

City of Newark, Texas

Comprehensive Annual Financial Report for the
Year Ended September 30, 2007

COMPREHENSIVE ANNUAL FINANCIAL REPORT
The City of Newark, Texas
Year Ended September 30, 2007

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CITY OF NEWARK, TEXAS
PRINCIPAL OFFICERS
SEPTEMBER 30, 2007

MAYOR:	Bill Malone
MAYOR PRO-TEM:	Lucille Drain
COUNCIL:	Laura Pixler
	Walter Stephenson, Jr.
	Jerry Davidson
	Bonnie J. Neal
SECRETARY-TREASURER-TAX COLLECTOR:	Sherry Edgemon
ATTORNEY FOR THE CITY:	Allen Taylor, Jr.
ENGINEER FOR THE CITY:	Eddie Cheatham
WATER SUPERINTENDENT:	Chris Cromer

PETER J. CHANEY, P.C.
CERTIFIED PUBLIC ACCOUNTANT
1604 GLASGOW DR.
ARLINGTON, TEXAS 76015

TELEPHONE: 817-465-8395

REPORT OF INDEPENDENT AUDITORS

City Council
City of Newark
Wise County
310 FM 718
Newark, Texas 76071

We have audited the accompanying basic financial statements of the City of Newark, Wise County, Texas, (the City) as of and for the year ended September 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the City as of September 30, 2007, and the results of its operations and cash flows of its proprietary funds for the year the ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2007 on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 6, the City is not in compliance with certain provisions of a bond ordinance.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

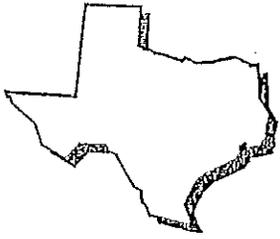
City of Newark
Wise County
Report of Independent Auditors
Page 2

We performed our audit to form an opinion on the basic financial statements of the City, taken as a whole. The combining and individual fund statements and schedules listed in the Table of Contents are presented for additional analysis and are not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report and therefore express no opinion thereon.

Peter J. Chaney CPA
Peter J. Chaney, CPA, P.C.

Newark, Texas
December 17, 2007



City of Newark

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P.O. Box 156
Newark, TX 76071
817/489-2201
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CITY OF NEWARK, TEXAS
FYE SEPTEMBER 30, 2007
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Newark's financial performance provides an overview of the City's financial activities for the year ended September 30, 2007. Please read it in conjunction with the City's financial statements, which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 11-12) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the city's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 5. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities reports information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and any changes in them. You can think of the City's net assets—the difference between assets and liabilities---as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors,

however, such as changes in the City's property tax base and the condition of the City's property tax base and the condition of the City's roads, to access the overall health of the City.

In the statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

Government activities—Most of the City's basic services are reported here, including the police, fire, general administration, streets and parks. Sales taxes, franchise fees, fines, and property taxes finance most of these activities.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds begins on page 6. The fund financial statements begin on page 10 and provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City's two kinds of funds—governmental and proprietary—use different accounting approaches.

Governmental funds—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.

Proprietary funds—When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

THE CITY AS A WHOLE

For the year ended September 30, 2007, net assets changed as follows:

	<u>Governmental Activities</u>	<u>Business Activities</u>	<u>Total</u>
Beginning net assets	\$136,163	\$1,112,686	\$1,248,849
Increase (decrease) in net assets	<u>31,976</u>	<u>29,901</u>	<u>61,877</u>
Ending net assets	<u>\$168,139</u>	<u>\$1,142,587</u>	<u>\$1,310,726</u>

This reflects a increase of 23.5 percent for the governmental activities and a 2.7 percent increase for business-type activities.

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if is self-financing through fees and grants.

Business-type Activities

In reviewing the departmental Net (Expense)/Revenue, it should be noted that the water and sewer fund shows an operating deficit of \$48,674. Water and sewer revenues increased \$19,701, or 6.3%, compared to the prior year. Expenses increased \$22,150 or 5.95%.

THE CITY'S FUNDS

The following schedule presents a summary of general fund revenues and expenditures for the fiscal year ended September 30, 2007 and the amount and percentage of increases and decreases in relation to the prior year.

