rather than the Corporation. Net assets have been restated to reflect this change.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF QUITMAN, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

BUDGET

| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>Difference</u> |
|--|---------------------|---------------------|--------------------|--------------------|
| Revenues: | | | | |
| Property Taxes including P & I | \$ 178,196 | \$ 178,196 | \$ 187,332 | \$ 9,136 |
| Franchise Fees | 166,300 | 166,300 | 206,722 | 40,422 |
| Sales Tax Collected | 285,000 | 285,000 | 299,407 | 14,407 |
| Hotel/Motel Tax | 100 | 100 | 106 | 6 |
| Charges for Services | 36,000 | 36,000 | 48,853 | 12,853 |
| Licenses and Permits | - | - | - | - |
| Donations | - | - | 51,395 | 51,395 |
| Miscellaneous | <u>21,322</u> | <u>21,322</u> | <u>38,051</u> | <u>16,729</u> |
| Total Revenues | <u>\$ 686,918</u> | <u>\$ 686,918</u> | <u>\$ 831,866</u> | <u>\$ 144,948</u> |
| Expenditures: | | | | |
| Current | | | | |
| General Government | \$ 245,468 | \$ 245,468 | \$ 258,306 | \$ 12,838 |
| Public Safety | | | | - |
| Police | 359,207 | 359,207 | 342,655 | (16,552) |
| Fire | <u>104,063</u> | <u>104,063</u> | <u>91,099</u> | <u>(12,964)</u> |
| Total Public Safety | <u>\$ 463,270</u> | <u>\$ 463,270</u> | <u>\$ 433,754</u> | <u>\$ (29,516)</u> |
| Library | 98,733 | 98,733 | 95,151 | (3,582) |
| Public Services and Operations | 19,477 | 19,477 | 14,534 | (4,943) |
| Capital Outlay | - | - | - | - |
| Debt Service | | | | |
| Principal Retirement | - | - | 51,397 | 51,397 |
| Interest and Fiscal Agent Fees | - | - | - | - |
| Total Expenditures | <u>\$ 826,948</u> | <u>\$ 826,948</u> | <u>\$ 853,142</u> | <u>\$ 26,194</u> |
| Excess (Deficiency) of Revenues | | | | |
| (Under) Expenditures | <u>\$ (140,030)</u> | <u>\$ (140,030)</u> | <u>\$ (21,276)</u> | <u>\$ 118,754</u> |
| Other Revenues and Financing Sources (uses) | | | | |
| Intergovernmental | | | <u>(43,297)</u> | |
| Total Other Financing Sources (uses) | | | <u>(43,297)</u> | |
| Excess of Revenue and Other Financing sources over (under) expenditures and other financing use | | | (64,573) | |
| Fund Balance/Equity, October 1 | | | 189,912 | |
| Restatement | | | <u>43,316</u> | |
| Fund Balance/Equity, September 30 | | | <u>\$ 168,655</u> | |

COMBINING FINANCIAL STATEMENTS

**CITY OF QUITMAN, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

| | Street Fund | Library Memorial Fund | Police Education Fund | Park Fund | Library Grant Fund | Total Other Governmental Funds |
|--------------------------------------|------------------|-----------------------------|-----------------------------|------------------|--------------------------|--------------------------------------|
| ASSETS AND OTHER DEBITS | | | | | | |
| ASSETS: | | | | | | |
| Due from General Fund | <u>\$ 29,685</u> | <u>\$ 13,779</u> | <u>\$ 2,183</u> | <u>\$ 22,415</u> | <u>\$ 10,436</u> | <u>\$ 78,498</u> |
| Total Assets | <u>\$ 29,685</u> | <u>\$ 13,779</u> | <u>\$ 2,183</u> | <u>\$ 22,415</u> | <u>\$ 10,436</u> | <u>\$ 78,498</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| LIABILITIES: | | | | | | |
| Due to Other Funds | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Total Liabilities | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| FUND BALANCES: | | | | | | |
| Restricted | \$ - | \$ - | \$ 2,183 | \$ - | \$ 10,436 | \$ 12,619 |
| Unrestricted | <u>29,685</u> | <u>13,779</u> | <u>-</u> | <u>22,415</u> | <u>-</u> | <u>65,879</u> |
| Total Fund Balances | <u>\$ 29,685</u> | <u>\$ 13,779</u> | <u>\$ 2,183</u> | <u>\$ 22,415</u> | <u>\$ 10,436</u> | <u>\$ 78,498</u> |
| Total Liabilities and Fund Balances | <u>\$ 29,685</u> | <u>\$ 13,779</u> | <u>\$ 2,183</u> | <u>\$ 22,415</u> | <u>\$ 10,436</u> | <u>\$ 78,498</u> |

CITY OF QUITMAN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

| | Street Fund | Library Memorial Fund | Police Education Fund | Park Fund | Library Grant Fund | Total Other Governmental Funds |
|------------------------------------|-------------------|-----------------------------|-----------------------------|------------------|--------------------------|--------------------------------------|
| Revenues: | | | | | | |
| Property Taxes including P & I | \$ 165,009 | \$ - | \$ - | \$ - | \$ - | \$ 165,009 |
| Non-Property Taxes | - | - | - | - | - | - |
| Fines and Forfeitures | - | - | - | - | - | - |
| Sales Tax | - | - | - | - | - | - |
| Charges for Services | 113,290 | - | - | 49,146 | - | 162,436 |
| Intergovernmental | - | - | - | 35,000 | - | 35,000 |
| Grant Revenue | - | - | - | - | - | - |
| Miscellaneous | <u>2,014</u> | <u>12,243</u> | <u>1,089</u> | <u>1,754</u> | <u>8,004</u> | <u>25,104</u> |
| Total Revenues | <u>\$ 280,313</u> | <u>\$ 12,243</u> | <u>\$ 1,089</u> | <u>\$ 85,900</u> | <u>\$ 8,004</u> | <u>\$ 387,549</u> |
| Expenditures: | | | | | | |
| Current | | | | | | |
| Public Works | \$ 139,661 | \$ - | \$ - | \$ - | \$ - | \$ 139,661 |
| Police | - | - | 5,052 | - | - | 5,052 |
| Parks and Recreation | - | - | - | 80,302 | - | 80,302 |
| General Government | - | - | - | - | - | - |
| Capital Outlay | 121,216 | - | - | - | - | 121,216 |
| Library | - | 2,111 | - | - | 2,821 | 4,932 |
| Other | - | - | - | - | - | - |
| Debt Service | | | | | | |
| Installment Payments | - | - | - | - | - | - |
| Interest and Fiscal Agent Fees | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Expenditures | <u>\$ 260,877</u> | <u>\$ 2,111</u> | <u>\$ 5,052</u> | <u>\$ 80,302</u> | <u>\$ 2,821</u> | <u>\$ 351,163</u> |
| Operating Transfers In | | | | | | |
| Net Change in Fund Balances | \$ 19,436 | \$ 10,132 | \$ (3,963) | \$ 5,598 | \$ 5,183 | \$ 36,386 |
| Fund Balances/Equity, October 1 | <u>10,249</u> | <u>3,647</u> | <u>6,146</u> | <u>16,817</u> | <u>5,253</u> | <u>42,112</u> |
| Fund Balances/Equity, September 30 | <u>\$ 29,685</u> | <u>\$ 13,779</u> | <u>\$ 2,183</u> | <u>\$ 22,415</u> | <u>\$ 10,436</u> | <u>\$ 78,498</u> |