

City of Winnsboro, Texas

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For the year ended September 30, 2006



City of Winnsboro, Texas
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Year ended September 30, 2006

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City of Winnsboro

OFFICIAL DIRECTORY

Mayor

Carolyn Jones

Council

Pat Patrick

Rick Henson

David Blair

Jerry Hopper

Lori Whorff

City Personnel

Ronny Knight, City Administrator

Nina E. Browning, City Secretary

Wanda Renshaw, Financial Officer



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MEMBER

**American Institute Of
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**Texas State Society Of
Certified Public Accountants**

**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION**

Independent Auditor's Report

Honorable Mayor, City Council and
City Administrator
City of Winnsboro, Texas
Winnsboro, Texas

We have audited the accompanying financial statements of the government activities, the business type activities and the aggregate remaining fund information of the City of Winnsboro, Texas as of and for the year ended September 30, 2006, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities, the business-type activities and the aggregate remaining fund information of the City of Winnsboro, Texas, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages four through twelve are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 performed for the purpose of forming an opinion on the City's basic financial statements. The combining financial statements and supplementary information are presented for additional analysis and are not a required part of the basic financial statements. The combining financial statements and supplementary information have been subjected to the auditing procedures applied to the basic financial statements taken and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the internal control over financial reporting or compliance. The report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,


Arnold, Walker, Arnold & Co., P.C.

December 14, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Winnsboro, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities and performance for the year ended September 30, 2006. The information presented here should be read in conjunction with the independent auditor's report and the City's financial statements.

FINANCIAL HIGHLIGHTS

The City's total combined net assets were \$6.67 million at September 30, 2006. \$3.66 million of the net assets is invested in capital assets, net of related debt. During the year, the City's expenses were \$199 thousand less than the \$4.24 million generated in taxes, charges for services and other revenues.

The total cost of all the City's activities was up about 8% compared to the prior year. Revenue was up about 18% compared to the prior year.

The general fund balance is \$303 thousand at September 30, 2006 which is an increase of \$45 thousand.

During the year, \$689 thousand of fixed assets were added. No new debt was obtained. \$288 thousand of principal on debt was paid.

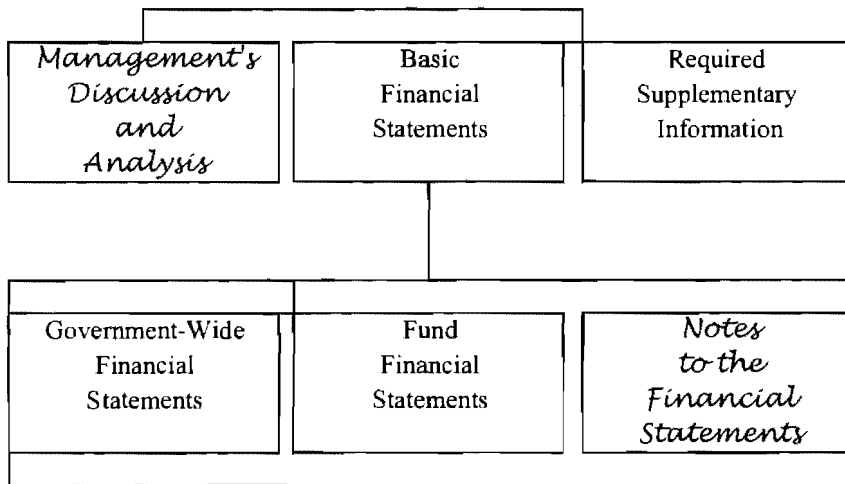
Approximately 97% of the taxes levied for 2005-06 were collected by September 30, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts--*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide information about the City's activities as a whole and present a longer-term view of the City's property and debt obligations. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer operations.
 - *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1. Required Components of the City's Annual Financial Report



Summary ⇄ Detail

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the City's Government-wide Fund Financial Statements				
Type of Statements	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses: self insurance	Instances in which the City is the trustee or agent for someone else's resources
<i>Required financial statements</i>	*Statement of net assets	*Balance sheet	*Statement of net assets	*Statement of fiduciary net assets
	*Statement of activities	*Statement of revenues, Expenditures & changes in fund balances	*Statement of revenues, expenses and changes in fund net assets *Statement of cash flows	*Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon after	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net assets* and how they have changed. Net assets-the difference between the City's assets and liabilities-is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, consideration should be given to additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as public safety, highways, streets and bridges, judicial and general administration. Property taxes and charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*-not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds:

- *Governmental funds*-Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them.
- *Proprietary funds*-Services for which the City charges customers a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both long-term and short-term financial information. *Internal service funds* are used to report activities that provide supplies and services for the City's other programs and activities-such as the City's Self Insurance Fund.
- *Fiduciary funds*-The City is the trustee, of *fiduciary*, for certain funds. It is also responsible for other assets that-because of a trust arrangement-can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations. At the present time, the City has no fiduciary funds.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were approximately \$6.67 million at September 30, 2006.

Table A-1
The City's Net Assets
(in thousands of dollars)

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	486	445	2,977	3,098	3,463	3,543
Capital and non-current assets	1,711	1,637	11,031	11,184	12,742	12,821
TOTAL ASSETS	<u>2,197</u>	<u>2,082</u>	<u>14,008</u>	<u>14,282</u>	<u>16,205</u>	<u>16,364</u>
Long-term liabilities	51	99	9,280	9,525	9,331	9,624
Other liabilities	74	42	129	226	203	268
TOTAL LIABILITIES	<u>125</u>	<u>141</u>	<u>9,409</u>	<u>9,751</u>	<u>9,534</u>	<u>9,892</u>
Invested in capital assets net of related debt	1,640	1,538	2,016	1,660	3,656	3,198
Restricted	109	126	2,581	2,873	2,690	2,999
Unrestricted	323	277	2	(2)	325	275
TOTAL NET ASSETS	<u>2,072</u>	<u>1,941</u>	<u>4,599</u>	<u>4,531</u>	<u>6,671</u>	<u>6,472</u>

Net assets invested in capital assets net of related debt reflects the book value of the City's capital assets in excess of the debt which financed those assets. The \$325 thousand of unrestricted net assets represents resources available to fund the programs of the City for the next fiscal year.

The \$2.69 million is restricted as follows:

Restricted for debt service	1.21
Restricted for capital projects	<u>1.48</u>
	<u>2.69</u>

Net assets of the City increased from \$6.47 million to \$6.67 million. The reasons for the increase were as follows. The governmental funds reflected revenues in excess of expenditures of \$28 thousand. The enterprise fund reflected an excess of revenues over expenses of \$69 thousand. A total of \$217 thousand of depreciation expense was recorded for the governmental funds. \$291 thousand of capital outlay was added to fixed assets in the governmental funds. \$27 thousand of principal was paid on the governmental fund long-term debt.

Changes in net assets.

The City's total revenues were \$4.24 million. 13% of this came from property taxes, 14% came from sales taxes and other taxes, and 48% came from charges for services.