<u>Revenues</u>	FYE 9/30/07 Amount	Percent of Total	Increase (Decrease) from FYE 9/30/06	Percent Increase (Decrease)
Taxes	\$331,012	63.41%	\$53,660	19.35%
Charges for services/ Inter-Governmental	69,417	13.29%	(10,544)	-15.19%
Fines and forfeitures	42,207	8.08%	212	.50%
Licenses and permits	32,734	6.26%	25,355	343.61%
Interest	152	.03%	(3)	-1.97%
Miscellaneous	<u>46,626</u>	<u>8.93%</u>	<u>14,023</u>	<u>43.01%</u>
Total Revenues	<u>\$522,148</u>	<u>100.00%</u>	<u>\$82,703</u>	<u>15.84%</u>

Sales, and property taxes all increased this year. Royalty income increased over last year. Licenses and permits increased \$8,237. Total revenues increased 15.84%.

<u>Expenditures</u>	FYE 9/30/07 Amount	Percent of Total	Increase (Decrease) from FYE 9/30/06	Percent Increase (Decrease)
General Government	\$226,534	48.44%	\$46,841	20.68%
Culture and recreation	57,898	12.39%	(1,878)	-3.14%
Public Safety	165,160	35.36%	48,709	29.49%
Public Works	<u>17,813</u>	<u>3.81%</u>	<u>(23,152)</u>	<u>-56.52%</u>
	<u>\$467,405</u>	<u>100.00%</u>	<u>\$70,520</u>	<u>17.77%</u>

Expenses for general government and public safety increased. Overall, expenses to operate the City's general fund increased 17.77%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of September 30, 2007, the City had \$2,517,569 invested in capital assets including police and fire equipment, buildings, park facilities, water and sewer lines. (See table below). This represents a net increase of \$132,134 or 5.6 percent over last year.

	Government Activities		Business-type Activities		Totals	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 61,549	\$ 16,049	\$ 4,400	\$ 4,400	\$ 65,949	\$ 20,449
Buildings	126,961	126,961	--	--	126,961	126,961
Equipment	187,160	156,756	128,770	128,770	315,930	285,526
Utility Property	-	-	2,008,729	1,952,499	2,008,729	1,952,499
	<u>\$375,670</u>	<u>\$299,766</u>	<u>\$2,141,899</u>	<u>\$2,085,669</u>	<u>\$2,517,569</u>	<u>\$2,385,435</u>

This year's major additions include:

Land for park	\$ 45,500
Police cars/equipment	30,404
Construction in progress-infrastructure	<u>56,230</u>
	<u>\$132,134</u>

Debt Service

At year-end, the City had \$169,170 outstanding bond/notes compared to \$147,369 last year. This is an increase of \$21,801 or 14.8% as shown in the following table.

	Government Activities		Business-type Activities		Totals	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenue/General						
Obligation Bonds	\$30,950	\$32,950	\$ 95,000	\$102,000	\$125,950	\$134,950
Equipment/Constr.						
Notes Payable	<u>43,220</u>	<u>12,419</u>	<u>--</u>	<u>--</u>	<u>43,220</u>	<u>12,419</u>
	<u>\$74,170</u>	<u>\$45,369</u>	<u>\$ 95,000</u>	<u>\$102,000</u>	<u>\$169,170</u>	<u>\$147,369</u>

New debt issued for the year:

Land-city park	\$45,500
Police car	<u>15,457</u>
	<u>\$60,957</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City continues to improve its financial condition. Revenues increased in the general and water sewer fund. Expenses were kept level with the prior year or consistent with increases in revenue. The City's cash reserves continue to show modest increases.

The City's tax rolls continue to increase due to new residential construction. The City held the tax rate at .53/100.

Deficits in the water and sewer fund persist and increased in the current year.

The City continues to be faced with the usual challenges. Some progress was made in the current year in improving the City's financial condition. Much work remains.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office at 310 FM 718, Newark, Texas.


