

CITY OF CORSICANA, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2006**

CITY OF CORSICANA, TEXAS

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INTRODUCTORY SECTION



CITY OF CORSICANA, TEXAS

March 30, 2007

To the Citizens of the City of Corsicana:

The annual financial report of the City of Corsicana for the year ended September 30, 2006, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. Disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The annual financial report is presented in three sections; Introductory, Financial and Statistical. The introductory section includes this transmittal letter, the City's organizational chart and the list of principal City officials. The financial section includes the basic financial statements and the individual and combining fund and account group financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

This report includes all funds and account groups of the City of Corsicana. The City provides a full range of services including police and fire protection, sanitation services, construction and maintenance of streets, and infrastructure, recreational activities and cultural events. In addition to general government activities, the Proprietary Funds are included in the reporting entity since the City exercises oversight of these funds.

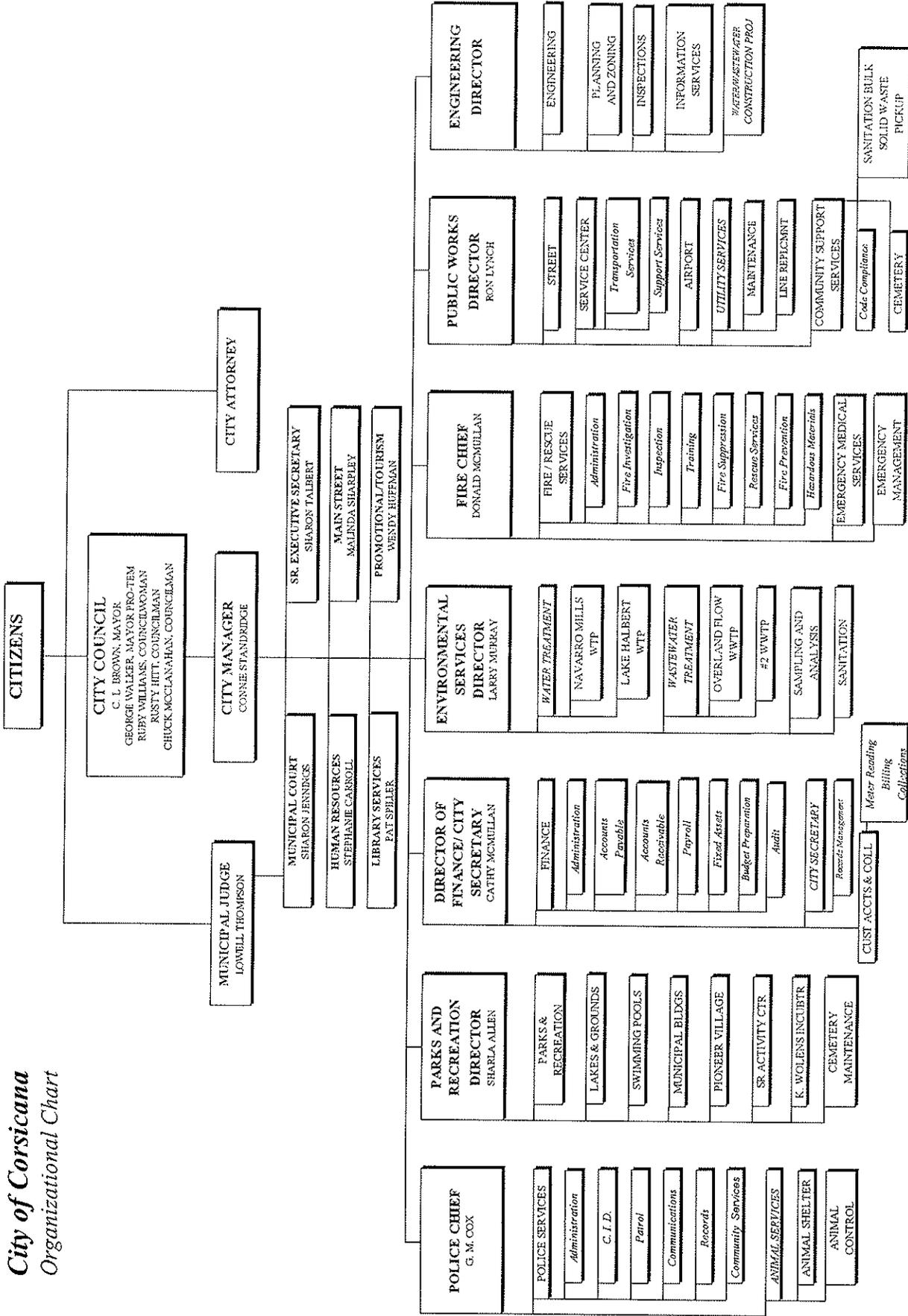
The City of Corsicana, with a population of approximately 25,858, is located in north central Texas, 53 miles south of Dallas and 54 miles east of Waco. The City has a diversified economic base comprised of agri-business, industry and mineral production.

The City has designated an area as an "Enterprise Zone" pursuant to the Texas Enterprise Zone Act, provided tax incentives and assistance to induce investment from private resources in productive business enterprises to locate in a severely distressed area of the City, and to provide employment to residents of the area. The City continues to implement inducements to locate and expand business in Corsicana through the Texas Capital Fund.

Sincerely,

Cathy McMullan
Director of Finance

City of Corsicana Organizational Chart



CITY OF CORSICANA, TEXAS

LIST OF PRINCIPAL OFFICIALS

SEPTEMBER 30, 2006

ELECTED OFFICIALS

Mayor	C. L. Brown
Mayor Pro-tem and Council Member, Place 1	George Walker
Council Member, Place 2	Ruby Williams
Council Member, Place 3	Rusty Hitt
Council Member, Place 4	Chuck McClanahan
City Attorney	Terry Jacobson
Municipal Court Judge	James Lagamarsino

CITY STAFF

City Manager	Connie Standridge
Director of Finance/City Secretary	Cathy McMullan
Police Chief	G. M. Cox
Fire Chief	Donald McMullan
Public Works Director	Ron Lynch
Director of Environmental Services	Larry Murray
Director of Engineering Services	Connie Standridge
Parks and Recreation Director	Sharla Allen
Library Director	Pat Spiller
Community Support Services Director	Sherri Warren
Main Street Project Facilitator	Malinda Sharpley
Human Resources Manager	Stephanie Carroll
Economic Development Director	Lee McCleary

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City of Council
City of Corsicana, Texas

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

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

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

In accordance with *Government's Auditing Standards*, we have also issued our report dated March 30, 2007, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Corsicana, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Satullo, Brown & Hill LLP

March 30, 2007

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

Management's Discussion and Analysis

As management of the City of Corsicana, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page i of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Corsicana exceeded its liabilities as of September 30, 2006, by \$62,422,353 (net assets). Of this amount, \$3,239,710 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's change in net assets was an increase of \$1,065,080.
- At the close of the current fiscal year, the City of Corsicana's governmental funds reported combined ending fund balances of \$7,371,388. Of this amount, \$7,271,359 represents unreserved fund balances available for use within the City's fund designation and fiscal policies.
- As of September 30, 2006, the unreserved, undesignated fund balance for the General Fund was \$1,644,306.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Corsicana's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements – The government-wide financial statements, which begin on page 11 of this report, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City of Corsicana's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include General Government, Public Safety, Public Works, and Community Services. The business-type activities of the City include Utility Operations (Water and Sewer), Sanitation, and EMS (Emergency Medical Services).

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Corsicana, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City can be divided into three categories – governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Beginning on page 13 of this report, information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds – The City maintains one type of proprietary fund, the Enterprise Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an Enterprise Fund to account for the Utility Operations Fund, Sanitation Fund, and the EMS (Emergency Medical Services) Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements, which begin on page 19 of this report, provide separate information for the Utility Operations, Sanitation and EMS Enterprise Funds since they are considered to be major funds of the City.

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. These funds are custodial in nature and do not involve measurement of results of operations.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 – 46 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements and schedules that further support the information in the financial statements. The combining fund statements and schedules for nonmajor funds are presented immediately following the notes to the financial statements beginning on page 47 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Corsicana, net assets exceeded liabilities by \$62,422,353 as of September 30, 2006.

The largest portion of the City's net assets \$55,423,545 reflects its investments in capital assets (e.g., land, building, equipment, improvements, and construction in progress), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF CORSICANA'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 10,082,746	\$ 5,628,602	\$ 8,510,925	\$ 9,188,967	\$ 18,593,671	\$ 14,817,569
Capital assets	<u>48,934,849</u>	<u>12,299,090</u>	<u>45,778,881</u>	<u>60,252,907</u>	<u>94,713,730</u>	<u>72,551,997</u>
Total assets	<u>59,017,595</u>	<u>17,927,692</u>	<u>54,289,806</u>	<u>69,441,874</u>	<u>113,307,401</u>	<u>87,369,566</u>
Other liabilities	2,395,944	1,966,125	4,778,531	2,287,305	7,174,475	4,253,430
Long-term liabilities	<u>11,650,133</u>	<u>8,609,494</u>	<u>32,060,440</u>	<u>37,211,023</u>	<u>43,710,573</u>	<u>45,820,517</u>
Total liabilities	<u>14,046,077</u>	<u>10,575,619</u>	<u>36,838,971</u>	<u>39,498,328</u>	<u>50,885,048</u>	<u>50,073,947</u>
Net assets:						
Invested in capital assets, net of related debt	43,075,796	5,698,501	12,347,749	26,165,177	55,423,545	31,863,678
Restricted	171,784	295,483	3,587,314	4,944,954	3,759,098	5,240,437
Unrestricted	<u>1,723,938</u>	<u>1,358,089</u>	<u>1,515,772</u>	<u>(1,166,585)</u>	<u>3,239,710</u>	<u>191,504</u>
Total net assets	<u>\$ 44,971,518</u>	<u>\$ 7,352,073</u>	<u>\$ 17,450,835</u>	<u>\$ 29,943,546</u>	<u>\$ 62,422,353</u>	<u>\$ 37,295,619</u>

A portion of the City's net assets, \$3,759,098, represents resources that are subject to external restriction on how they may be used. The remaining balance, \$3,239,710 of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.