The total cost of all programs was \$2.44 million. Approximately 18% of this was for police, 11% was for administration, and 40% was for water and sewer.

Table A-2
The City's Changes in Net Assets
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
<u>Program Revenues</u>						
Charges for Services	598	570	1,437	1,417	2,035	1,987
Operating Grants and Contributions	292	261	-	-	292	261
<u>General Revenues</u>						
Property Taxes	570	580	-	-	570	580
Other taxes	591	612	-	-	591	612
Investment earnings	3	3	61	22	64	25
Other	459	53	230	62	689	115
Total Revenues	<u>2,513</u>	<u>2,079</u>	<u>1,728</u>	<u>1,501</u>	<u>4,241</u>	<u>3,580</u>
Expenses						
Administration	448	429	-	-	448	429
EDC coordinator	64	18	-	-	64	18
Police	708	580	-	-	708	580
Municipal court	53	27	-	-	53	27
Animal shelter	50	47	-	-	50	47
Fire/EMS	88	94	-	-	88	94
Maintenance	221	233	-	-	221	233
Airport	57	32	-	-	57	32
Library	118	121	-	-	118	121
Parks and recreation	64	66	-	-	64	66
Sanitation	374	377	-	-	374	377
Intergovernmental	186	97	-	-	186	97
Debt service-interest	4	6	-	-	4	6
Water and sewer	-	-	1,606	1,617	1,606	1,617
Total Expenses	<u>2,435</u>	<u>2,127</u>	<u>1,606</u>	<u>1,617</u>	<u>4,041</u>	<u>3,744</u>
Transfers in (out)	53	92	(53)	(92)	-	-
Increase (Decrease) in Net Assets	131	44	69	(208)	200	(164)
Beginning Net Assets	<u>1,941</u>	<u>1,897</u>	<u>4,530</u>	<u>4,738</u>	<u>6,471</u>	<u>6,635</u>
Ending Net Assets	<u>2,072</u>	<u>1,941</u>	<u>4,599</u>	<u>4,530</u>	<u>6,671</u>	<u>6,471</u>

Table A-3 presents the cost of each of the City's largest functions as well as each function's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$2.44 million.
- However, the amount that taxpayers paid for these activities through property taxes was only \$571 thousand.
- Some of the cost was paid by those who directly benefited from the programs (\$598 thousand), or by grants and contributions (\$292 thousand).

Table A-3
Net Cost of Selected City Functions
(in thousands of dollars)

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Administration	448	429	409	311
Police	708	580	650	526
Maintenance	221	233	221	233
Sanitation	374	377	(58)	(59)

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City reported fund balance in its governmental funds of approximately \$412 thousand at September 30, 2006. This balance is composed of the following in thousands

General	303
Debt service	106
Reported in Special Revenue Fund	<u>3</u>
	<u><u>412</u></u>

The general fund fund balance increased \$45 thousand. Revenue increased about \$67 thousand or 3.5% compared to the prior year. Expenditures increased \$52 thousand or 2.5%. The fund balance of the debt service fund remained about the same.

General Fund Budgetary Highlights

Several budget amendments were made during the year. The budget was properly amended so that final budget and actual numbers were very close. No significant amendments were necessary.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table A-4
City's Capital Assets
(in thousands of dollars)

	Governmental Activities		Business-Type Activities	
	2006	2005	2006	2005
Land and construction in progress	338	338	100	327
Buildings and improvements	1,560	1,560	-	-
Machinery and equipment	1,657	1,081	-	-
Water and sewer system	-	-	16,218	15,819
Streets	1,382	1,091	-	-
Totals at historical cost	<u>4,937</u>	<u>4,070</u>	<u>16,318</u>	<u>16,146</u>
Total accumulated depreciation	<u>2,626</u>	<u>2,432</u>	<u>5,287</u>	<u>4,961</u>
Net capital assets	<u><u>2,311</u></u>	<u><u>1,638</u></u>	<u><u>11,031</u></u>	<u><u>11,185</u></u>

(A) Various items with unit values of less than \$5 thousand were deleted from fixed assets as the threshold for depreciable items is \$5 thousand.

Long-Term Debt

Table A-5
City's Long-Term Debt
(in thousands of dollars)

	Governmental Activities		Business-Type Activities	
	2006	2005	2006	2005
Certificates of obligation	-	-	6,122	6,182
Notes payable	19	30	217	248
Bonds payable	-	-	3,180	3,350
Leases payable	53	69	-	-
	<u>72</u>	<u>99</u>	<u>9,519</u>	<u>9,780</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The budget for 2006 and 2007 was approved by the City Council during its regular September Council meeting held on the 12th of the month. The council approved a budget of \$ 3,819,949.98 an overall increase of 4.5%.

The City sales tax collections reflected a much stronger retail market than what was anticipated during the year. The increase may be due to strong marketing efforts by the Mainstreet Board and the Community Development Director. The Economic Development Corporation also provided additional advertising dollars for special events during the year. Vacant buildings in the downtown area remain at an all time low.

Water revenues exceeded the budgeted amount due to drier conditions, franchise fees were also above what had been budgeted. The increase cost in electricity and automobile fuels had a negative impact in various departments.

A new Alco store was constructed during the year replacing a smaller building in the downtown area. Mineola Community Bank is in the process of constructing a new banking facility with office space to be leased out; they will be selling their current building. A seventy lot subdivision is being planned on South Walnut Street.

The City entered into a lease agreement for four new police cars for a four year period. This alone with better pay for the police department emphasizes the importance placed on public safety and drug prevention. The Council approved the transfer of the drug dog unit to the Wood County Sheriffs Department. This was at the recommendation of the Police Chief and will better align resources for the Police Department.

The City is in the process of securing its second one million dollar no interest loan for water line improvements, also a small airport grant for repairs and construction of a Helipad using matching dollars. Grant applications have been submitted for sidewalk improvements on Franklin Street, also water line improvements on South Walnut and West Broadway.

The adopted tax rate remains at \$0.4515 per \$100 valuation, the same tax rate as last year, even after the property tax freeze for those over 65. It is anticipated that the equity position of the City will remain about the same. A \$200,000 CD was purchased with revenues from the Utility Fund and will be placed in reserve for bond payments if needed. The financial position of the City is at adequate levels to provide the services the citizens are requiring.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Winnsboro's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the City Manager's Office.