Sherry Edgemon
City Clerk


Bill Malone
Mayor

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets include:

- Government-wide financial statements

- Fund financial statements:
 - Governmental funds

 - Proprietary (enterprise) fund

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF NEWARK, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash, including time deposits	\$ 138,296	\$ 20,633	\$ 158,929
Accounts receivable (net)	-	42,875	42,875
Capital assets, nondepreciable			
Land	61,549	4,400	65,949
Construction in progress	-	84,850	84,850
Capital assets, depreciable			
Buildings and improvements	126,961	11,295	138,256
Machinery and equipment	187,160	117,474	304,634
Infrastructure	-	1,923,880	1,923,880
Less: Accumulated depreciation	(202,693)	(897,484)	(1,100,177)
TOTAL ASSETS	311,273	1,307,923	1,619,196
LIABILITIES			
Accounts payable	66,589	23,126	89,715
Accrued liabilities	2,374	5,422	7,796
Customer service deposits	-	41,789	41,789
Long term obligations			
Due within one year	33,306	8,000	41,306
Due in more than one year	40,864	87,000	127,864
TOTAL LIABILITIES	143,133	165,337	308,470
NET ASSETS			
Invested in capital assets, net of related debt	129,756	1,239,132	1,368,888
Unrestricted	38,384	(96,546)	(58,162)
TOTAL NET ASSETS	\$ 168,140	\$ 1,142,586	\$ 1,310,726

The accompanying notes are an integral part of this financial statement.

**CITY OF NEWARK, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2007**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:						
General government	\$ 176,986	\$ 67,334	-	\$ (109,652)	\$ -	\$ (109,652)
Public Safety	168,569	102,130	-	(66,439)	-	(66,439)
Public works	17,813	-	-	(17,813)	-	(17,813)
Culture and recreation	67,925	21,521	-	(46,404)	-	(46,404)
Interest on debt	2,020	-	-	(2,020)	-	(2,020)
Total governmental activities	433,313	190,985	-	(242,328)	-	(242,328)
Business Type Activities:						
Water/Sewer	394,349	345,675	21,700	-	(26,974)	(26,974)
Total business activities	394,349	345,675	21,700	-	(26,974)	(26,974)
Total	\$ 827,662	\$ 536,660	\$ 21,700	\$ (242,328)	\$ (26,974)	\$ (269,302)
General revenues:						
Taxes:						
Property taxes, levied for general purposes				178,145	-	178,145
Property taxes, levied for debt service				14,444	-	14,444
Other taxes				138,423	-	138,423
Interest and investment income				152	15	167
Transfers				(56,860)	56,860	-
Total general revenues and transfers				274,304	56,875	331,179
Change in net assets				31,976	29,901	61,877
Net assets - beginning				136,164	1,112,685	1,248,849
Net assets - ending				\$ 168,140	\$ 1,142,586	\$ 1,310,726

The accompanying notes are an integral part of this financial statement.

**CITY OF NEWARK, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007**

ASSETS	General	Debt Service	Capital Improvements	Total Government Funds
Cash, including time deposits	\$ 121,495	\$ 16,801	\$ -	\$ 138,296
Accounts Receivable (net)	-	-	-	-
TOTAL ASSETS	121,495	16,801	-	138,296
LIABILITIES				
Accounts payable	66,589	-	-	66,589
Accrued liabilities	2,374	-	-	2,374
Long term obligations due within one year	33,306	-	-	33,306
Total Liabilities	102,269	-	-	102,269
FUND BALANCES				
Reserved for:				
Retirement of long term debt	-	16,801	-	16,801
Undesignated	19,226	-	-	19,226
Total Fund Balances	19,226	16,801	-	36,027
TOTAL LIABILITIES AND FUND BALANCES	\$ 121,495	\$ 16,801	\$ -	\$ 138,296

The accompanying notes are an integral part of this financial statement.

**CITY OF NEWARK, TEXAS
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007**

Reconciliation to the Statement of Net Assets

Total Fund Balances as shown on previous page	\$ 36,027
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$202,693	172,977
Long term liabilities are not due or payable in the current period and are not reported in the fund:	<u>(40,864)</u>
Net Assets of Governmental Activities	<u><u>\$ 168,140</u></u>

The accompanying notes are an integral part of this financial statement.