Analysis of the City's Operations – The following table provides a summary of the City's operations for the year ended September 30, 2006. Governmental activities increased the City of Corsicana's net assets by \$295,813 and business-type activities increased the City's net assets by \$769,267.

CITY OF CORSICANA'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 937,330	\$ 974,558	\$ 18,987,567	\$ 15,842,300	\$ 19,924,897	\$ 16,816,858
Operating grants and contributions	232,566	446,849	-	-	232,566	446,849
Capital grants and contributions	63,527	-	-	-	63,527	-
General revenues:						
Ad valorem taxes	5,499,625	5,233,564	-	-	5,499,625	5,233,564
Sales taxes	4,910,743	4,027,148	-	-	4,910,743	4,027,148
Franchise taxes	2,073,663	1,932,129	-	-	2,073,663	1,932,129
Other taxes	349,510	258,335	-	-	349,510	258,335
Investment earnings	287,884	83,393	195,101	179,360	482,985	262,753
Miscellaneous	670,163	271,730	-	-	670,163	271,730
Total revenues	<u>15,025,011</u>	<u>13,227,706</u>	<u>19,182,668</u>	<u>16,021,660</u>	<u>34,207,679</u>	<u>29,249,366</u>
Expenses:						
General government	3,323,134	3,006,282	-	-	3,323,134	3,006,282
Public safety	6,851,979	6,260,915	-	-	6,851,979	6,260,915
Public works	2,784,764	2,170,220	-	-	2,784,764	2,170,220
Community services	2,422,318	2,279,684	-	-	2,422,318	2,279,684
Interest on long-term debt	453,507	276,438	-	-	453,507	276,438
Utility operations	-	-	10,939,204	10,218,684	10,939,204	10,218,684
Sanitation	-	-	2,039,657	2,344,646	2,039,657	2,344,646
Emergency medical services	-	-	4,328,036	2,703,775	4,328,036	2,703,775
Total expenses	<u>15,835,702</u>	<u>13,993,539</u>	<u>17,306,897</u>	<u>15,267,105</u>	<u>33,142,599</u>	<u>29,260,644</u>
Increases in net assets before transfers						
	(810,691)	(765,833)	1,875,771	754,555	1,065,080	(11,278)
Transfers	<u>1,106,504</u>	<u>1,549,765</u>	<u>(1,106,504)</u>	<u>(1,549,765)</u>	<u>-</u>	<u>-</u>
Change in net assets	295,813	783,932	769,267	(795,210)	1,065,080	(11,278)
Net assets - beginning	7,352,073	6,568,141	29,943,546	30,738,756	37,295,619	37,306,897
Prior period adjustment	<u>37,323,632</u>	<u>-</u>	<u>(13,261,978)</u>	<u>-</u>	<u>24,061,654</u>	<u>-</u>
Net assets - ending	<u>\$ 44,971,518</u>	<u>\$ 7,352,073</u>	<u>\$ 17,450,835</u>	<u>\$ 29,943,546</u>	<u>\$ 62,422,353</u>	<u>\$ 37,295,619</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds – The focus of the City of Corsicana's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Corsicana's governmental funds reported combined ending fund balances of \$7,371,388. Approximately 99% of this total fund balance constitutes an unreserved fund balance. The remainder of the fund balance \$100,029 is reserved to indicate what is not available for new spending because it has already been committed to pay for debt service. Refer to page 13 of this report for a more detailed presentation of governmental fund balances.

In the General Fund, the City originally budgeted for a \$56,516 increase in fund balance. The actual increase to fund balance for the General Fund was \$563,097 for fiscal year 2006. The main reason for the greater than expected addition to fund balance is the increase in property tax revenues and sales tax revenues.

Proprietary Funds – The City's proprietary fund statements, beginning on page 19 of this report, provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets are \$1,743,617 for the Utility Operations Fund, \$(512,399) for the Sanitation Fund, and \$284,554 for the EMS Fund. These proprietary funds experienced changes in total net assets during the year of \$157,427, \$391,654, and \$220,186, respectively. The City sells water to most surrounding towns in Navarro County and these are the City's top users. Utility rates were increased in February 2006. Revenues came in higher than expected due to water restriction surcharges. The slight decrease in the Sanitation Operating Fund is due to a decrease in usage of our Landfill. The EMS Fund increase is due to higher collections and a larger services payment from the county.

General Fund Budgetary Highlights – Refer to the General Fund Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual on pages 16 – 18 of this report for a detailed presentation of the actual General Fund operations compared to both the original and final budget for fiscal year 2006.

CAPITAL ASSETS

The City of Corsicana's investment in capital assets for its governmental and business-type activities as of September 30, 2006, amounts to \$94,713,730 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements other than buildings, infrastructure and construction work in progress. Major capital asset events occurring during the current fiscal year related primarily to water and sewer infrastructure projects, machinery and equipment, and other improvements.

CITY OF CORSICANA'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 15,016,660	\$ 3,500,599	\$ 3,686,358	\$ 3,880,735	\$ 18,703,018	\$ 7,381,334
Buildings and improvements	16,339,528	16,137,964	3,689,281	7,007,527	20,028,809	23,145,491
Machinery and equipment	5,251,554	5,355,455	23,592,910	19,255,172	28,844,464	24,610,627
Waterworks and wastewater system	-	-	31,080,563	59,755,970	31,080,563	59,755,970
Infrastructure	40,222,217	-	-	-	40,222,217	-
Construction in progress	-	2,176,043	-	-	-	2,176,043
Less: accumulated depreciation	(27,895,110)	(14,870,971)	(16,270,231)	(29,646,497)	(44,165,341)	(44,517,468)
Total capital assets	\$ 48,934,849	\$ 12,299,090	\$ 45,778,881	\$ 60,252,907	\$ 94,713,730	\$ 72,551,997

Additional information on the City's capital assets can be found in Note 4, pages 37 – 38 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Corsicana had total bonded debt of \$44,800,000. Of this amount, \$17,855,000 represents bonded debt backed by the full faith and credit of the government and \$26,945,000 represents bonds secured solely by specific revenue sources (i.e. revenue bonds).

CITY OF CORSICANA'S OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
General obligation	\$ 4,191,404	\$ 2,918,062	\$ -	\$ -	\$ 4,191,404	\$ 2,918,062
Revenue bonds payable	-	-	26,945,000	28,805,000	26,945,000	28,805,000
Certificates of obligation	6,784,018	4,554,018	6,879,578	7,597,920	6,784,018	12,151,938
	<u>\$ 10,975,422</u>	<u>\$ 7,472,080</u>	<u>\$ 33,824,578</u>	<u>\$ 36,402,920</u>	<u>\$ 44,800,000</u>	<u>\$ 43,875,000</u>

During the fiscal year, the City issued \$2,625,000 in General Obligation Refunding Bonds and \$4,110,000 in Certificates of Obligation.

The City's General Obligation, Certificates of Obligation, and Revenue Bond ratings are listed below.

	Moody's	Standard and Poor's
Tax Bonds	BAaa1	BBB+
Revenue Bonds	Baa1	BBB

In addition, various bond issues are rated Aaa by Moody's and AAA by S & P as a result of a policy of insurance executed at the time the bonds were sold. Additional information on the City of Corsicana's long-term debt can be found on pages 39 – 42 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The General Fund budget (including transfers in) for fiscal year 2007 is based on a projected revenue increase of 13.99% compared to the fiscal year 2006 adopted budget due to anticipated growth. Approximately 32.71% of General Fund revenues budgeted are sales taxes. Property taxes in FY 2007 make up about 32.25% of budgeted revenues.

The City's budget has been impacted by an increase in economic growth and sales tax receipts for FY 2006. This revenue source is the most volatile and the City is expecting a small increase in sales tax for FY 2007 as compared to FY 2006.

Expenditures remained fairly level with the prior year budget. Departments were asked to hold increases in operational expenses to a minimum, which resulted in only a slight increase over the previous year's operational budget. Employees received a 2% increase in FY 2006. The FY 2007 budget includes funding for a 2% salary increase for all employees; a 2% increase for pay grades 27 and below; a 1% increase for pay grades 20 and below; a 1% disparity increase for certain positions; and additional pay increases for some police and fire employees for rank disparity. Retirement benefits were also increased for all full time employees.

The Water and Sewer Fund budget includes an increase in utility rates implemented in February 2006. Drought conditions also forced the city to implement water restrictions and surcharges. Revenue did not meet budget, but came in higher than expected under the circumstances. Utility rates should again increase in February 2007 to provide funding for a water line from Richland Chambers Lake.

REQUESTS FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact Cathy McMullan, Director of Finance, (email: cmcmullan@ci.corsicana.tx.us) at 200 N. 12th Street, Corsicana, Texas 75110, or call (903) 654-4815.

**BASIC
FINANCIAL STATEMENTS**

CITY OF CORSICANA, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 7,463,564	\$ 1,041,403	\$ 8,504,967
Receivables, net of allowances for uncollectibles			
Accounts	578,615	2,826,097	3,404,712
Taxes	1,367,859	-	1,367,859
Due from other governments	331,590	-	331,590
Deferred charges	314,223	1,056,111	1,370,334
Inventories	17,283	-	17,283
Prepays	9,612	-	9,612
Restricted cash and investments	-	3,587,314	3,587,314
Capital assets:			
Land	15,016,660	3,686,358	18,703,018
Buildings and improvements	16,339,528	3,689,281	20,028,809
Waterworks and wastewater system	-	31,080,563	31,080,563
Machinery and equipment	5,251,554	23,592,910	28,844,464
Infrastructure	40,222,217	-	40,222,217
Less: accumulated depreciation	<u>(27,895,110)</u>	<u>(16,270,231)</u>	<u>(44,165,341)</u>
Total capital assets	<u>48,934,849</u>	<u>45,778,881</u>	<u>94,713,730</u>
Total assets	<u>59,017,595</u>	<u>54,289,806</u>	<u>113,307,401</u>
LIABILITIES			
Accounts payable	585,874	585,069	1,170,943
Accrued liabilities	494,815	274,902	769,717
Unearned revenue	320,663	33,368	354,031
Due to other governments	201,737	45,071	246,808
Liabilities payable from restricted assets	-	946,452	946,452
Accrued interest payable	80,346	184,902	265,248
Noncurrent liabilities:			
Due within one year	712,509	2,708,767	3,421,276
Due in more than one year	<u>11,650,133</u>	<u>32,060,440</u>	<u>43,710,573</u>
Total liabilities	<u>14,046,077</u>	<u>36,838,971</u>	<u>50,885,048</u>
NET ASSETS			
Invested in capital assets, net of related debt	43,075,796	12,347,749	55,423,545
Restricted for:			
Debt service	171,784	3,587,314	3,759,098
Unrestricted	<u>1,723,938</u>	<u>1,515,772</u>	<u>3,239,710</u>
Total net assets	<u>\$ 44,971,518</u>	<u>\$ 17,450,835</u>	<u>\$ 62,422,353</u>

The accompanying notes are an integral part of these financial statements.