BASIC FINANCIAL STATEMENTS

GOVERNMENT WIDE STATEMENT

City of Winnsboro, Texas
STATEMENT OF NET ASSETS
As of September 30, 2006

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	427,605	261,749	689,354
Accounts receivable, net of allowances	55,961	134,244	190,205
Due from other funds	-	-	-
Inventory	2,024	-	2,024
Total current assets	<u>485,590</u>	<u>395,993</u>	<u>881,583</u>
Restricted assets			
Cash and cash equivalents	-	2,581,050	2,581,050
Total restricted assets	<u>-</u>	<u>2,581,050</u>	<u>2,581,050</u>
Capital assets			
Land and construction in progress	337,623	100,000	437,623
Other capital assets, net of accumulated depreciation	1,373,469	10,931,144	12,304,613
Total capital assets	<u>1,711,092</u>	<u>11,031,144</u>	<u>12,742,236</u>
Total assets	<u>2,196,682</u>	<u>14,008,187</u>	<u>16,204,869</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	52,950	4,792	57,742
Deferred revenues	-	-	-
Due to other funds	-	-	-
Notes payable, current	21,251	32,137	53,388
Total current liabilities	<u>74,201</u>	<u>36,929</u>	<u>111,130</u>
Liabilities payable from restricted assets			
Bond interest payable, current	-	-	-
Certificates of obligation and bonds payable, current	-	266,000	266,000
Total liabilities payable from restricted assets	<u>-</u>	<u>266,000</u>	<u>266,000</u>
Non-current liabilities			
Meter deposits	-	124,209	124,209
Certificates of obligation and bonds payable, non-current	-	9,036,000	9,036,000
Unamortized bond cost	-	(239,154)	(239,154)
Notes payable, non-current	50,831	184,810	235,641
Total non-current liabilities	<u>50,831</u>	<u>9,105,865</u>	<u>9,156,696</u>
Total liabilities	<u>125,032</u>	<u>9,408,794</u>	<u>9,533,826</u>
NET ASSETS			
Invested in capital assets, net of debt	1,639,010	2,016,071	3,655,081
Restricted for debt service	106,025	1,106,735	1,212,760
Restricted for special revenue funds	3,335	-	3,335
Restricted for capital projects	-	1,474,315	1,474,315
Unrestricted	323,280	2,272	325,552
Total net assets	<u>2,071,650</u>	<u>4,599,393</u>	<u>6,671,043</u>

The accompanying notes are an integral part of this statement.

City of Winnsboro, Texas
STATEMENT OF ACTIVITIES
For the year ended September 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES						
Administration	448,824	39,509	-	(409,315)	-	(409,315)
EDC coordinator	63,882	-	70,812	6,930	-	6,930
Police	707,713	57,820	-	(649,893)	-	(649,893)
Municipal court	52,519	-	-	(52,519)	-	(52,519)
Animal shelter	50,291	-	-	(50,291)	-	(50,291)
Fire/EMS	87,725	-	30,348	(57,377)	-	(57,377)
Maintenance	221,046	-	-	(221,046)	-	(221,046)
Airport	57,073	36,342	-	(20,731)	-	(20,731)
Library	118,235	-	4,430	(113,805)	-	(113,805)
Parks and recreation	63,931	31,543	-	(32,388)	-	(32,388)
Sanitation	374,106	432,583	-	58,477	-	58,477
Intergovernmental	186,294	-	186,294	-	-	-
Debt service-interest	4,333	-	-	(4,333)	-	(4,333)
Total Governmental Activities	<u>2,435,972</u>	<u>597,797</u>	<u>291,884</u>	<u>(1,546,291)</u>	<u>-</u>	<u>(1,546,291)</u>
BUSINESS-TYPE ACTIVITIES						
Water and sewer	1,606,083	1,436,856	191,663	-	22,436	22,436
Total Business-Type Activities	<u>1,606,083</u>	<u>1,436,856</u>	<u>191,663</u>	<u>-</u>	<u>22,436</u>	<u>22,436</u>
TOTAL PRIMARY GOVERNMENT	<u>4,042,055</u>	<u>2,034,653</u>	<u>483,547</u>	<u>(1,546,291)</u>	<u>22,436</u>	<u>(1,523,855)</u>
General Revenues						
Taxes						
Property taxes, levied for general purposes				480,697	-	480,697
Property taxes, levied for debt service				89,782	-	89,782
Other taxes				493,423	-	493,423
Fees				97,105	-	97,105
Intergovernmental				420,006	-	420,006
Investment earnings				3,370	60,708	64,078
Miscellaneous				39,449	38,371	77,820
Total General Revenues				<u>1,623,832</u>	<u>99,079</u>	<u>1,722,911</u>
Other Sources (Uses)						
Transfers in (out)				52,719	(52,719)	-
Changes in Net Assets						
Net Assets -- Beginning				130,260	68,796	199,056
Net Assets -- Ending				<u>1,941,390</u>	<u>4,530,597</u>	<u>6,471,987</u>
				<u>2,071,650</u>	<u>4,599,393</u>	<u>6,671,043</u>

The accompanying notes are an integral part of this statement.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

City of Winnsboro, Texas
BALANCE SHEET
 Governmental Funds
 as of September 30, 2006

	<u>General</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	429,864	(2,259)	427,605
Account Receivable, Net of Allowances	52,552	3,409	55,961
Note Receivable	-	-	-
Inventory	2,024	-	2,024
Prepaid Expenses	-	-	-
Due from other funds	-	111,619	111,619
Total Assets	<u>484,440</u>	<u>112,769</u>	<u>597,209</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable and Accrued Expenses	52,950	-	52,950
Deferred Revenue	16,645	3,409	20,054
Due to other funds	111,619	-	111,619
Total Liabilities	<u>181,214</u>	<u>3,409</u>	<u>184,623</u>
Fund Balances			
Reserved for:			
Improvement	-	-	-
Retirement of Long-Term Debt	-	106,025	106,025
Capital Projects	-	-	-
Library	-	-	-
Designated			
Reported in Special Revenue Funds	39,725	3,335	43,060
Unreserved and Undesignated	-	-	-
Reported in the General Fund	263,501	-	263,501
Total Fund Balances	<u>303,226</u>	<u>109,360</u>	<u>412,586</u>
Total Liabilities and Fund Balances	<u>484,440</u>	<u>112,769</u>	<u>597,209</u>

The accompanying notes are an integral part of this statement.

City of Winnsboro, Texas
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 for the year ended September 30, 2006

Total Fund Balances - Governmental Funds	412,586
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$4,069,694 and the accumulated depreciation was \$2,432,227. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.	1,538,059
2. Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2006 capital outlays and debt principal payments is to increase (decrease) net assets.	318,392
3. The 2006 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(217,441)
4. Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of debt as an increase in notes payable and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	<u>20,054</u>
Net Assets, of Governmental Activities	<u><u>2,071,650</u></u>

The accompanying notes are an integral part of this statement.