CITY OF NEWARK, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED SEPTEMBER 30, 2007

	General	Debt Service	Capital Improvements	Total Governmental Funds
REVENUES				
Taxes	\$ 316,568	\$ 14,444	\$ -	\$ 331,012
Intergovernmental	69,417	-	-	69,417
Fines and forfeitures	42,207	-	-	42,207
Licenses and permits	32,734	-	-	32,734
Investment Income	152	-	-	152
Miscellaneous	46,626	-	-	46,626
Total revenues	507,704	14,444	-	522,148
EXPENDITURES				
Current:				
General government	226,534	-	-	226,534
Public safety	165,160	-	-	165,160
Public works	17,813	-	-	17,813
Culture and recreation	57,898	-	-	57,898
Debt service:				
Principal	-	12,156	-	12,156
Interest and other charges	-	2,020	-	2,020
Capital outlay	-	-	75,904	75,904
Total expenditures	467,405	14,176	75,904	557,485
Excess (deficiency) of revenues over expenditures	40,298	268	(75,904)	(35,338)
Other financing sources (uses)				
Transfers in	243	-	75,904	76,147
Transfers out	75,904	243	-	76,147
Total other financing sources (uses)	(75,661)	(243)	75,904	-
Net changes in fund balances	(35,363)	25	-	(35,338)
Fund balances-beginning	54,589	16,776	-	71,365
Fund balances-ending	\$ 19,226	\$ 16,801	\$ -	\$ 36,027

The accompanying notes are an integral part of this financial statement.

CITY OF NEWARK, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

Reconciliation to the Statement of Activities

Net Change in Fund Balances as shown on previous page \$ (35,338)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital assets reported as capital outlay in governmental fund statements	75,904
Depreciation expense reported in the statement of activities	<u>(20,746)</u>
Amount by which capital outlays are less than depreciation in the current period	(20,746)

Repayment of principal on long-term debt is reported in the governmental funds as an expenditure, but is reported as a reduction in long-term debt in the Statement of Net Assets and does not affect the Statement of Activities.

The amount of long-term debt principal payments in the current year is:	<u>12,156</u>
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Change in Net Assets of Governmental Activities as Reported in the Statement of Activities	<u><u>\$ 31,976</u></u>
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The accompanying notes are an integral part of this financial statement.

**CITY OF NEWARK, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2007**

ASSETS	Water & Sewer Fund
Current Assets:	
Cash, including time deposits	\$ 20,633
Accounts Receivable (net)	42,875
Total current assets	<u>63,508</u>
Noncurrent Assets:	
Capital Assets (net)	1,244,415
Total noncurrent assets	<u>1,244,415</u>
Total assets	<u>1,307,923</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	23,126
Accrued liabilities	5,422
Customer service deposits	41,789
Current portion of notes/bond payables	8,000
Total current liabilities	<u>78,337</u>
Noncurrent Liabilities:	
Long term portion of notes/bond payables	87,000
Total noncurrent liabilities	<u>87,000</u>
Total liabilities	<u>165,337</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,244,415
Unrestricted	<u>(101,829)</u>
Total net assets	<u>\$ 1,142,586</u>

The accompanying notes are an integral part of this financial statement.

CITY OF NEWARK, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2007

	<u>Water & Sewer Fund</u>
Operating revenues:	
Charges for services:	
Water	\$ 151,458
Sewage	92,802
Garbage	81,531
Tap fees	5,250
Total charges for services	<u>331,041</u>
Miscellaneous	14,634
Total operating revenues	<u>345,675</u>
Operating expenses:	
Personal services	88,597
Others services and charges	251,629
Depreciation	54,123
Total operating expenses	<u>394,349</u>
Net operating income	(48,674)
Grants	21,700
Transfer from general fund	56,860
Interest income	15
Other income	78,575
Net income	29,901
Net assets - beginning of year	1,112,685
Net assets - end of year	<u>\$ 1,142,586</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF NEWARK, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2007**

	Water & Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 337,169
Payments to suppliers	(246,211)
Payments to employees	(88,597)
Net cash provided (used) by operating activities	2,361
 CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES	
Transfer from general fund	56,860
Principal paid on capital debt	(7,000)
Interest received	15
Interest paid on capital debt	(4,925)
Net cash provided (used) by capital and related financial activities	44,950
 CASH FLOWS FROM INVESTING ACTIVITIES	
Grants received	21,700
Fixed asset purchases	(56,230)
Net cash provided (used) by investing activities	(34,530)
Net increase (decrease) in cash and cash equivalents	12,781
Balances - beginning of year	7,852
Balances - end of year	\$ 20,633

The accompanying notes are an integral part of this financial statement.