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

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-type Activities	Total
			Operating Grants and Contributions	Capital Grants and Contributions			
Primary government							
Governmental activities:							
General government	\$ 3,323,134	\$ 453,419	\$ 27,535	\$ -	\$ (2,842,180)	\$ -	\$ (2,842,180)
Public safety	6,851,979	191,642	70,026	-	(6,590,311)	-	(6,590,311)
Public works	2,784,764	154,246	-	63,527	(2,566,991)	-	(2,566,991)
Community services	2,422,318	138,023	135,005	-	(2,149,290)	-	(2,149,290)
Interest on long-term debt	453,507	-	-	-	(453,507)	-	(453,507)
Total governmental activities	15,835,702	937,330	232,566	63,527	(14,602,279)	-	(14,602,279)
Business-type activities:							
Utility operations	10,939,204	12,119,823	-	-	-	1,180,619	1,180,619
Sanitation	2,039,657	2,715,297	-	-	-	675,640	675,640
Emergency medical services	4,328,036	4,152,447	-	-	-	(175,589)	(175,589)
Total business-type activities	17,306,897	18,987,567	-	-	-	1,680,670	1,680,670
Total primary government	\$ 33,142,599	\$ 19,924,897	\$ 232,566	\$ 63,527	(14,602,279)	1,680,670	(12,921,609)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					4,565,130	-	4,565,130
Property taxes, levied for debt service					934,495	-	934,495
Sales taxes					4,910,743	-	4,910,743
Franchise taxes					2,073,663	-	2,073,663
Other taxes					349,510	-	349,510
Investment earnings					287,884	195,101	482,985
Miscellaneous					670,163	-	670,163
Transfers					1,106,504	(1,106,504)	-
Total general revenues and transfers					14,898,092	(911,403)	13,986,689
Change in net assets					295,813	769,267	1,065,080
Net assets - beginning					7,352,073	29,943,546	37,295,619
Prior period adjustment					37,323,632	(13,261,978)	24,061,654
Net assets - ending					\$ 44,971,518	\$ 17,450,835	\$ 62,422,353

The accompanying notes are an integral part of these financial statements.

CITY OF CORSICANA, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS SEPTEMBER 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,308,676	\$ 6,154,888	\$ 7,463,564
Receivables, net of allowances for uncollectibles			
Taxes	1,211,139	156,720	1,367,859
Accounts	110,561	5,592	116,153
Due from other funds	618,357	100,000	718,357
Due from other governments	-	331,590	331,590
Inventories	17,283	-	17,283
Prepaid expenses	9,612	-	9,612
Total assets	\$ 3,275,628	\$ 6,748,790	\$ 10,024,418
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	479,406	106,468	585,874
Accrued liabilities	476,642	18,173	494,815
Due to other funds	100,000	618,357	718,357
Due to other governments	-	201,737	201,737
Deferred revenue	575,274	76,973	652,247
Total liabilities	1,631,322	1,021,708	2,653,030
Fund balances:			
Reserved for:			
Debt service	-	100,029	100,029
Unreserved, reported in:			
General fund			
Undesignated	1,644,306	-	1,644,306
Special revenue funds	-	4,372	4,372
Capital projects funds	-	5,622,681	5,622,681
Total fund balances	1,644,306	5,727,082	7,371,388
Total liabilities and fund balances	\$ 3,275,628	\$ 6,748,790	

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.	48,934,849
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	794,046
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(12,128,765)
Net assets of governmental activities	\$ 44,971,518

The accompanying notes are an integral part of these financial statements.

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

	General	Other Governmental Funds	Total
REVENUES			
Taxes	\$ 11,620,448	\$ 1,179,944	\$ 12,800,392
Occupancy taxes	-	324,691	324,691
Fines and forfeitures	400,141	146,418	546,559
Licenses and permits	168,726	-	168,726
Intergovernmental	39,300	50,872	90,172
Charges for services	175,411	33,772	209,183
Investment earnings	86,835	201,049	287,884
Miscellaneous	233,540	47,218	280,758
Contributions/donations	3,695	361,657	365,352
Total revenues	12,728,096	2,345,621	15,073,717
EXPENDITURES			
Current:			
General government	2,683,968	425,639	3,109,607
Public safety	6,486,822	49,012	6,535,834
Public works	2,144,850	190,956	2,335,806
Community services	1,426,435	791,905	2,218,340
Debt service:			
Principal	179,941	863,526	1,043,467
Interest and other charges	6,071	578,173	584,244
Capital outlay	-	424,710	424,710
Total expenditures	12,928,087	3,323,921	16,252,008
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(199,991)	(978,300)	(1,178,291)
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	-	6,735,000	6,735,000
Capital leases	-	531,590	531,590
Premium on long-term debt	-	11,954	11,954
Payment to bond escrow agent	-	(2,511,008)	(2,511,008)
Transfers in	1,496,152	520,221	2,016,373
Transfers out	(733,064)	(176,805)	(909,869)
Total other financing sources and uses	763,088	5,110,952	5,874,040
NET CHANGE IN FUND BALANCES	563,097	4,132,652	4,695,749
FUND BALANCES, BEGINNING	1,081,209	1,594,430	2,675,639
FUND BALANCES, ENDING	\$ 1,644,306	\$ 5,727,082	\$ 7,371,388

The accompanying notes are an integral part of these financial statements.

CITY OF CORSICANA, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net change in fund balances - total governmental funds:	\$ 4,695,749
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 the assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(687,873)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	12,862
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment on long-term debt and related items.	(3,557,177)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(167,748)
Change in net assets of governmental activities	<u>\$ 295,813</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CORSICANA, TEXAS

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Property	\$ 4,399,061	\$ 4,501,255	\$ 4,542,446	\$ 41,191
Interest and penalty on taxes	80,000	65,000	68,777	3,777
Sales	4,256,106	4,800,000	4,910,743	110,743
Franchise	1,959,365	2,077,216	2,073,663	(3,553)
Mixed beverage	24,000	23,000	24,819	1,819
Total taxes	<u>10,718,532</u>	<u>11,466,471</u>	<u>11,620,448</u>	<u>153,977</u>
Licenses and permits:				
Electrical	22,800	20,200	18,502	(1,698)
Building	65,500	72,000	75,291	3,291
Plumbing	24,575	20,600	19,018	(1,582)
Mechanical	8,550	7,700	7,420	(280)
Other	55,565	49,292	48,095	(1,197)
Total licenses and permits	<u>176,990</u>	<u>169,792</u>	<u>168,326</u>	<u>(1,466)</u>
Interest	89,120	89,120	86,835	(2,285)
Total interest	<u>89,120</u>	<u>89,120</u>	<u>86,835</u>	<u>(2,285)</u>
Fines and penalties:				
Court	493,225	363,400	384,571	21,171
Library	11,050	12,000	12,420	420
Other	275	4,000	3,150	(850)
Total fines and penalties	<u>504,550</u>	<u>379,400</u>	<u>400,141</u>	<u>20,741</u>
Charges for services:				
Concession	2,000	5,359	5,259	(100)
Building rental	49,990	74,037	72,179	(1,858)
Rental	6,900	6,400	5,955	(445)
Other	75,000	75,000	75,000	-
Total charges for services	<u>133,890</u>	<u>160,796</u>	<u>158,393</u>	<u>(2,403)</u>
Intergovernmental	3,100	3,100	3,695	595
Grant	18,936	18,936	39,300	20,364
Miscellaneous	265,102	265,102	250,958	(14,144)
Total revenues	<u>11,910,220</u>	<u>12,552,717</u>	<u>12,728,096</u>	<u>175,379</u>

(continued)

CITY OF CORSICANA, TEXAS

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXPENDITURES				
General government:				
Personnel services	\$ 1,163,475	\$ 1,216,955	\$ 1,177,307	\$ 39,648
Materials and supplies	105,890	102,813	89,166	13,647
Services	882,823	796,330	788,677	7,653
Maintenance	81,250	86,240	83,947	2,293
Sundry	400	412,495	441,267	(28,772)
Total general government	2,233,838	2,614,833	2,580,364	34,469
Public safety:				
Personnel services	6,056,890	5,918,279	5,905,295	12,984
Materials and supplies	247,735	253,207	236,240	16,967
Services	204,275	201,522	203,315	(1,793)
Maintenance	134,145	141,765	141,972	(207)
Total public safety	6,643,045	6,514,773	6,486,822	27,951
Public health:				
Personnel services	66,593	65,453	63,140	2,313
Materials and supplies	4,860	4,734	4,577	157
Services	33,948	33,458	33,132	326
Maintenance	4,450	1,700	2,755	(1,055)
Total public health	109,851	105,345	103,604	1,741
Public works:				
Personnel services	1,066,544	999,977	984,515	15,462
Materials and supplies	125,535	125,885	121,012	4,873
Services	429,375	417,619	380,959	36,660
Maintenance	617,032	653,450	658,364	(4,914)
Total public works	2,238,486	2,196,931	2,144,850	52,081
Community and cultural:				
Personnel services	977,344	964,265	953,629	10,636
Materials and supplies	180,196	167,488	158,132	9,356
Services	166,141	173,756	156,189	17,567
Maintenance	184,587	172,336	158,485	13,851
Total community and cultural	1,508,268	1,477,845	1,426,435	51,410

(continued)

CITY OF CORSICANA, TEXAS

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Debt service:				
Principal	\$ 283,220	\$ 179,941	\$ 179,941	\$ -
Interest and fiscal charges	5,996	6,071	6,071	-
Total debt service	289,216	186,012	186,012	-
Total expenditures	13,022,704	13,095,739	12,928,087	167,652
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,112,484)	(543,022)	(199,991)	343,031
OTHER FINANCING SOURCES (USES)				
Transfers in	1,548,000	1,483,519	1,496,152	12,633
Transfers out	(379,000)	(497,630)	(733,064)	(235,434)
Total other financing sources (uses)	1,169,000	985,889	763,088	(222,801)
NET CHANGE IN FUND BALANCE	56,516	442,867	563,097	120,230
FUND BALANCE, BEGINNING	1,081,209	1,081,209	1,081,209	-
FUND BALANCE, ENDING	\$ 1,137,725	\$ 1,524,076	\$ 1,644,306	\$ 120,230

The notes to the financial statements are an integral part of this statement.