City of Winnsboro, Texas
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES--GOVERNMENTAL FUNDS
 for the year ended September 30, 2006

	General	Other Funds	Total Governmental Funds
REVENUES			
Taxes	985,100	95,296	1,080,396
Intergovernmental	52,993	169,413	222,406
Charges for services	434,796	-	434,796
Sale of supplies	34,880	-	34,880
Rentals	43,829	-	43,829
EDC coordinator	70,812	-	70,812
Fees	291,393	-	291,393
Interest	3,266	104	3,370
Miscellaneous	39,449	-	39,449
Total Revenues	<u>1,956,518</u>	<u>264,813</u>	<u>2,221,331</u>
EXPENDITURES			
Operating			
Administration	423,453	-	423,453
EDC coordinator	63,882	-	63,882
Police	644,419	-	644,419
Municipal court	48,361	-	48,361
Animal shelter	43,872	-	43,872
Fire/EMS	41,123	-	41,123
Maintenance	200,811	-	200,811
Airport	48,775	-	48,775
Library	105,194	-	105,194
Parks and recreation	49,368	-	49,368
Sanitation	310,057	-	310,057
	<u>1,979,315</u>	<u>-</u>	<u>1,979,315</u>
Capital outlay			
Administration	-	-	-
Police	22,988	-	22,988
Animal shelter	-	-	-
Fire/EMS	22,576	-	22,576
Maintenance	3,025	-	3,025
Airport	-	-	-
Intergovernmental	-	186,294	186,294
	<u>48,589</u>	<u>186,294</u>	<u>234,883</u>
Debt service			
Principal	27,326	-	27,326
Interest	4,333	-	4,333
	<u>31,659</u>	<u>-</u>	<u>31,659</u>
Total Expenditures	<u>2,059,563</u>	<u>186,294</u>	<u>2,245,857</u>
Excess (deficiency) of revenues over expenditures	<u>(103,045)</u>	<u>78,519</u>	<u>(24,526)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	150,000	1,600	151,600
Operating transfers out	(1,984)	(96,898)	(98,882)
Total Other Financing Sources (Uses)	<u>148,016</u>	<u>(95,298)</u>	<u>52,718</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	44,971	(16,779)	28,192
Fund balance, beginning of year	258,255	126,139	384,394
Fund balance, end of year	<u>303,226</u>	<u>109,360</u>	<u>412,586</u>

The accompanying notes are an integral part of this statement.

City of Winnsboro, Texas
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 for the year ended September 30, 2006

Total Net Change in Fund Balances - Governmental Funds	28,192
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2006 capital outlays and debt principal payments is to increase (decrease) net assets.	318,392
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(217,441)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of new debt, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	<u>1,117</u>
Change in Net Assets of Governmental Activities	<u><u>130,260</u></u>

The accompanying notes are an integral part of this statement.

City of Winnsboro, Texas
 BUDGETARY COMPARISON SCHEDULE
 General Fund
 for the year ended September 30, 2006

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive or (Negative)
	Original	Final		
REVENUES				
Taxes	847,623	880,583	985,100	104,517
Intergovernmental	90,330	2,400	52,993	50,593
Charges for services	427,526	445,500	434,796	(10,704)
Sale supplies	17,000	23,000	34,880	11,880
Rentals	24,050	34,850	43,829	8,979
EDC coordinator	36,000	70,812	70,812	-
Fees	261,550	278,300	291,393	13,093
Interest	4,000	1,500	3,266	1,766
Miscellaneous	14,600	12,400	39,449	27,049
Total Revenues	<u>1,722,679</u>	<u>1,749,345</u>	<u>1,956,518</u>	<u>207,173</u>
EXPENDITURES				
Operating				
Administration	354,722	434,569	423,453	11,116
EDC coordinator	36,000	72,866	63,882	8,984
Police	558,082	610,539	644,419	(33,880)
Municipal court	34,752	29,804	48,361	(18,557)
Animal shelter	40,587	43,097	43,872	(775)
Fire/EMS	55,761	41,865	41,123	742
Maintenance	246,757	242,189	200,811	41,378
Airport	25,398	38,553	48,775	(10,222)
Library	98,590	93,000	105,194	(12,194)
Parks and recreation	54,359	50,680	49,368	1,312
Sanitation	283,600	283,600	310,057	(26,457)
	<u>1,788,608</u>	<u>1,940,762</u>	<u>1,979,315</u>	<u>(38,553)</u>
Capital outlay				
Administration	5,000	-	-	-
Police	36,096	17,450	22,988	(5,538)
Animal shelter	1,000	-	-	-
Municipal court	1,375	1,000	-	1,000
Library	1,500	1,500	-	1,500
Parks and recreation	5,304	16,000	-	16,000
Fire/EMS	40,669	27,000	22,576	4,424
Maintenance	132,200	6,500	3,025	3,475
Airport	54,000	2,000	-	2,000
	<u>277,144</u>	<u>71,450</u>	<u>48,589</u>	<u>22,861</u>
Debt service				
Principal	-	27,500	27,326	174
Interest	-	4,537	4,333	204
	<u>-</u>	<u>32,037</u>	<u>31,659</u>	<u>378</u>
Total Expenditures	<u>2,065,752</u>	<u>2,044,249</u>	<u>2,059,563</u>	<u>(15,314)</u>
Excess (deficiency) of revenues over expenditures	<u>(343,073)</u>	<u>(294,904)</u>	<u>(103,045)</u>	<u>191,859</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	160,000	150,000	150,000	-
Operating transfers out	-	-	(1,984)	(1,984)
Total Other Financing Sources (Uses)	<u>160,000</u>	<u>150,000</u>	<u>148,016</u>	<u>(1,984)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(183,073)</u>	<u>(144,904)</u>	<u>44,971</u>	<u>189,875</u>
Fund balance, beginning of year	258,255	258,255	258,255	-
Fund balance, end of year	<u>75,182</u>	<u>113,351</u>	<u>303,226</u>	<u>189,875</u>

The accompanying notes are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

City of Winnsboro, Texas
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
as of September 30, 2006

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
ASSETS		
Current assets		
Cash and cash equivalents	261,749	261,749
Accounts receivable, net of allowances	134,244	134,244
Total current assets	<u>395,993</u>	<u>395,993</u>
RESTRICTED ASSETS		
Cash and cash equivalents	<u>2,581,050</u>	<u>2,581,050</u>
CAPITAL ASSETS		
Land and construction in progress	100,000	100,000
Other capital assets, net of accumulated depreciation	<u>10,931,144</u>	<u>10,931,144</u>
Total capital assets	<u>11,031,144</u>	<u>11,031,144</u>
Total assets	<u><u>14,008,187</u></u>	<u><u>14,008,187</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	4,792	4,792
Note payable, current	<u>32,137</u>	<u>32,137</u>
Total current liabilities	<u>36,929</u>	<u>36,929</u>
Liabilities payable from restricted assets		
Bond interest payable, current	-	-
Certificates of obligation and bonds payable, current	<u>266,000</u>	<u>266,000</u>
Total liabilities payable from restricted assets	<u>266,000</u>	<u>266,000</u>
Non-current liabilities		
Customer deposits	124,209	124,209
Note payable, non-current	184,810	184,810
Certificates of obligation and bonds payable, non-current	9,036,000	9,036,000
Unamortized bond cost/discount (net)	<u>(239,154)</u>	<u>(239,154)</u>
Total non-current liabilities	<u>9,105,865</u>	<u>9,105,865</u>
Total liabilities	<u><u>9,408,794</u></u>	<u><u>9,408,794</u></u>
NET ASSETS		
Invested in capital assets, net of related debt	2,016,071	2,016,071
Restricted for debt service	1,106,735	1,106,735
Restricted for capital projects	1,474,315	1,474,315
Unrestricted	<u>2,272</u>	<u>2,272</u>
Total net assets	<u><u>4,599,393</u></u>	<u><u>4,599,393</u></u>

The accompanying notes are an integral part of this statement.