**CITY OF NEWARK, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2007**

	<u>Water & Sewer Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (48,674)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation	54,123
Transfer from general fund	
Interest expense	7,038
Change in assets and liabilities:	
Receivables, net	(8,506)
Accounts and other payables	(1,620)
Net cash provided by operating activities	<u>\$ 2,361</u>

The accompanying notes are an integral part of this financial statement.

CITY OF NEWARK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Newark, Texas (the "City") was incorporated in 1951, under the provisions of the Home Rule Amendment to the State Constitution. The City operates under a Council Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and sewer utilities, and general administrative services.

The Comprehensive Annual Financial Report (the "Report") of the City includes all funds and component units. The financial statements of the City have been prepared to conform to generally accepted accounting principles (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies and practices used by the City are described below.

Reporting Entity

The City is governed by an elected mayor and five member council. As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component units, entities for which the government is considered to be financially accountable.

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model as defined by GASB Statement No. 34 the focus is either the City as a whole or major individual funds (within the fund financial statements).

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public Works, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.).

Internal Service Funds, which traditionally provide services primarily to other funds of the government, are presented in the summary form as part of the proprietary fund financial statements. Because the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government wide level. To the extent possible, the costs of these services are reflected in the appropriate functional activity (Public Safety, Public Works, etc.).

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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 have been met.

Government fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues availability period is generally considered to be one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

Ad valorem, franchise and sales tax revenues in the General Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Business type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities

associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewers are charges to customers for sales and services. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following major funds are used by the City:

Governmental Funds:

The General Fund accounts for several of the City's primary services (Public Safety and Transportation) and is the primary operating unit of the City.

Proprietary Funds:

The Water and Sewer Fund accounts for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

Non-Current Governmental Assets/Liabilities:

GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Assets.

Cash, Cash Equivalents and Investments

To facilitate cash management, the operating cash of certain funds and component units is pooled into a cash management pool for the purpose of increasing income through combined investment activities. This cash and investment pool is available for use by all funds. Each fund's portion of this pool is allocated through its cash and cash equivalent account on the balance sheet. In addition, certain investments are separately held by several of the City's funds. Interest is allocated on a quarterly basis to all funds in the investment pool based on their average balance at the end of each month. Interest earned by separate investments is credited to the respective funds.

For purposes of the statement of cash flows, the City considers all unrestricted investments included in its cash management pool to be cash equivalents as these balances are used essentially as demand deposit accounts by the individual funds. Investments included in the cash management pool which are restricted for use are reported as investments. Additionally, certificates of deposit and temporary investments held separately from the City's cash management pool and which have maturities of three months or less are reported as cash equivalents.

Texas statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, fully collateralized certificates of deposit, repurchase agreements, commercial paper, and direct obligations of cities within the state of Texas. The City is also authorized to invest in direct obligations of the state of Texas or its agencies, obligations of states, agencies, counties, and other political subdivisions, money market mutual funds, prime bankers' acceptances, and reverse repurchase agreements; however, the City has not invested in such instruments.

In accordance with GASB Statement No. 31, investments are recorded at fair value.

Effective September 1, 1995, the legislature of the state of Texas amended the Public Funds Investment Act (the "Investment Act"). Effective September 1, 1997, the legislature further amended the Investment Act. The current Investment Act governs items such as investment strategies and policies, training for investment officers, reporting requirements, and types of investments allowed. The City is in compliance with all State statutes.

Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Public domain (infrastructure) fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been recorded at estimated historical cost. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Net revenue bond interest cost incurred during construction periods is capitalized when material.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Equipment	3-10
Automobiles	5
Sewer improvements	20-40
System infrastructure	20-40

Fund Equity

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.

NOTE 2 - DETAILED NOTES ON ALL FUNDS

Deposits and investments

Deposits—State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized as required by State statutes at September 30, 2007.

Property taxes

Property Taxes are levied on October 1 on the assessed value listed as of the prior January 1 and are due and payable by the following January 31. All unpaid taxes attach as a lien on property as of February 1. Penalty and interest is charged at 7% on delinquent taxes beginning February 1, and increase each month 1% to a maximum of 10%.