CITY OF CORSICANA, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2006

	Enterprise Funds			
	Utility Operations	Sanitation	Emergency Medical Services	Total
ASSETS				
Current assets:				
Cash and investments	\$ 798,319	\$ 64,025	\$ 179,059	\$ 1,041,403
Accounts receivable, net of allowances for uncollectibles	1,936,469	227,239	662,389	2,826,097
Due from other funds	465,550	-	-	465,550
Total current assets	<u>3,200,338</u>	<u>291,264</u>	<u>841,448</u>	<u>4,333,050</u>
Non-current assets:				
Restricted cash and investments	3,323,525	263,789	-	3,587,314
Deferred charges	1,002,957	53,154	-	1,056,111
Capital assets:				
Land	3,467,800	218,558	-	3,686,358
Buildings	3,219,363	469,918	-	3,689,281
Waterworks and wastewater system	28,545,135	2,535,428	-	31,080,563
Machinery and equipment	20,453,605	2,466,726	672,579	23,592,910
Less accumulated depreciation	(14,455,737)	(1,388,308)	(426,186)	(16,270,231)
Total capital assets	<u>41,230,166</u>	<u>4,302,322</u>	<u>246,393</u>	<u>45,778,881</u>
Total non-current assets	<u>45,556,648</u>	<u>4,619,265</u>	<u>246,393</u>	<u>50,422,306</u>
Total assets	<u>48,756,986</u>	<u>4,910,529</u>	<u>1,087,841</u>	<u>54,755,356</u>
LIABILITIES				
Current liabilities:				
Accounts payable	454,720	130,349	-	585,069
Accrued liabilities	183,284	34,698	56,920	274,902
Deferred revenue	-	-	33,368	33,368
Due to other funds	-	-	465,550	465,550
Due to other governments	-	45,071	-	45,071
Accrued interest payable	176,769	8,133	-	184,902
Capital leases payable	85,139	69,119	62,984	217,242
Revenue bonds payable	2,060,000	431,525	-	2,491,525
Total current liabilities	<u>2,959,912</u>	<u>718,895</u>	<u>618,822</u>	<u>4,297,629</u>
Current liabilities payable from restricted assets:				
Customer deposits	375,515	-	-	375,515
Landfill closure liability	-	570,937	-	570,937
Total current liabilities payable from restricted assets	<u>375,515</u>	<u>570,937</u>	<u>-</u>	<u>946,452</u>
Non-current liabilities:				
Compensated absences	266,433	14,475	1,056	281,964
Capital leases payable	24,923	277,727	142,773	445,423
Revenue bonds payable	29,955,000	1,378,053	-	31,333,053
Total non-current liabilities	<u>30,246,356</u>	<u>1,670,255</u>	<u>143,829</u>	<u>32,060,440</u>
Total liabilities	<u>33,581,783</u>	<u>2,960,087</u>	<u>762,651</u>	<u>37,304,521</u>
NET ASSETS				
Invested in capital assets, net of related debt	10,108,061	2,199,052	40,636	12,347,749
Restricted for debt service	3,323,525	263,789	-	3,587,314
Unrestricted	<u>1,743,617</u>	<u>(512,399)</u>	<u>284,554</u>	<u>1,515,772</u>
Total net assets	<u>\$ 15,175,203</u>	<u>\$ 1,950,442</u>	<u>\$ 325,190</u>	<u>\$ 17,450,835</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CORSICANA, TEXAS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Enterprise Funds			
	Utility Operations	Sanitation	Emergency Medical Services	Total
OPERATING REVENUES				
Water sales	\$ 7,651,298	\$ -	\$ -	\$ 7,651,298
Sewer charges	3,867,865	-	-	3,867,865
Tap fees	59,248	-	-	59,248
Other charges	541,412	31,506	79,912	652,830
Garbage collection fees	-	828,542	-	828,542
Landfill	-	1,855,249	-	1,855,249
Emergency medical services	-	-	4,072,535	4,072,535
Total operating revenues	<u>12,119,823</u>	<u>2,715,297</u>	<u>4,152,447</u>	<u>18,987,567</u>
OPERATING EXPENSES				
Costs of sales and services	7,218,770	1,668,113	4,126,502	13,013,385
Administration	644,501	60,614	-	705,115
Depreciation	1,444,949	214,649	201,534	1,861,132
Total operating expenses	<u>9,308,220</u>	<u>1,943,376</u>	<u>4,328,036</u>	<u>15,579,632</u>
OPERATING INCOME (LOSS)	<u>2,811,603</u>	<u>771,921</u>	<u>(175,589)</u>	<u>3,407,935</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenues	172,954	16,020	6,127	195,101
Interest expense	<u>(1,630,984)</u>	<u>(96,281)</u>	<u>-</u>	<u>(1,727,265)</u>
Total non-operating revenues (expenses)	<u>(1,458,030)</u>	<u>(80,261)</u>	<u>6,127</u>	<u>(1,532,164)</u>
INCOME (LOSS) BEFORE TRANSFERS	1,353,573	691,660	(169,462)	1,875,771
TRANSFERS IN	-	-	389,648	389,648
TRANSFERS OUT	<u>(1,196,146)</u>	<u>(300,006)</u>	<u>-</u>	<u>(1,496,152)</u>
CHANGE IN NET ASSETS	157,427	391,654	220,186	769,267
TOTAL NET ASSETS, BEGINNING	27,439,776	2,396,771	106,999	29,943,546
PRIOR PERIOD ADJUSTMENT	<u>(12,422,000)</u>	<u>(837,983)</u>	<u>(1,995)</u>	<u>(13,261,978)</u>
TOTAL NET ASSETS, BEGINNING AS RESTATED	<u>15,017,776</u>	<u>1,558,788</u>	<u>105,004</u>	<u>16,681,568</u>
TOTAL NET ASSETS, ENDING	<u>\$ 15,175,203</u>	<u>\$ 1,950,442</u>	<u>\$ 325,190</u>	<u>\$ 17,450,835</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CORSICANA, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Enterprise Funds			
	Utility Operations	Sanitation	Emergency Medical Services	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 11,917,600	\$ 2,598,969	\$ 4,444,869	\$ 18,961,438
Cash paid to suppliers for goods and services	(4,477,746)	(1,414,074)	(3,374,858)	(9,266,678)
Cash paid to employees for services	(2,908,373)	(607,982)	(1,180,308)	(4,696,663)
Net cash provided by operating activities	<u>4,531,481</u>	<u>576,913</u>	<u>(110,297)</u>	<u>4,998,097</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	-	-	389,648	389,648
Transfers out	(1,196,146)	(300,006)	-	(1,496,152)
Net cash provided (used) for noncapital financing activities	<u>(1,196,146)</u>	<u>(300,006)</u>	<u>389,648</u>	<u>(1,106,504)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(49,613)	(556,914)	(45,724)	(652,251)
Proceeds from issuance of debt	-	354,410	-	354,410
Principal paid on debt	(2,315,212)	(453,652)	(60,895)	(2,829,759)
Interest paid on debt	(1,630,984)	(96,281)	-	(1,727,265)
Net cash used for capital and related financing activities	<u>(3,995,809)</u>	<u>(749,270)</u>	<u>(106,619)</u>	<u>(4,851,698)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	<u>172,954</u>	<u>16,020</u>	<u>6,127</u>	<u>195,101</u>
Net cash provided by investing activities	<u>172,954</u>	<u>16,020</u>	<u>6,127</u>	<u>195,101</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(487,520)</u>	<u>(456,343)</u>	<u>178,859</u>	<u>(765,004)</u>
CASH AND CASH EQUIVALENTS, BEGINNING	<u>4,609,364</u>	<u>784,157</u>	<u>200</u>	<u>5,393,721</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 4,121,844</u>	<u>\$ 327,814</u>	<u>\$ 179,059</u>	<u>\$ 4,628,717</u>

(continued)

CITY OF CORSICANA, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Enterprise Funds			
	Utility Operations	Sanitation	Emergency Medical Services	Totals
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 2,811,603	\$ 771,921	\$(175,589)	\$ 3,407,935
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,444,949	214,649	201,534	1,861,132
Changes in assets and liabilities:				
Decrease (increase) in assets:				
Accounts receivable	(248,858)	(116,328)	292,422	(72,764)
Due from other funds	285,854	-	-	285,854
Deferred charges	116,737	10,878	-	127,615
Increase (decrease) in liabilities:				
Accounts payable	56,411	(284,691)	(11,925)	(240,205)
Accrued liabilities	5,658	2,883	11,758	20,299
Deferred revenue	-	-	(2,346)	(2,346)
Due to other funds	-	(1,379)	(426,288)	(427,667)
Due to other governments	-	(4,639)	-	(4,639)
Compensated absences payable	31,477	1,919	137	33,533
Customer deposits	46,635	-	-	46,635
Other liabilities	(18,985)	(18,300)	-	(37,285)
Net cash provided (used) by operations	<u>\$ 4,531,481</u>	<u>\$ 576,913</u>	<u>\$(110,297)</u>	<u>\$ 4,998,097</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CORSICANA, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2006

	<u>Agency Fund</u>
ASSETS	
Cash	\$ <u> 60</u>
Total assets	\$ <u> 60</u>
LIABILITIES	
Due to others	\$ <u> 60</u>
Total liabilities	\$ <u> 60</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CORSICANA, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Corsicana, Texas (the City) was incorporated July 11, 1848, while the City's Home Rule Charter was adopted in 1996 and last updated by election in 2005. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, general and administrative, water and wastewater services.