City of Winnsboro, Texas
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 for the year ended September 30, 2006

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
OPERATING REVENUES		
Charges for sales and services	1,436,856	1,436,856
Other	<u>38,371</u>	<u>38,371</u>
Total Operating Revenues	<u>1,475,227</u>	<u>1,475,227</u>
OPERATING EXPENSES		
Personnel costs	383,991	383,991
Contractual expenses	216,601	216,601
Supplies	225,676	225,676
Depreciation and amortization	<u>341,521</u>	<u>341,521</u>
Total Operating Expenses	<u>1,167,789</u>	<u>1,167,789</u>
Net operating income (loss)	<u>307,438</u>	<u>307,438</u>
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	60,708	60,708
Interest expense	<u>(438,294)</u>	<u>(438,294)</u>
Total nonoperating revenues (expenses)	<u>(377,586)</u>	<u>(377,586)</u>
Net income (loss) before contributions and transfers	(70,148)	(70,148)
Capital contributions, grants	191,663	191,663
Transfers from other funds	97,281	97,281
Transfers to other funds	<u>(150,000)</u>	<u>(150,000)</u>
Changes in net assets	68,796	68,796
Net assets, beginning of year	4,530,597	4,530,597
Net assets, end of year	<u><u>4,599,393</u></u>	<u><u>4,599,393</u></u>

The accompanying notes are an integral part of this statement.

City of Winnsboro, Texas
STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS PROPRIETARY FUND
for the year ended September 30, 2006

	Enterprise Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	1,477,160	1,477,160
Cash payments to suppliers for goods and services	(226,542)	(226,542)
Cash payments to employees for services and benefits	(700,592)	(700,592)
Net cash provided by operating activities	550,026	550,026
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	97,281	97,281
Transfers to other funds	(150,000)	(150,000)
Capital contributions, grants	191,663	191,663
Net cash provided by noncapital financing activities	138,944	138,944
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition or construction of capital assets	(172,018)	(172,018)
Note proceeds	-	-
Principal paid on debt	(260,694)	(260,694)
Interest paid on debt (net)	(438,294)	(438,294)
Net cash (used in) capital and related financing activities	(871,006)	(871,006)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	60,708	60,708
Net cash provided by investing activities	60,708	60,708
Net (decrease) in cash and cash equivalents	(121,328)	(121,328)
Cash and cash equivalents, beginning of year	2,964,127	2,964,127
Cash and cash equivalents, end of year	2,842,799	2,842,799
RECONCILIATION OF OPERATING INCOME		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	307,438	307,438
Adjustment to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	341,521	341,521
Increase in accounts receivable	(785)	(785)
Increase in accounts payable and accrued expenses	(100,866)	(100,866)
Increase in customer deposits	2,718	2,718
Net cash provided by operating activities	550,026	550,026

The accompanying notes are an integral part of this statement.

City of Winnsboro, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Winnsboro, Texas is a City government operating under the applicable laws and regulations of the State of Texas. It is governed by City Council elected by registered voters of the City. The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants.

A. REPORTING ENTITY

The City Council is elected by the public and it has the authority to make decisions and significantly influence operations. It has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the City of Winnsboro with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, charges for services, grants and other intergovernmental revenues. Business type activities include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include fees charges for water, sewer, and garbage service. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 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, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. 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.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. FUND ACCOUNTING

The City reports the following major governmental funds:

1. **The General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the City reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** -- The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund.
2. **Debt Service Funds** -- The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Additionally, the City reports the following major proprietary fund:

Proprietary Funds:

1. **Enterprise Funds** -- The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The City's major Enterprise Fund is the water and sewer fund.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.
3. Capital assets, which include land, buildings, machinery and equipment and roads and bridges, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, machinery and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	15-50
Vehicles	4-7
Office Equipment	5-7
Computer Equipment	5-7
Machinery	7
Water and sewer system	50

4. Some cash and investments are restricted for future debt payments.
5. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
6. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
7. Investments are recorded at fair market value.
8. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets</u> <u>at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the</u> <u>Year</u>	<u>Change in Net</u> <u>Assets</u>
Land	337,623	-	337,623	
Buildings & improvements	1,559,896	-	1,559,896	
Machinery & equipment	1,081,120	-	1,081,120	
Streets	1,091,055	-	1,091,055	
Accumulated depreciation	-	2,432,227	(2,432,227)	
Change in Net Assets	<u>4,069,694</u>	<u>2,432,227</u>	<u>1,637,467</u>	<u>1,637,467</u>
<u>Long-term Liabilities</u> <u>at the Beginning of the year</u>			<u>Payable at the</u> <u>Beginning of the</u> <u>Year</u>	
Notes payable			<u>99,408</u>	
Change in Net Assets				<u>99,408</u>
Net Adjustment to Net Assets				<u>1,538,059</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current year Capital Outlay</u>			
Streets	291,066	291,066	291,066
Building & improvement	-	-	
Machinery & equipment	-	-	
Total Capital Outlay	<u>291,066</u>	<u>291,066</u>	<u>291,066</u>
<u>Debt Principal Payments</u>			
Note principal	27,326	27,326	27,326
Total Principal Payments	<u>27,326</u>	<u>27,326</u>	<u>27,326</u>
Total Adjustment to Net Assets		<u><u>318,392</u></u>	<u><u>318,392</u></u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	30,634	(30,634)	-
Uncollected taxes (assumed collectible) from Current Year Levy	17,550	17,550	17,550
Uncollected Taxes (assumed collectible) from Prior Year Levy	2,504	-	2,504
Effect of prior year tax entry	<u>14,201</u>	<u>14,201</u>	<u>-</u>
Total		<u><u>1,117</u></u>	<u><u>20,054</u></u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue fund and debt service fund. This budget is adopted on a basis consistent with generally accepted accounting principles. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

The budgets for the operating funds and proprietary fund operations are prepared on the cash and expenditures basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year the applicable purchase orders are expected to be issued. The Debt Service Fund budget is prepared to provide funding for general obligation debt service when liabilities are due for payment. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

The City does not record encumbrances as part of its accounting records.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rate of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Additional contractual provisions governing deposits and investments for the City are as follows:

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

1. **Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's policy regarding types of deposits allowed and collateral requirements is that the funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping in an amount sufficient to protect the City's 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 bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Deposits of the City are insured or collateralized with securities held by the pledging financial institution's trust department or agent in the name of the City.

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 \$2,317,609 and the bank balance was \$1,583,743. The City's cash deposits at September 30, 2006 and during the year ended September 30, 2006 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

In addition, the following is disclosed regarding coverage of combined balances as of September 30, 2006:

- a. Depository: First National Bank of Winnsboro

- b. The market value of securities pledged as of September 30, 2006 was \$3,109,999.
 - c. Total amount of FDIC coverage as of September 30, 2006 was \$200,000.
2. Custodial Credit Risk-Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Positions in external investment pools are not subject to custodial credit risk. The City has no investments exposed to custodial credit risk at the end of the period.
 3. Interest-rate Risk – Interest-rate risk occurs when potential purchases of debt securities do not agree to pay face value for these securities if interest rates rise. The City does not purchase investment where the face value is not guaranteed.
 4. Concentration Risk – Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments in external investment pools are not subject to concentration risk. The City is not exposed to any amounts of concentration risk.