Appraised values are established by the Wise County Appraisal District at 100 percent of estimated market value and certified by the Appraisal Review Board. The assessed value for the tax roll of October 1, 2006, upon which the original 2006 levy was based, was \$36,289,250. City property tax revenues are recorded in governmental funds as receivables and deferred revenues at the time the tax levy is billed. Current year revenues recognized are those collected within the current period, or soon enough thereafter to pay current liabilities, generally within sixty days after year-end. An allowance is provided for delinquent personal property taxes not expected to be collected in the future.

For the fiscal year ended September 30, 2007, the City had a tax rate of \$.53 per \$100 valuation.

In Texas, countywide central appraisal districts are required to assess all property within the appraisal district on the basis of 100 percent of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, legal action. Under this system, the City sets tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the tax rate of the previous year.

Receivables

Receivables at September 30, 2007 for the government's individual major funds and non-major, internal service, and enterprise funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

	General	Water & Sewer	Total
Receivables:			
Taxes	\$ 32,947	\$ -	\$ 32,947
Trade Accounts	-	42,875	42,875
Gross receivables	32,947	42,875	75,822
Less: allowance for uncollectables	32,947	-	32,947
Net total receivables	\$ -	\$ 42,875	\$ 42,875

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007 was as follows:

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 16,049	\$ 45,500	\$ -	\$ 61,549
Total capital assets, not being depreciated	16,049	45,500	-	61,549
Capital assets, being depreciated:				
Buildings	126,961	-	-	126,961
Equipment	156,756	30,404	-	187,160
Total capital assets being depreciated	283,717	30,404	-	314,121
Less accumulated depreciation for:				
Buildings	48,229	5,249	-	53,478
Equipment	133,719	15,497	-	149,216
Total accumulated depreciation	181,948	20,746	-	202,694
Total capital assets, being depreciated, net	101,769	9,658	-	111,427
Governmental activities capital assets, net	\$ 117,818	\$ 55,158	\$ -	\$ 172,976

	<u>Balance at Beginning Of Year</u>	<u>Transfers And Additions</u>	<u>Transfers And Retirements</u>	<u>Balance at End Of Year</u>
Water and sewer activities:				
Capital assets, not being depreciated:				
Land	\$ 4,400	\$ -	\$ -	\$ 4,400
Construction in progress	28,620	56,230	-	84,850
Total capital assets, not being depreciated	<u>33,020</u>	<u>56,230</u>	<u>-</u>	<u>89,250</u>
Capital assets, being depreciated:				
Building	11,295	-	-	11,295
Water and sewer infrastructure	1,923,879	-	-	1,923,879
Equipment	117,475	-	-	117,475
Total capital assets being depreciated	<u>2,052,649</u>	<u>-</u>	<u>-</u>	<u>2,052,649</u>
Less accumulated depreciation for:				
Building	11,295	-	-	11,295
Water and sewer infrastructure	726,644	48,097	-	774,741
Equipment	105,422	6,026	-	111,448
Total accumulated depreciation	<u>843,361</u>	<u>54,123</u>	<u>-</u>	<u>897,484</u>
Total capital assets, being depreciated, net	<u>1,209,288</u>	<u>(54,123)</u>	<u>-</u>	<u>1,155,165</u>
Water and sewer activities capital assets, net	<u>\$ 1,242,308</u>	<u>\$ 2,107</u>	<u>\$ -</u>	<u>\$ 1,244,415</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 7,312
Public safety	3,407
Culture and recreation	<u>10,027</u>

Total depreciation expense - governmental activities \$ 20,746

Business-type activities:

Water and sewer	<u>\$ 54,123</u>
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Total depreciation expense - business-type activities \$ 54,123

NOTE 4 - LONG-TERM DEBT

The City has the following long term debt:

<u>General Fund</u>	<u>Balance at 9/30/07</u>	<u>Current Portion 9/30/07</u>
Note payable, 0% interest, secured by land, in the amount of \$35,500 requiring monthly installments of \$10,000 due December, 2007	\$ 25,500	\$ 25,500
Note payable, 6.5% interest, secured by equipment, in the amount of \$23,607 requiring monthly payments of \$462 due March, 2008	\$ 2,263	\$ 2,263
Note payable, 5.82% interest, secured by equipment, in the amount of \$15,457 requiring annual payments of \$4,443 due April, 2011	\$ 15,457	\$ 3,543
Bond payable, 5% interest, unsecured, in the amount of \$68,000 requiring semi-annual payments of varying amounts due January, 2017	\$ 30,950	\$ 2,000
	<u>Balance at 9/30/07</u>	<u>Current Portion 9/30/07</u>
<u>Water and sewer fund</u>		
Bond payable, 5% interest, unsecured, in the amount of \$207,000 requiring semi-annual payments of varying amounts due January, 2017	\$ 95,000	\$ 8,000

The City had the following debt activity during the year ended September 30, 2007:

General fund	Payable at 9/30/06	Reduction	Increase	Payable at 9/30/07
Note Payable Due January, 2007	\$ 4,525	\$ 4,525	\$ -	\$ -
Note Payable Due December, 2007	-	10,000	35,500	25,500
Note Payable Due March, 2008	7,894	5,631	-	2,263
Note Payable Due April, 2011	-	-	15,457	15,457
General obligation bonds - 1970	32,950	2,000	-	30,950
Total general fund	<u>45,369</u>	<u>22,156</u>	<u>50,957</u>	<u>74,170</u>
<u>Water and sewer fund</u>				
Revenue Bonds - 1979	102,000	7,000	-	95,000
Total water and sewer	<u>102,000</u>	<u>7,000</u>	<u>-</u>	<u>95,000</u>
Total all funds	<u>\$ 147,369</u>	<u>\$ 29,156</u>	<u>\$ 50,957</u>	<u>\$ 169,170</u>

The City has the following principal repayments over the next five years:

	General Fund	Water and Sewer Fund	Total
Year ending September 30, 2008	\$ 33,306	\$ 8,000	\$ 41,306
Year ending September 30, 2009	6,749	8,000	14,749
Year ending September 30, 2010	6,967	8,000	14,967
Year ending September 30, 2011	7,198	9,000	16,198
Year ending September 30, 2012	3,000	9,000	12,000
Thereafter	16,950	53,000	69,950
Total	<u>\$ 74,170</u>	<u>\$ 95,000</u>	<u>\$ 169,170</u>

NOTE 5 - PENSION AND EMPLOYEE BENEFIT PLANS

The City sponsors a simplified employee pension (SEP) plan for eligible employees. Employees become eligible to participate after 3 full years of employment. Eligible employees receive \$100 per month in retirement contributions from the city regardless of elective deferrals from employees.

NOTE 6 – RESTRICTED ASSETS AND REVENUE BOND OBLIGATIONS

Under the terms of the Revenue Bond Ordinance dated March 1, 1979, the net revenues of the Water and Sewer System are irrevocably pledged for the payment of the next payment date and to make possible payments of the next maturing bond principal when due.

The Resource Fund described in section 16 of the Bond Ordinance calls for monthly deposits of at least \$204 to be accumulated until \$12,189 is reached. The beginning balance of the fund was \$16,776. In fiscal year 2007, the City earned interest of \$25. The ending balance in the fund was \$16,801.

Section 12 of the ordinance requires the City to charge and collect for water and sewer services at rates sufficient to pay all operating costs, depreciation charges, debt service and maintain the Resource Fund in accordance with such ordinance. During the current year, the water and sewer revenues were deficient by \$48,674.

Section 12 of the Bond Ordinance requires the City to maintain insurance on the system. During the current year, the system was fully covered in the City's insurance policies.

The cash in the Resource Fund is restricted to pay general long term debt as such amounts become due.