The City's accounting and reporting policies relating to the funds and account groups included in the accompanying financial statements conform to generally accepted accounting principles (GAAP) applicable to state and local governments, which include those principles prescribed by the Governmental Accounting Standards Board (GASB). The following represent the significant accounting and reporting policies and practices used by the City.

A. Reporting Entity

The reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Financial accountability exists if a primary government appoints a voting majority of an organization's governing Board and is able either to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing Board, a governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the primary government.

In accordance with Governmental Accounting Standards Board requirements, the City has reviewed other entities and activities for possible inclusion in the reporting entity and has determined that there are none.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide 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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-like activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial 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 revenue 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 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 collectible 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 collected within 60 days of the end of the current fiscal period. 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 payment is due.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

The General Fund – is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The Utility Operating Fund – is used to account for water and wastewater operations that are intended to be self-supporting through user charges.

The Sanitation Fund – is used to account for sanitation operations that are intended to be self-supporting through user charges.

The EMS Operating Fund – is used to account for emergency medical service operations that are intended to be self-supporting through user charges.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between the City's water and wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 Utility Operating Fund, Sanitation Fund, and EMS Operating Fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers as cash equivalents, cash, certificates of deposit, investment securities with a maturity of three months or less at date of purchase, and money market accounts.

Statutes authorize the City to invest in obligations of U. S. Treasury or its agencies and instrumentalities, obligations of the state or its agencies, other investments guaranteed by the U. S. Treasury or the state of Texas, or investments rated by a national rating company at "A" or better. The City is also authorized to invest in fully collateralized repurchase agreements, local government investment pools, and in certificates of deposit issued by banks domiciled in Texas that are FDIC insured or have securities (of aforementioned quality) pledged to secure these deposits.

2. Investments

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is based on historical collection rate percentages.

Property taxes are levied by October 1 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 February 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Navarro County Central Appraisal District (“CAD”) establishes appraised values. Taxes are levied by the City Council based on the appraised values received from the CAD. The Navarro County Tax Assessor performs billing and collection of tax levies/Collector’s office.

The maximum tax rate permitted by the State of Texas is \$2.50 per \$100 of assessed valuation, and the City Charter provides no limitation within the \$2.50. The tax rate for the October 1, 2005, levy was \$.6272 (\$.5228 for general government and \$.1044 for debt service) per \$100 of assessed valuation.

During the year ended September 30, 2006, 97.20% of the current tax levy (October 1, 2005) was collected. At September 30, 2006, the delinquent property taxes receivable totaled \$345,832 in the General Fund and \$92,322 in the Debt Service Fund. The City recognizes penalties and interest due on delinquent taxes receivable as a component of delinquent taxes receivable. The additional receivable is treated as deferred revenue until available.

The Texas Property Tax Code requires all property to be assessed on the basis of 100% of appraised value. The value of property must be reviewed at least every five years.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Assets, Liabilities, and Net Assets or Equity** (Continued)

3. **Receivables and Payables** (Continued)

Under the Property Tax Code, if the effective tax rate, excluding tax rates for bonds and other contractual obligations adjusted for new improvements and revaluations, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the effective tax rate of the previous year.

4. **Capital Assets**

Capital assets, which include property, plant, and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of three 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 50
Equipment	3 - 10
Improvements	10 - 40

The City has elected to delay implementation of the requirements of GASB 34 related to infrastructure (roads, sidewalks, etc.) assets acquired prior to October 1, 2002. GASB 34 permits an optional four-year transition period for governmental infrastructure reporting.

5. **Compensated Absences**

Accumulated unpaid compensated absences for vacation and sick leave are accrued when incurred. For business-type activities, the accruals are reported as liabilities and expenses for the year incurred. For governmental activities, the liability is not recorded in the fund financial statements, but only in the government-wide financial statements since payment of this liability will not be made with expendable available resources.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. As of September 30, 2006, bond premiums or discounts are immaterial to the basic financial statements. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. 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 the use for specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

9. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

2. 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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$12,128,765 difference are as follows:

General and certifications of obligation	\$ 11,004,414
Note payable	240,551
Accrued interest payable	80,346
Compensated absences	566,685
Capital lease obligations	579,984
Bond issuance costs	(343,215)
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ <u>12,128,765</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “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.” The details of this \$(687,873) difference are as follows:

Capital outlay	\$ 522,050
Depreciation expense	(1,209,923)
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>(687,873)</u>

(continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(Continued)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation states, "The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets." The details of this \$(3,557,177) difference are as follows:

Debt issued or incurred:	
General and certificates of obligation	\$(6,735,000)
Capital lease obligations	(531,590)
Issuance cost	154,938
Principal repayments	1,043,467
Payment to escrow agent	<u>2,511,008</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$(3,557,177)</u>

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$(167,748) difference are as follows:

Compensated absences	\$(70,025)
Amortization of bond costs	(61,568)
Accrued interest	<u>(36,155)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$(167,748)</u>

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds except the Capital Projects Fund, which adopts a project length budget. The City adopts a non-appropriation budget for the Proprietary Fund Types on a working capital basis. The original budget is adopted by the City Council prior to the beginning of the fiscal year. The legal level of control is the total approved budget for each department. The City Manager may transfer funds within department categories without Council approval up to \$500 per line item account provided such transfers do not exceed \$1,500 per fiscal year for any individual department and provided that no amounts shall be transferred from or to any capital outlay item accounts. Council must approve all transfers from one department to another or from one fund to another. The final amended budget is used in this report. Appropriations lapse at the end of the year.

The City of Corsicana has complied with all budget requirements for the year ended September 30, 2006. Several supplemental budget appropriations were made for the year ended September 30, 2006.

B. Deficit Fund Balance

The Palace Theater and Tax Increment Financing District Special Revenue Funds had a deficit fund balance of \$1,046 and \$788,751, respectively, as of September 30, 2006. The City plans to transfer funds from the General Fund to cover the deficit fund balance in the Palace Theater Fund. The deficit fund balance in the Tax Increment Financing District will be covered with the collection of the special assessment within the District.

4. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

Substantially all cash, cash equivalents and investments are maintained in consolidated cash and investment accounts. Interest income relating to consolidated cash, cash equivalents and investments is allocated to the individual funds monthly based on each fund's prorate share of total consolidated cash, cash equivalents and investments.

The City Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act. The investments of the City are in compliance with the Council's investment policies. Section 105.034 of the Local Government Code of Texas Codes Annotated authorizes the City to invest in:

- a. Obligations of the United States or its agencies or instrumentalities;
- b. Direct obligations of the State of Texas or its agencies;

(continued)

4. **DETAILED NOTES ON ALL FUNDS** (Continued)

Deposits and Investments (Continued)

- c. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States;
- d. Obligations of state, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.

As of September 30, 2006, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexStar	\$ <u>11,178,218</u>	24

The City's investment pool is a 2a7-like pool. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair market values by limiting the weighted average maturity of its investment portfolio to a maximum of 180 days.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2006, \$566,369 of the City's \$666,369 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$100,000 was covered by FDIC insurance.

Credit Risk. It is the City's policy to limit its investments to investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City's investment pool was rated AAAM by Standard & Poor's Investors Service.

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Deposits and Investments (Continued)

Restricted Cash and Investment

As of September 30, 2006, the City held restricted cash and investment of \$3,587,314 for the following purposes:

Enterprise Fund:	
Construction	\$ 762,035
Debt service	325,832
Bond reserves	2,055,620
Held by Trinity River Authority	<u>443,827</u>
 Total Enterprise Fund	 <u>3,587,314</u>
 Total Restricted Cash and Investment	 <u>\$ 3,587,314</u>

Receivables

Receivables as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Utility Operations</u>	<u>Sanitation</u>	<u>Emergency Medical Service</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Receivables:						
Property taxes	\$ 345,832	\$ -	\$ -	\$ -	\$ 92,322	\$ 438,154
Franchise fees, sales and use tax	917,571	-	-	-	77,857	995,428
Accounts	110,561	2,061,342	244,904	1,586,393	5,592	4,008,792
Intergovernmental	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>331,590</u>	<u>331,590</u>
Gross receivables	1,373,964	2,061,342	244,904	1,586,393	507,361	5,773,964
Less: allowance for uncollectibles	<u>52,264</u>	<u>124,873</u>	<u>17,665</u>	<u>924,004</u>	<u>13,459</u>	<u>1,132,265</u>
Net total receivables	<u>\$ 1,321,700</u>	<u>\$ 1,936,469</u>	<u>\$ 227,239</u>	<u>\$ 662,389</u>	<u>\$ 493,902</u>	<u>\$ 4,641,699</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Receivables (Continued)

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund		
Delinquent property taxes receivable	\$ 259,829	\$ -
Franchise taxes	<u>-</u>	<u>315,445</u>
Total General Fund	<u>259,829</u>	<u>315,445</u>
Other Governmental Funds		
Delinquent property taxes receivable	71,755	-
Miscellaneous	<u>-</u>	<u>5,218</u>
Total Other Governmental Funds	<u>71,755</u>	<u>5,218</u>
 Total Governmental Funds	 <u>\$ 331,584</u>	 <u>\$ 320,663</u>
Enterprise Fund		
Emergency Medical Services		
Ambulance subscription fees	\$ -	\$ 33,368
Total Emergency Medical Services	<u>-</u>	<u>33,368</u>
 Total Enterprise Funds	 <u>\$ -</u>	 <u>\$ 33,368</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Capital Assets