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 located in the City 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 31 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 (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The 2005 assessed valuation (net of exemptions) was approximately \$128,500,000 levied as a rate of \$0.4515 per hundred dollar valuation. Property tax revenues of \$580,000 was available.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on 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.

D. INTERFUND TRANSFERS

Transfers between funds were as follows:

Transfers to General Fund from:	
Major Enterprise Fund	<u>150,000</u>
Total Transferred to Genral Fund	<u>150,000</u>
Transfers to Nonmajor Governmental Funds from:	
General Fund	<u>1,600</u>
Total Transferred to Nonmajor Governmental Funds	<u>1,600</u>
Transfers to Major Enterprise Fund from:	
General Fund	383
Nonmajor Governmental Fund	<u>96,898</u>
Total Transferred to Major Enterprise Fund	<u><u>97,281</u></u>

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2006, were as follows:

	Property Taxes	Charges for Services	Intergovern- mental	Other	Total Receivables
Governmental Activities:					
General Fund	41,612	35,907	-	-	77,519
Nonmajor Governmental Funds	8,523	-	-	-	8,523
Total - Governmental Activities	<u>50,135</u>	<u>35,907</u>	<u>-</u>	<u>-</u>	<u>86,042</u>
Amounts not scheduled for collection during the subsequent year	<u>30,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,081</u>
Business Type Activities:					
Major Enterprise Fund	-	134,244	-	-	134,244
Total-Business Type Activities	<u>-</u>	<u>134,244</u>	<u>-</u>	<u>-</u>	<u>134,244</u>
Amounts not scheduled for collection during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Payables at September 30, 2006, were as follows:

	Accounts	Salaries & Benefits	Due to Other Governments	Other	Total Payables
Governmental Activities:					
General Fund	28,308	15,215	9,102	325	52,950
Total - Governmental Activities	<u>28,308</u>	<u>15,215</u>	<u>9,102</u>	<u>325</u>	<u>52,950</u>
Amounts not scheduled for collection during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business Type Activities:					
Major Enterprise Fund	-	4,792	-	-	4,792
Total-Business Type Activities	<u>-</u>	<u>4,792</u>	<u>-</u>	<u>-</u>	<u>4,792</u>
Amounts not scheduled for collection during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

F. CAPITAL ASSET ACTIVITY

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

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental Activities:				
Land and construction in progress	337,623	-	-	337,623
Streets	1,091,055	291,066	-	1,382,121
Buildings and improvements	1,559,896	-	-	1,559,896
Machinery and equipment	1,081,120	-	(23,763)	1,057,357
Totals at historic cost	<u>4,069,694</u>	<u>291,066</u>	<u>(23,763)</u>	<u>4,336,997</u>
Less accumulated depreciation for:				
Buildings, improvements, machinery and equipment	(2,432,227)	(217,441)	23,763	(2,625,905)
Total accumulated depreciation	<u>(2,432,227)</u>	<u>(217,441)</u>	<u>23,763</u>	<u>(2,625,905)</u>
Governmental activities capital, assets net	<u>1,637,467</u>	<u>73,625</u>	<u>-</u>	<u>1,711,092</u>
Business-Type Activities:				
Land and construction in progress	273,177	-	(173,177)	100,000
Water and sewer system	15,819,019	398,621	-	16,217,640
Totals at historic cost	<u>16,092,196</u>	<u>398,621</u>	<u>(173,177)</u>	<u>16,317,640</u>
Less accumulated depreciation for:				
Water and sewer system	(4,961,075)	(325,421)	-	(5,286,496)
Total accumulated depreciation	<u>(4,961,075)</u>	<u>(325,421)</u>	<u>-</u>	<u>(5,286,496)</u>
Business-Type Activities Capital assets, net	<u>11,131,121</u>	<u>73,200</u>	<u>(173,177)</u>	<u>11,031,144</u>
Primary Government Capital assets, net	<u>12,768,588</u>	<u>146,825</u>	<u>(173,177)</u>	<u>12,742,236</u>

Depreciation expense was charged to governmental functions as follows:

	Governmental Activities	Business-Type Activities
Administration	25,371	-
Police	40,306	-
Municipal court	4,158	-
Animal shelter	6,419	-
Fire/EMS	24,026	-
Maintenance	17,210	-
Airport	8,298	-
Library	13,041	-
Parks and recreation	14,563	-
Sanitation	64,049	-
Water and sewer	-	325,421
	<u>217,441</u>	<u>325,421</u>

G. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended September 30, 2006.

	Balance at 10/01/05	Issued	Retired	Balance at 9/30/06	Due Within One Year
Primary Government					
Governmental Activities:					
Notes payable	30,250	-	(11,416)	18,834	4,455
Leases payable	69,158	-	(15,910)	53,248	16,796
Total Governmental Activities	<u>99,408</u>	<u>-</u>	<u>(27,326)</u>	<u>72,082</u>	<u>21,251</u>
Business-Type Activities:					
Certificates of obligation	6,182,000	-	(60,000)	6,122,000	86,000
Bonds payable	3,350,000	-	(170,000)	3,180,000	180,000
Leases payable	247,641	-	(30,694)	216,947	32,137
Total Business-Type Activities	<u>9,779,641</u>	<u>-</u>	<u>(260,694)</u>	<u>9,518,947</u>	<u>298,137</u>
Total Primary Government Long-Term Debt	<u>9,879,049</u>	<u>-</u>	<u>(288,020)</u>	<u>9,591,029</u>	<u>319,388</u>

The changes in the general long-term debt as of September 30, 2006, follows:

	Original Amount	Terms of Maturity	Payable at 10/1/2005	Additions (Reductions)	Payable at 9/30/2006
E-One Lease	139,745	5.57%	69,158	(15,910)	53,248
First National Bank Winnsboro refinance 1996 land note	39,735	monthly 4.75%	7,166	(7,166)	-
First National Bank	35,000	annually 4.75%	23,084	(4,250)	18,834
			<u>99,408</u>	<u>(27,326)</u>	<u>72,082</u>

The annual requirements to amortize general long-term debt as of September 30, 2006, follows:

Years ended	Principal	Interest	Total
9/30			
2007	21,251	3,823	25,074
2008	22,401	2,672	25,073
2009	23,612	1,461	25,073
2010	4,818	183	5,001
2011	-	-	-
	<u>72,082</u>	<u>8,139</u>	<u>80,221</u>

G. CHANGES IN LONG-TERM DEBT (continued)

The following is a summary of long-term debt transactions in the business-type activities for the year ended September 30, 2006.