SUPPLEMENTAL SCHEDULES

CITY OF NEWARK, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2007

	<u>Budgeted Amount</u>	<u>Actual Amount</u>	<u>Variance</u>
Resources (Inflows):			
Taxes:			
Property	191,793	192,589	796
Sales	54,000	61,410	7,410
Franchise	50,000	47,572	(2,428)
Total taxes	<u>295,793</u>	<u>301,571</u>	<u>5,778</u>
Charges for services:			
Library	15,000	21,146	6,146
Permits	8,000	32,734	24,734
Total charges for services	<u>23,000</u>	<u>53,880</u>	<u>30,880</u>
Fines	<u>38,636</u>	<u>46,713</u>	<u>8,077</u>
Investment income	<u>100</u>	<u>152</u>	<u>52</u>
Miscellaneous income:			
Fire department transfers	5,000	69,419	64,419
Royalty income	18,000	29,441	11,441
Other income	10,000	20,973	10,973
Total miscellaneous income	<u>33,000</u>	<u>119,833</u>	<u>86,833</u>
Amounts available for appropriation	<u>390,529</u>	<u>522,149</u>	<u>131,620</u>
Charges to appropriations (Outflows):			
General government:			
Bank fees	400	327	(73)
Bond interest	1,700	1,598	(103)
Bond principal	2,000	2,000	-
Inspection fees	5,000	14,375	9,375
Copy machine	2,000	2,385	385
Computer	3,000	2,792	(208)
Contract labor	1,000	1,413	413
Chamber of commerce	400	500	100
NCTCOG	330	340	10
TML Dues	500	487	(13)
Electricity	23,000	23,169	169
Repairs - Comm Center	4,000	1,399	(2,601)
Retirement	1,200	1,200	-
Insurance	18,750	18,848	98
Repairs - City hall	2,500	3,049	549
Miscellaneous	4,050	6,244	2,194
Office supplies	3,000	2,677	(323)
Payroll taxes	10,217	8,999	(1,218)

CITY OF NEWARK, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2007

	<u>Budgeted</u> <u>Amount</u>	<u>Actual</u> <u>Amount</u>	<u>Variance</u>
Postage	500	543	43
Engineer	8,000	210	(7,790)
Audit fees	4,250	5,475	1,225
Legal fees	25,000	25,348	348
Public notice	2,000	1,780	(220)
Telephone	8,200	9,406	1,206
Salaries	32,074	35,748	3,674
Wise county appraisal district	2,750	2,960	210
Election	800	-	(800)
NP Truck interest	-	375	375
NP Truck principal	5,544	5,631	87
Parks expense	500	-	(500)
Capital outlays	-	45,500	45,500
Transfer to water and sewer	-	56,860	56,860
Total general government	<u>172,665</u>	<u>281,637</u>	<u>108,972</u>
Police:			
Animal control	1,200	2,104	904
Judge	3,000	2,600	(400)
Court supplies	500	86	(414)
Code enforcement	3,500	323	(3,177)
Misc warrants	1,000	2,096	1,096
State comptroller	12,750	20,310	7,560
Court clerk	27,040	29,274	2,234
Retirement	1,200	1,200	-
Police wages	14,700	14,693	(7)
Police supplies	2,000	9,419	7,419
Vehicle expense	-	1,404	1,404
Capital outlays	-	30,404	30,404
Total police	<u>66,890</u>	<u>113,912</u>	<u>47,022</u>

CITY OF NEWARK, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2007

	<u>Budgeted Amount</u>	<u>Actual Amount</u>	<u>Variance</u>
Fire:			
Electricity	3,800	3,920	120
County	-	70,788	70,788
Telephone	800	865	65
Gas	800	1,328	528
Miscellaneous	-	4,750	4,750
Total fire	<u>5,400</u>	<u>81,651</u>	<u>76,251</u>
Public works			
Equipment	3,000	857	(2,143)
Street improvements	28,000	9,790	(18,210)
Street signs	1,000	314	(686)
Wages	17,680	1,300	(16,380)
Truck expense	1,000	5,553	4,553
Truck lease	5,098	-	(5,098)
Total public works	<u>55,778</u>	<u>17,813</u>	<u>(37,965)</u>
Library			
Supplies	-	2,918	2,918
Building expense	4,000	4,000	0
Electricity	6,000	7,545	1,545
Telephone	2,600	2,618	18
Salaries	36,733	34,661	(2,072)
Loan interest		47	47
Loan principal	4,560	4,525	(35)
Retirement	1,200	1,200	-
County funds		4,959	4,959
Total library	<u>55,093</u>	<u>62,473</u>	<u>7,380</u>
Total charges to appropriations	355,826	557,487	201,661
Ending budget surplus/(deficit)	<u>\$ 34,703</u>	<u>\$ (35,338)</u>	<u>\$ (70,041)</u>