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

Primary Government

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 3,500,599	\$ -	\$ -	\$ 11,516,061	\$ 15,016,660
Construction in progress	2,176,043	-	-	(2,176,043)	-
Total assets not being depreciated	<u>5,676,642</u>	<u>-</u>	<u>-</u>	<u>9,340,018</u>	<u>15,016,660</u>
Capital assets, being depreciated:					
Buildings and improvements	16,137,964	-	-	201,564	16,339,528
Machinery and equipment	5,355,455	522,050	(83,170)	(542,781)	5,251,554
Infrastructure	-	-	-	40,222,217	40,222,217
Total capital assets being depreciated	<u>21,493,419</u>	<u>522,050</u>	<u>(83,170)</u>	<u>39,881,000</u>	<u>61,813,299</u>
Less accumulated depreciation:					
Buildings and improvements	11,552,683	485,621	-	546,411	12,584,715
Machinery and equipment	3,318,288	383,954	(72,400)	56,833	3,686,675
Infrastructure	-	340,348	-	11,283,372	11,623,720
Total accumulated depreciation	<u>14,870,971</u>	<u>1,209,923</u>	<u>(72,400)</u>	<u>11,886,616</u>	<u>27,895,110</u>
Total capital assets being depreciated, net	<u>6,622,448</u>	<u>(687,873)</u>	<u>(10,770)</u>	<u>27,994,384</u>	<u>33,918,189</u>
Governmental activities capital assets, net	<u>\$ 12,299,090</u>	<u>\$ (687,873)</u>	<u>\$ (10,770)</u>	<u>\$ 37,334,402</u>	<u>\$ 48,934,849</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 3,880,735	\$ -	\$ -	\$(194,377)	\$ 3,686,358
Total assets not being depreciated	<u>3,880,735</u>	<u>-</u>	<u>-</u>	<u>(194,377)</u>	<u>3,686,358</u>
Capital assets, being depreciated:					
Buildings	7,007,527	-	(21,000)	(3,297,246)	3,689,281
Waterworks and wastewater system	59,755,970	173,359	-	(28,848,766)	31,080,563
Machinery and equipment	19,255,172	478,893	(375,588)	4,234,433	23,592,910
Total capital assets being depreciated	<u>86,018,669</u>	<u>652,252</u>	<u>(396,588)</u>	<u>(27,911,579)</u>	<u>58,362,754</u>
Less accumulated depreciation:					
Buildings	6,201,794	108,067	(21,000)	(4,249,103)	2,039,758
Waterworks and wastewater system	16,280,708	522,172	-	(9,884,195)	6,918,685
Machinery and equipment	7,163,995	1,230,893	(372,421)	(710,679)	7,311,788
Total accumulated depreciation	<u>29,646,497</u>	<u>1,861,132</u>	<u>(393,421)</u>	<u>(14,843,977)</u>	<u>16,270,231</u>
Total capital assets being depreciated, net	<u>56,372,172</u>	<u>(1,208,880)</u>	<u>(3,167)</u>	<u>(13,067,602)</u>	<u>42,092,523</u>
Business-type activities capital assets, net	<u>\$ 60,252,907</u>	<u>\$ (1,208,880)</u>	<u>\$ (3,167)</u>	<u>\$ (13,261,979)</u>	<u>\$ 45,778,881</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 306,405
Public safety	263,204
Public works	442,171
Community and cultural	<u>198,143</u>
Total depreciation expense - governmental activities	<u>\$ 1,209,923</u>
Business-type activities:	
Water and wastewater, sanitation and EMS	<u>\$ 1,861,132</u>
Total depreciation expense	<u>\$ 1,861,132</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2006, is as follows:

Due to/from other funds:

	Due from			Total
	General	Nonmajor Governmental	Emergency Medical Services	
Due to:				
Governmental:				
General	\$ -	\$ 618,357	\$ -	\$ 618,357
Nonmajor - governmental funds	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Total due to/from	<u>100,000</u>	<u>618,357</u>	<u>-</u>	<u>718,357</u>
Business-type:				
Utility operations	<u>-</u>	<u>-</u>	<u>465,550</u>	<u>465,550</u>
Total due to/from	<u>\$ 100,000</u>	<u>\$ 618,357</u>	<u>\$ 465,550</u>	<u>\$ 1,183,907</u>

This balance resulted from the time lag between the dates that 1) interfund goods and services are provided on reimbursable expenditures occur, and 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Interfund Receivables, Payables and Transfers (Continued)

Interfund transfers:

The following schedule briefly summarizes the City's transfer activity:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
General	Utility Operations	\$ 1,196,146	Subsidy for administrative expenditures (\$830,000) Payment in lieu of franchise taxes (\$366,146)
General	Sanitation	300,006	Subsidy for administrative expenditures (\$218,000) Payment in lieu of franchise taxes (\$82,006)
Nonmajor governmental	General	492,630	Subsidy for other programs in the City
Nonmajor governmental	Nonmajor governmental	27,591	Subsidy for economic development
Emergency Medical Services	Nonmajor governmental	149,214	Combining funds
Emergency Medical Services	General	240,434	Supplement for EMS Costs

Long-term Liabilities

Long-term liability activity for the year ended September 30, 2006, was as follows:

	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2006</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities</u>					
General obligation bonds	\$ 2,918,062	\$ 2,625,000	\$ 1,351,658	\$ 4,191,404	\$ 145,000
Certificates of obligation	4,554,018	4,110,000	1,880,000	6,784,018	165,993
Capital leases payable	300,203	531,590	251,809	579,984	188,179
Notes payable	340,551	-	100,000	240,551	100,000
Compensated absences	496,641	507,702	437,658	566,685	113,337
Total governmental activities	<u>8,609,475</u>	<u>7,774,292</u>	<u>4,021,125</u>	<u>12,362,642</u>	<u>712,509</u>
<u>Business-type activities</u>					
Revenue bonds	28,805,000	-	1,860,000	26,945,000	1,640,000
Certificates of obligation	7,597,920	-	718,342	6,879,578	771,525
Capital leases payable	559,671	354,410	251,416	662,665	217,242
Compensated absences	248,431	196,390	162,857	281,964	55,599
Total business-type activities	<u>37,211,022</u>	<u>550,800</u>	<u>2,992,615</u>	<u>34,769,207</u>	<u>2,684,366</u>
Total	<u>\$ 45,820,497</u>	<u>\$ 8,325,092</u>	<u>\$ 7,013,740</u>	<u>\$ 47,131,849</u>	<u>\$ 3,396,875</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Long-term Liabilities (Continued)

Capital Leases

The government has acquired certain fixed assets for governmental activities through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Capital lease obligations	\$ <u>579,984</u>	\$ <u>662,665</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2006, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2007	\$ 205,532	\$ 236,824
2008	134,056	158,761
2009	57,260	108,472
2010	39,684	45,304
2011	39,684	33,918
2012-2016	<u>168,657</u>	<u>144,150</u>
Total minimum lease payments	644,873	727,429
Less: amount representing interest	<u>(64,889)</u>	<u>(64,764)</u>
Present value of minimum lease payments	\$ <u>579,984</u>	\$ <u>662,665</u>

Bonds Payable

Governmental activities long-term liabilities at September 30, 2006, consisted of the following:

<u>Series</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
General Obligation Bonds:			
Series 2001 General Obligation Refunding Bonds	\$ 1,560,000	3.5% to 4.0%	\$ 205,000
Series 2002 General Obligation Refunding Bonds	481,377	3.0% to 3.75%	251,404
Series 2004 General Obligation Refunding Bonds	1,890,000	2.0% to 3.3%	1,110,000
Series 2006 General Obligation Refunding Bonds	2,625,000	3.5% to 4.0%	<u>2,625,000</u>
Total General Obligation Bonds			<u>4,191,404</u>
Certificates of Obligation:			
Series 2001 Combination Tax and Revenue Certificates of Obligation	2,000,000	3.5% to 4.0%	80,000
Series 2002 Combination Tax and Revenue Certificates of Obligation	2,105,000	4.25% to 5.125%	1,305,000
Series 2005 Combination Tax and Revenue Certificates of Obligation	1,319,017	3.25% to 4.5%	1,289,018
Series 2006 Combination Tax and Revenue Certificates of Obligation	4,110,000	3.5% to 4.25%	<u>4,110,000</u>
Total Certificates of Obligation			<u>6,784,018</u>
			<u>\$ 10,975,422</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Long-term Liabilities (Continued)

Bonds Payable (Continued)

The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund.

Business-type activities long-term liabilities at September 30, 2006, consisted of the following:

<u>Series</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
1996 Waterworks and Sewer System Revenue Refunding Bonds	\$ 3,065,000	3.6% to 4.8%	\$ 390,000
Series 1997-A Waterworks and Sewer System Revenue Refunding Bonds	6,835,000	3.8% to 5.75%	4,165,000
Series 1997-B Waterworks and Sewer System Revenue Refunding Bonds	1,345,000	6.8% to 7.5%	-
Series 1997-C Waterworks and Sewer System Revenue Refunding Bonds	10,075,000	3.0% to 4.75%	6,595,000
Series 1997-D Waterworks and Sewer System Revenue Refunding Bonds	1,700,000	4.25% to 5.75%	80,000
Series 1999 Waterworks and Sewer System Revenue Refunding Bonds	10,865,000	3.0% to 4.6%	8,420,000
Series 1999-A Waterworks and Sewer System Revenue Refunding Bonds	6,700,000	5.1% to 7.0%	585,000
Series 2005 Waterworks and Sewer System Revenue Refunding Bonds	6,760,000	3.25% to 4.5%	6,710,000
Series 2002 Refunding General Obligation Bonds	2,438,623	3.0% to 3.75%	1,273,596
Series 2002-A Certificates of Obligation	5,855,000	3.0% to 3.75%	5,070,000
Series 2005 Certificates of Obligation	535,982	3.25% to 4.5%	<u>535,982</u>
			<u>\$ 33,824,578</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS** (Continued)

Long-term Liabilities (Continued)

The annual debt service requirements to be paid on governmental activities long-term debt outstanding at September 30, 2006, are as follows:

September 30,	General Obligation Bonds and Certificates of Obligation			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 310,993	\$ 496,497	\$ 807,490	\$ 100,000	\$ 14,848	\$ 114,848
2008	522,923	415,644	938,567	100,000	11,146	111,146
2009	535,046	398,193	933,239	40,551	2,433	42,984
2010	568,918	381,389	950,307	-	-	-
2011	482,610	364,494	847,104	-	-	-
2012-2016	2,470,530	1,547,543	4,018,073	-	-	-
2017-2021	2,661,648	1,009,707	3,671,355	-	-	-
2022-2026	2,802,754	433,078	3,235,832	-	-	-
2027	620,000	13,175	633,175	-	-	-
	<u>\$ 10,975,422</u>	<u>\$ 5,059,720</u>	<u>\$ 16,035,142</u>	<u>\$ 240,551</u>	<u>\$ 28,427</u>	<u>\$ 268,978</u>

The annual debt service requirements to be paid on business-type activities long-term debt outstanding at September 30, 2006, are as follows:

September 30,	Revenue Bonds		
	Principal	Interest	Total
2007	\$ 2,411,525	\$ 1,492,396	\$ 3,903,921
2008	2,048,509	1,400,420	3,448,929
2009	2,038,305	1,319,819	3,358,124
2010	2,113,609	1,233,551	3,347,160
2011	1,902,562	1,154,963	3,057,525
2012-2016	10,699,470	4,487,887	15,187,357
2017-2021	9,928,352	1,957,424	11,885,776
2022-2025	2,682,246	257,516	2,939,762
	<u>\$ 33,824,578</u>	<u>\$ 13,303,976</u>	<u>\$ 47,128,554</u>

Advance Refunding

The government issued \$2,625,000 of general obligation refunding bonds to provide resources to purchase U. S. Government State and Local Government Series Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$2,540,000 of unlimited bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$28,992. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to restructure debt service payments over the next 20 years and resulted in an economic loss of \$22,613.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems

Texas Municipal Retirement System (TMRS)

Plan Description

The City provides pension benefits for all of its full-time employees, except for firefighters which are covered by a separate plan, through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 811 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by writing to Texas Municipal Retirement System, P. O. Box 149153, Austin, Texas 78714-9153.