	<u>Original Amount</u>	<u>Interest Rate & Terms</u>	<u>Payable at 10/1/2005</u>	<u>Additions (Reductions)</u>	<u>Payable at 9/30/2006</u>
Certificates of Obligation, Series 2005	1,050,000	serially -	1,050,000	-	1,050,000
Certificates of Obligation, Series 1996	750,000	serially 4.50%	682,000	(10,000)	672,000
Refunding Revenue Bonds Series 2001	4,060,000	serially 4.50-5.75%	3,350,000	(170,000)	3,180,000
Tx DOT Loan	331,700	4.70%	247,641	(30,694)	216,947
Combination Tax and Revenue Certificates of Obligation, Series 2003	4,500,000	serially 4.51-5.35%	4,450,000	(50,000)	4,400,000
			<u>9,779,641</u>	<u>(260,694)</u>	<u>9,518,947</u>

The annual requirements to amortize debt as of September 30, 2006, follows:

Years Ended <u>9/30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	298,137	426,427	724,564
2008	344,647	413,182	757,829
2009	357,228	398,510	755,738
2010	373,884	382,870	756,754
2011	391,618	366,371	757,989
2012-2016	2,250,433	1,542,287	3,792,720
2017-2021	2,858,000	930,493	3,788,493
2022-2026	2,315,000	233,371	2,548,371
2027-2031	147,000	58,299	205,299
2032-2036	183,000	21,354	204,354
	<u>9,518,947</u>	<u>4,773,164</u>	<u>14,292,111</u>

The Refunding Revenue Bonds Series 1999 were issued for \$4,060,000. The Series 1978, 1988, 1988-A and 1988-B were paid off with these proceeds with the remaining amount being used to fund improvements to the water and sewer system. The Combination Tax and Revenue Certificate of Obligation Series 2003 were issued for \$4,500,000. This was received in September 2003. This will be used for water and sewer system improvements. Issuance costs related to these are being amortized over the term of the bond principal payments. These are reflected as other assets on the balance sheet.

The City is in compliance with all bond ordinance requirements. All required monthly transfers to reserve funds are being made. The reserve fund has a balance of \$1,106,735 at September 30, 2006, and is reflected as restricted for debt service.

On September 22, 2004, a loan for \$1,060,000 from the Texas Water Development Board was approved. Bond proceeds were received in August, 2005 and will be used to improve and extend the sewer collection system and professional fees in connection with the system and in connection with the issuance of the bonds.

H. RETIREMENT PLAN

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, 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

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his 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 employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. 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.

Contributions

The contribution rate for the employees is 5%, and the City's matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City's 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's matching percent, which are the obligation of the City as of an employee's 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 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. When the City periodically adopts updated service credits and increases its annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year 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 to budget for it, 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 in January 2007)

H. RETIREMENT PLAN (continued)

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2005
Actuarial Value of Assets	\$1,006,390
Actuarial Accrued Liability	\$1,362,095
Percentage Funded	73.9%
Unfunded (Over-Funded) Actuarial Accrued Liability (UAAL)	\$355,705
Annual Covered Payroll	\$970,772
UAAL as a Percentage of Covered Payroll	36.6%
Net Pension Obligation (NPO) at the Beginning of Period	-
Annual Pension Cost:	
Annual required contribution (ARC)	83,081
	<hr/>
Contributions Made	
Increase in NPO	(83,081)
	<hr/>
NPO at the end of the period	-

The City of Winnsboro is one of 811 municipalities having the benefit plan administered by TMRS. Each of the 811 municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12/31/2005 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

I. RESTRICTED ASSETS

Certain assets are restricted for debt service on bonded debt and for a construction project.

J. CONTINGENCIES

Litigation

There are no lawsuits pending against the City.

Federal Award Programs (Grants)

The City has received Federal and State Awards for specific purposes that are subject to review and audit by the grantor agencies. Such audits could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the appropriate agency. City management does not believe that any significant costs will be incurred by the City.

K. RESERVED FUND EQUITY

Reservations of fund equity show amounts that are legally restricted for specific purposes. The purpose for each is indicated by the account title on the face of the balance sheet.

L. RISK MANAGEMENT

The City is exposed to various risks of loss to torts of theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2006, the City purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

M. COMPLIANCE WITH BOND ORDINANCES

All the covenants of the bond ordinances have been complied with. The following information is provided for compliance with the ordinances:

A. Insurance

<u>Policy Number</u>	<u>Insurance Company</u>	<u>Policy Period</u>	<u>Coverage</u>	<u>Amount</u>
TML-6039-07	Texas Municipal League	10-1-06/07	Workers' Compensation	1,140,663
			General Liability	1,000,000
			Automobile Liability	1,000,000
			Law Enforcement Liability	1,000,000
			Errors & Omissions Liability	1,000,000
			Real & Personal Property (Bldg & Con'ts)	9,893,500
			Mobile Equipment	177,331
			Electronic Data Proc. Eqmt.	Incl.
			Auto Physical Damage	Actual cash value

B. Customers at September 30, 2006

Water	1,612
Sewer	1,468
Sanitation	1,470

N. HEALTH CARE COVERAGE

During the year ended September 30, 2006, employees of the City of Winnsboro were covered by a health insurance plan with the Texas Municipal League. The City pays \$448 monthly for each employee. The contract is renewable October 1, 2006 and terms of coverage and premium costs are included in the contractual provisions.

COMBINING SCHEDULES

NONMAJOR GOVERNMENTAL FUNDS

City of Winnsboro, Texas
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 for the year ended September 30, 2006

	TCDP Grant #724831	Total Nonmajor Special Revenue Funds	1&S Tax Revenues	Total Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash	3,335	3,335	(5,594)	(5,594)	(2,259)
Account receivable, net of allowance	-	-	3,409	3,409	3,409
Due from other funds	-	-	111,619	111,619	111,619
Prepaid expenses	-	-	-	-	-
Total Assets	<u>3,335</u>	<u>3,335</u>	<u>109,434</u>	<u>109,434</u>	<u>112,769</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued expenses	-	-	-	-	-
Deferred revenue	-	-	3,409	3,409	3,409
Total Liabilities	<u>-</u>	<u>-</u>	<u>3,409</u>	<u>3,409</u>	<u>3,409</u>
Fund Balances					
Reserved for:					
Retirement of long-term debt	-	-	106,025	106,025	106,025
Capital projects	-	-	-	-	-
Designated for:					
Reported in special revenue funds	3,335	3,335	-	-	3,335
Total fund balances	<u>3,335</u>	<u>3,335</u>	<u>106,025</u>	<u>106,025</u>	<u>109,360</u>
Total liabilities and fund balances	<u>3,335</u>	<u>3,335</u>	<u>109,434</u>	<u>109,434</u>	<u>112,769</u>

City of Winnsboro, Texas
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES--NONMAJOR GOVERNMENTAL FUNDS
 for the year ended September 30, 2006