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 services 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 may retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the City Council within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

(continued)

4. **DETAILED NOTES ON ALL FUNDS** (Continued)

Employee Retirement Systems (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Contributions

The contribution rate for the employees is 5%, and the City matching percent is currently 2 to 1, both as adopted by the City Council. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City 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/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year in which the rate goes into effect. (i.e. December 31, 2005 valuation is effective for rates beginning January 2007.)

Schedule of Actuarial Liabilities and Funding Progress

Actual valuation date	12/31/05	12/31/04	12/31/03
Actuarial value of assets	\$ 15,151,700	\$ 14,317,449	\$ 13,472,002
Actuarial accrued liability	19,447,257	18,483,560	17,751,138
Percentage funded	77.9%	77.5%	75.9%
Unfunded (over-funded)			
actuarial accrued liability (UAAL)	4,295,557	4,166,111	4,279,136
Annual covered payroll	7,202,820	7,488,062	6,912,356
UAAL as a percentage of covered payroll	59.6%	55.6%	61.9%
Net pension obligation (NPO) at the beginning of period	-	-	-
Annual Pension Cost:			
Annual required contribution (ARC)	764,546	765,008	810,319
Contributions made	764,546	765,008	810,319
Increase in NPO	-	-	-
NPO at the end of period	-	-	-

The actuarial value of assets was market-related rolling 25 years.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Contributions (Continued)

Actuarial Assumptions

Actuarial Cost Method	-	Unit Credit
Amortization Method	-	Level percent of Payroll
Remaining Amortization Period	-	25 Years - Open Period
Asset Valuation Method	-	Amortized Cost (to accurately reflect the requirements of GASB Statement No. 25, paragraphs 36e and 138)
Investment Rate of Return	-	7%
Projected Salary Increases	-	None
Includes Inflation At	-	3.5%
Cost-of-Living Adjustments	-	None

Closure and Postclosure Care Cost

State and federal laws and regulations require the City to place a final cover on its Corsicana Municipal Solid Waste Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$570,937 reported to date based on the use of 21.13 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$2,702,041 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. The City expects to close the landfill in the year 2029. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The City is in compliance with these requirements, and, at September 30, 2006, investments of \$258,556 fair value are held for these purposes. These are reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

(continued)

4. **DETAILED NOTES ON ALL FUNDS** (Continued)

Contingent Liabilities

The City is involved in various litigation in the normal course of operations. While the results of any litigation contains an element of uncertainty, the City's management believes that the amount of any liability and costs which might result, would not have a material adverse affect on the financial statements.

The City participates in a number of federal award programs. Although the City's programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through September 30, 2006, these programs are still subject to financial and compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Subsequent Event

On January 15, 2007, the City issued \$17,000,000 of Combination Tax and Revenue Certificates of Obligation for improvements to the City's Waterworks Systems. The interest rates on the bonds range from 4.00 – 5.75 percent and the maturity date is February 15, 2027.

**COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Debt Service Funds are used to account for the accumulation of resources and payment of debt for governmental funds.

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

CITY OF CORSICANA, TEXAS
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	Special Revenue			
	Hotel Occupancy Tax	Airport	Cemetery	Forfeitures
ASSETS				
Cash and cash equivalents	\$ 2,465	\$ 79,369	\$ 17,280	\$ 17,709
Receivables, net of allowances				
Taxes	77,857	-	-	-
Accounts	1,558	1,142	-	-
Due from other funds	-	-	10,000	-
Due from other governments	-	-	-	-
	<u>81,880</u>	<u>80,511</u>	<u>27,280</u>	<u>17,709</u>
Total assets	<u>\$ 81,880</u>	<u>\$ 80,511</u>	<u>\$ 27,280</u>	<u>\$ 17,709</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 50,052	\$ 1,188	\$ 19,648	\$ -
Accrued liabilities	6,195	-	7,207	-
Due to other funds	16,000	-	-	-
Due to other governments	-	-	-	-
Deferred revenue	-	2,552	-	-
	<u>72,247</u>	<u>3,740</u>	<u>26,855</u>	<u>-</u>
Total liabilities	<u>72,247</u>	<u>3,740</u>	<u>26,855</u>	<u>-</u>
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Unreserved, reported in:				
Special revenue	9,633	76,771	425	17,709
Capital projects	-	-	-	-
Total fund balances	<u>9,633</u>	<u>76,771</u>	<u>425</u>	<u>17,709</u>
	<u>81,880</u>	<u>80,511</u>	<u>27,280</u>	<u>17,709</u>
Total liabilities and fund balances	<u>\$ 81,880</u>	<u>\$ 80,511</u>	<u>\$ 27,280</u>	<u>\$ 17,709</u>

Special Revenue

Parks/ Recreation Special Revenue	Parks/ Recreation Events	Library Grants and Contributions	Economic Development Reserve	City/County Economic Development	Police Special Revenue	Summer Recreation Programs
\$ 76,544	\$ 6,475	\$ 8,714	\$ -	\$ 162,674	\$ 53,085	\$ 4,275
-	-	-	-	-	-	-
-	-	-	-	30,000	-	-
-	-	-	-	-	-	-
<u>\$ 76,544</u>	<u>\$ 6,475</u>	<u>\$ 8,714</u>	<u>\$ -</u>	<u>\$ 192,674</u>	<u>\$ 53,085</u>	<u>\$ 4,275</u>
\$ 574	\$ -	\$ -	\$ -	\$ 617	\$ 99	\$ -
-	-	-	-	4,771	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>574</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,388</u>	<u>99</u>	<u>-</u>
-	-	-	-	-	-	-
75,970	6,475	8,714	-	187,286	52,986	4,275
-	-	-	-	-	-	-
<u>75,970</u>	<u>6,475</u>	<u>8,714</u>	<u>-</u>	<u>187,286</u>	<u>52,986</u>	<u>4,275</u>
<u>\$ 76,544</u>	<u>\$ 6,475</u>	<u>\$ 8,714</u>	<u>\$ -</u>	<u>\$ 192,674</u>	<u>\$ 53,085</u>	<u>\$ 4,275</u>

(continued)

CITY OF CORSICANA, TEXAS

BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

(Continued)

SEPTEMBER 30, 2006

	Special Revenue			
	Community Support Special Revenue	Fire Special Revenue	Palace Theater	Police LEOSE
ASSETS				
Cash and cash equivalents	\$ 5,478	\$ 5,768	\$ 2,667	\$ -
Receivables, net of allowances				
Taxes	-	-	-	-
Accounts	-	-	-	-
Due from other funds	-	-	-	-
Due from other governments	-	-	-	-
	<u>5,478</u>	<u>5,768</u>	<u>2,667</u>	<u>-</u>
Total assets	<u>\$ 5,478</u>	<u>\$ 5,768</u>	<u>\$ 2,667</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 19	\$ -	\$ 1,047	\$ -
Accrued liabilities	-	-	-	-
Due to other funds	-	-	-	-
Due to other governments	-	-	-	-
Deferred revenue	-	-	2,666	-
Total liabilities	<u>19</u>	<u>-</u>	<u>3,713</u>	<u>-</u>
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Unreserved, reported in:				
Special revenue	5,459	5,768	(1,046)	-
Capital projects	-	-	-	-
Total fund balances	<u>5,459</u>	<u>5,768</u>	<u>(1,046)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 5,478</u>	<u>\$ 5,768</u>	<u>\$ 2,667</u>	<u>\$ -</u>

Special Revenue

Homeland Security Grant	CHDO Home Buyer Program	Activity Tourism Center	Tax Increment Financing District	Court Technology	Court Building Security	2003 Local Law Enforcement Grant
\$ -	\$ -	\$ 69,250	\$ -	\$ 15,180	\$ 55,608	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,250</u>	<u>\$ -</u>	<u>\$ 15,180</u>	<u>\$ 55,608</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	587,014	-	-	-
-	-	-	201,737	-	-	-
-	-	-	-	-	-	-
-	-	-	<u>788,751</u>	-	-	-
-	-	-	-	-	-	-
-	-	69,250	(788,751)	15,180	55,608	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>69,250</u>	<u>(788,751)</u>	<u>15,180</u>	<u>55,608</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,250</u>	<u>\$ -</u>	<u>\$ 15,180</u>	<u>\$ 55,608</u>	<u>\$ -</u>

(continued)

CITY OF CORSICANA, TEXAS

BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

(Continued)