	TCDP Grant #724831	Total Nonmajor Special Revenue Funds	I&S Tax Revenues	Total Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES					
Taxes	-	-	95,296	95,296	95,296
Intergovernmental	169,413	169,413	-	-	169,413
Interest	9	9	95	95	104
Total revenues	<u>169,422</u>	<u>169,422</u>	<u>95,391</u>	<u>95,391</u>	<u>264,813</u>
EXPENDITURES					
Operating	-	-	-	-	-
Capital outlay	-	-	-	-	-
Intergovernmental	186,294	186,294	-	-	186,294
Total Expenditures	<u>186,294</u>	<u>186,294</u>	<u>-</u>	<u>-</u>	<u>186,294</u>
Excess (deficiency) of revenues over expenditures	<u>(16,872)</u>	<u>(16,872)</u>	<u>95,391</u>	<u>95,391</u>	<u>78,519</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	1,600	1,600	1,600
Operating transfers out	-	-	(96,898)	(96,898)	(96,898)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(95,298)</u>	<u>(95,298)</u>	<u>(95,298)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(16,872)</u>	<u>(16,872)</u>	<u>93</u>	<u>93</u>	<u>(16,779)</u>
Fund balance, beginning of year	<u>20,207</u>	<u>20,207</u>	<u>105,932</u>	<u>105,932</u>	<u>126,139</u>
Fund balance, end of year	<u><u>3,335</u></u>	<u><u>3,335</u></u>	<u><u>106,025</u></u>	<u><u>106,025</u></u>	<u><u>109,360</u></u>

SUPPLEMENTARY INFORMATION

City of Winnsboro, Texas
 BUDGETARY COMPARISON SCHEDULE
 Debt Service Fund
 for the year ended September 30, 2006

	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts GAAP Basis	Final Budget Positive or (Negative)
REVENUES				
Taxes	96,283	96,283	95,296	(987)
Interest	500	500	95	(405)
Total revenues	<u>96,783</u>	<u>96,783</u>	<u>95,391</u>	<u>(1,392)</u>
EXPENDITURES				
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>96,783</u>	<u>96,783</u>	<u>95,391</u>	<u>(1,392)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	1,600	1,600
Operating transfers out	(99,940)	(96,783)	(96,898)	(115)
Total other financing sources (uses)	<u>(99,940)</u>	<u>(96,783)</u>	<u>(95,298)</u>	<u>1,485</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	93	93
Fund balance, beginning of year	105,932	105,932	105,932	-
Fund balance, end of year	<u>105,932</u>	<u>105,932</u>	<u>106,025</u>	<u>93</u>

FEDERAL AWARDS SECTION



ARNOLD, WALKER, ARNOLD & Co., P.C.

Certified Public Accountants And Consultants

Bob J. Arnold, C.P.A., P.F.S.
Lanny G. Walker, C.P.A., P.F.S.
Kris Arnold, C.P.A., P.F.S.
Lauri G. Robertson, C.P.A.
Melissa J. Godfrey, C.P.A.
Andrew T. Arnold, C.P.A.

MEMBER

American Institute Of
Certified Public Accountants

Texas State Society Of
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Members of
City Council
City of Winnsboro, Texas

We have audited the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Winnsboro, Texas as of and for the year ended September 30, 2006, which collectively comprise the basic financial statements as listed in the table of contents and have issued our report thereon dated December 22, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Winnsboro's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Winnsboro, Texas financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant requirements, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Council, management, and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Respectfully submitted,

Arnold, Walker, Arnold & Co., P.C.

December 14, 2006

City of Winnsboro, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the City of Winnsboro was unqualified.
- b. Where applicable, a statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether they were material weaknesses. None
- c. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee. None.
- d. Where applicable, a statement that reportable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses. N/A.
- e. The type of report the auditor issued on compliance for major programs. N/A.
- f. A statement as to whether the audit disclosed any audit findings which the auditor is required to report under Section .510(a). N/A.
- g. An identification of major programs: N/A.
- h. The dollar threshold used to distinguish between Type A and Type B programs. N/A.
- I. A statement as to whether the auditee qualified as a low risk auditee. N/A.

II. Findings Relating to the Financial Statements Which are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

None

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I. f Above

None

City of Winnsboro, Texas
SCHEDULE OF STATUS OF PRIOR FINDINGS
For the year ended September 30, 2006

N/A

City of Winnsboro, Texas
CORRECTIVE ACTION PLAN
For the year ended September 30, 2006

ITEM # CORRECTIVE ACTION PLAN

N/A

City of Winnsboro, Texas
FEDERAL PROGRAM PROJECT SCHEDULE
PROJECTS THAT ENDED OR WERE IN OPERATION DURING
the year ended September 30, 2006

Federal Grantor: U.S. Department of HUD
 Pass Through Grantor: Texas Department of Agriculture - Texas Capital Fund
 CFDA # 14.228
 Project # 723212
 Contract Period 7/13/04-7/13/06

	<u>Budget</u>	<u>Federal Prior Years</u>	<u>Federal Current Year</u>	<u>Local Prior Year</u>	<u>Local Current Year</u>	<u>Total</u>
REVENUE						
Federal	150,000	-	150,000	-	-	150,000
Local	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>38,658</u>	<u>101,742</u>	<u>140,400</u>
Total	<u>210,000</u>	<u>-</u>	<u>150,000</u>	<u>38,658</u>	<u>101,742</u>	<u>290,400</u>
EXPENSES						
Federal						
Improvements	150,000	-	150,000	-	-	150,000
Local						
Water Facilities	1,600	-	-	-	83,826	83,826
Engineering	33,400	-	-	25,358	6,216	31,574
Administration	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>13,300</u>	<u>11,700</u>	<u>25,000</u>
Total	<u>210,000</u>	<u>-</u>	<u>150,000</u>	<u>38,658</u>	<u>101,742</u>	<u>290,400</u>
EXCESS (DEFICIT) REVENUE OVER EXPENSES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

City of Winnsboro, Texas
FEDERAL PROGRAM PROJECT SCHEDULE
PROJECTS THAT ENDED OR WERE IN OPERATION DURING
the year ended September 30, 2006

Federal Grantor: U.S. Department of HUD
Pass Through Grantor: Office of Rural Community Affairs
CFDA # 14.228
Project # 724831
Contract Period 5/7/04-5/6/06

	<u>Budget</u>	<u>Federal Prior Year</u>	<u>Federal Current Year</u>	<u>Local Prior Year</u>	<u>Local Current Year</u>	<u>Total</u>
REVENUE						
Federal	206,900	20,000	171,663	-	-	191,663
Local	32,000	-	-	35,316	(1,315)	34,001
Total	238,900	20,000	171,663	35,316	(1,315)	225,664
EXPENSES						
Federal						
Sewer facilities	179,150	-	163,913	-	-	163,913
Engineer/Architecture	27,750	22,250	5,500	-	-	27,750
Local						
Administration	23,900	-	-	15,109	8,791	23,900
Sewer facilities	8,100	-	-	-	3,156	3,156
Engineer/Architecture	-	-	-	-	3,610	3,610
Total	238,900	22,250	169,413	15,109	15,557	222,329
EXCESS REVENUE OVER (EXPENSES)	-	(2,250)	2,250	20,207	(16,872)	3,335