SEPTEMBER 30, 2006

	Special Revenue				Debt Service
	Master	EMS	Corsicana	Court Fine -	Interest and
	Plan	Equipment	Crossing	Street	Redemption
	<u>Plan</u>	<u>Replacement</u>	<u>Crossing</u>	<u>Improvements</u>	<u>Tax Supported</u>
					<u>Bonds G. O.</u>
ASSETS					
Cash and cash equivalents	\$ 13,797	\$ -	\$ 50,013	\$ 109,927	\$ 105,272
Receivables, net of allowances					
Taxes	-	-	-	-	78,863
Accounts	-	-	-	-	2,892
Due from other funds	60,000	-	-	-	-
Due from other governments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 73,797</u>	<u>\$ -</u>	<u>\$ 50,013</u>	<u>\$ 109,927</u>	<u>\$ 187,027</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 31,077	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-	-
Due to other funds	-	-	-	-	15,243
Due to other governments	-	-	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,755</u>
Total liabilities	<u>31,077</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,998</u>
Fund balances:					
Reserved for:					
Debt service	-	-	-	-	100,029
Unreserved, reported in:					
Special revenue	42,720	-	50,013	109,927	-
Capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>42,720</u>	<u>-</u>	<u>50,013</u>	<u>109,927</u>	<u>100,029</u>
Total liabilities and fund balances	<u>\$ 73,797</u>	<u>\$ -</u>	<u>\$ 50,013</u>	<u>\$ 109,927</u>	<u>\$ 187,027</u>

Capital Projects

2001 Certificate of Obligation Construction	2002-B Certificate of Obligation Construction	2004/2005 Capital Purchases	2005 Certificate of Obligation Construction	2006 Capital Purchases	2006 Certificate of Obligation Construction	Total Governmental Funds
\$ -	\$ 57,378	\$ -	\$ 1,125,777	\$ -	\$ 4,110,183	\$ 6,154,888
-	-	-	-	-	-	156,720
-	-	-	-	-	-	5,592
-	-	-	-	-	-	100,000
-	-	-	-	331,590	-	331,590
<u>\$ -</u>	<u>\$ 57,378</u>	<u>\$ -</u>	<u>\$ 1,125,777</u>	<u>\$ 331,590</u>	<u>\$ 4,110,183</u>	<u>\$ 6,748,790</u>
\$ -	\$ -	\$ -	\$ 2,147	\$ -	\$ -	\$ 106,468
-	-	-	-	-	-	18,173
-	-	-	-	100	-	618,357
-	-	-	-	-	-	201,737
-	-	-	-	-	-	76,973
-	-	-	2,147	100	-	1,021,708
-	-	-	-	-	-	100,029
-	-	-	-	-	-	4,372
-	57,378	-	1,123,630	331,490	4,110,183	5,622,681
-	57,378	-	1,123,630	331,490	4,110,183	5,727,082
<u>\$ -</u>	<u>\$ 57,378</u>	<u>\$ -</u>	<u>\$ 1,125,777</u>	<u>\$ 331,590</u>	<u>\$ 4,110,183</u>	<u>\$ 6,748,790</u>

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

	Special Revenue			
	Hotel Occupancy Tax	Airport	Cemetery	Forfeitures
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Occupancy tax	324,691	-	-	-
Fines and forfeitures	-	-	-	13,548
Intergovernmental	-	25,973	-	-
Charges for services	-	33,580	192	-
Investment earnings	-	1,552	4	95
Miscellaneous	355	2,716	30,600	-
Contributions/donations	4,500	-	-	-
Total revenues	329,546	63,821	30,796	13,643
EXPENDITURES				
Current:				
General government	-	59,777	-	-
Public safety	-	-	-	12,256
Public works	-	-	190,206	-
Community services	374,154	-	-	-
Debt service:				
Principal	1,054	-	1,885	-
Interest and other charges	68	-	121	-
Capital outlay	-	-	-	-
Total expenditures	375,276	59,777	192,212	12,256
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(45,730)	4,044	(161,416)	1,387
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	-	-	-	-
Capital leases	-	-	-	-
Premium on long-term debt	-	-	-	-
Payment to bond escrow agent	-	-	-	-
Transfers in	95,000	-	153,000	-
Transfers out	(3,000)	-	-	-
Total other financing sources and uses	92,000	-	153,000	-
NET CHANGE IN FUND BALANCES	46,270	4,044	(8,416)	1,387
FUND BALANCES, BEGINNING	(36,637)	72,727	8,841	16,322
FUND BALANCES, ENDING	\$ 9,633	\$ 76,771	\$ 425	\$ 17,709

Special Revenue

Parks/ Recreation Special Revenue	Parks/ Recreation Events	Library Grants and Contributions	Economic Development Reserve	City/County Economic Development	Police Special Revenue	Summer Recreation Programs
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	9,534	-	-	4,000	-
-	-	-	-	-	-	-
311	4	4	8	4,235	811	8
-	-	-	-	-	6,500	-
<u>84,081</u>	<u>5,575</u>	<u>13,736</u>	<u>-</u>	<u>47,990</u>	<u>21,858</u>	<u>-</u>
<u>84,392</u>	<u>5,579</u>	<u>23,274</u>	<u>8</u>	<u>52,225</u>	<u>33,169</u>	<u>8</u>
-	-	-	-	117,929	-	-
-	-	-	-	-	19,942	-
-	-	-	-	-	-	-
68,093	9,169	78,305	-	-	-	24,703
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	4,000	-	-
<u>68,093</u>	<u>9,169</u>	<u>78,305</u>	<u>-</u>	<u>121,929</u>	<u>19,942</u>	<u>24,703</u>
<u>16,299</u>	<u>(3,590)</u>	<u>(55,031)</u>	<u>8</u>	<u>(69,704)</u>	<u>13,227</u>	<u>(24,695)</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
201	3,000	-	-	130,390	-	25,000
-	-	-	(24,390)	-	-	(201)
<u>201</u>	<u>3,000</u>	<u>-</u>	<u>(24,390)</u>	<u>130,390</u>	<u>-</u>	<u>24,799</u>
16,500	(590)	(55,031)	(24,382)	60,686	13,227	104
<u>59,470</u>	<u>7,065</u>	<u>63,745</u>	<u>24,382</u>	<u>126,600</u>	<u>39,759</u>	<u>4,171</u>
<u>\$ 75,970</u>	<u>\$ 6,475</u>	<u>\$ 8,714</u>	<u>\$ -</u>	<u>\$ 187,286</u>	<u>\$ 52,986</u>	<u>\$ 4,275</u>

(continued)

CITY OF CORSICANA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Special Revenue			
	Community Support Special Revenue	Fire Special Revenue	Palace Theater	Police LEOSE
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Occupancy tax	-	-	-	-
Fines and forfeitures	-	-	-	-
Intergovernmental	-	744	-	3,982
Charges for services	-	-	-	-
Investment earnings	3	3	-	-
Miscellaneous	-	-	7,047	-
Contributions/donations	6,825	2,092	-	-
Total revenues	6,828	2,839	7,047	3,982
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	3,375	-	6,784
Public works	-	-	-	-
Community services	3,919	-	5,510	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	3,919	3,375	5,510	6,784
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,909	(536)	1,537	(2,802)
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	-	-	-	-
Capital leases	-	-	-	-
Premium on long-term debt	-	-	-	-
Payment to bond escrow agent	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources and uses	-	-	-	-
NET CHANGE IN FUND BALANCES	2,909	(536)	1,537	(2,802)
FUND BALANCES, BEGINNING	2,550	6,304	(2,583)	2,802
FUND BALANCES, ENDING	\$ 5,459	\$ 5,768	\$(1,046)	\$ -

Special Revenue

Homeland Security Grant	CHDO Home Buyer Program	Activity Tourism Center	Tax Increment Financing District	Court Technology	Court Building Security	2003 Local Law Enforcement Grant
\$ -	\$ -	\$ -	\$ 229,974	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	12,870	10,073	-
6,639	-	-	-	-	-	-
-	-	1,528	-	11	1,037	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>6,639</u>	<u>-</u>	<u>1,528</u>	<u>229,974</u>	<u>12,881</u>	<u>11,110</u>	<u>-</u>
-	-	-	-	-	-	-
6,639	-	-	-	-	-	16
-	-	-	-	-	-	-
-	13,630	3,843	201,735	8,679	165	-
-	-	-	100,000	-	-	-
-	-	-	20,875	-	-	-
-	-	-	-	-	-	-
<u>6,639</u>	<u>13,630</u>	<u>3,843</u>	<u>322,610</u>	<u>8,679</u>	<u>165</u>	<u>16</u>
<u>-</u>	<u>(13,630)</u>	<u>(2,315)</u>	<u>(92,636)</u>	<u>4,202</u>	<u>10,945</u>	<u>(16)</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	13,630	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>13,630</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	(2,315)	(92,636)	4,202	10,945	(16)
-	-	71,565	(696,115)	10,978	44,663	16
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,250</u>	<u>\$ (788,751)</u>	<u>\$ 15,180</u>	<u>\$ 55,608</u>	<u>\$ -</u>

(continued)

CITY OF CORSICANA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Special Revenue				Debt Service
	Master Plan	EMS Equipment Replacement	Corsicana Crossing	Court Fine - Street Improvements	Interest and Redemption Tax Supported Bonds G. O.
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 949,970
Occupancy tax	-	-	-	-	-
Fines and forfeitures	-	-	-	109,927	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Investment earnings	358	-	13	-	11,749
Miscellaneous	-	-	-	-	-
Contributions/donations	125,000	-	50,000	-	-
Total revenues	<u>125,358</u>	<u>-</u>	<u>50,013</u>	<u>109,927</u>	<u>961,719</u>
EXPENDITURES					
Current:					
General government	209,989	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Community services	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	760,587
Interest and other charges	-	-	-	-	435,302
Capital outlay	-	-	-	-	-
Total expenditures	<u>209,989</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,195,889</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(84,631)</u>	<u>-</u>	<u>50,013</u>	<u>109,927</u>	<u>(234,170)</u>
OTHER FINANCING SOURCES (USES)					
Long-term debt issued	-	-	-	-	2,625,000
Capital leases	-	-	-	-	-
Premium on long-term debt	-	-	-	-	11,954
Payment to bond escrow agent	-	-	-	-	(2,511,008)
Transfers in	100,000	-	-	-	-
Transfers out	-	(149,214)	-	-	-
Total other financing sources and uses	<u>100,000</u>	<u>(149,214)</u>	<u>-</u>	<u>-</u>	<u>125,946</u>
NET CHANGE IN FUND BALANCES	15,369	(149,214)	50,013	109,927	(108,224)
FUND BALANCES, BEGINNING	<u>27,351</u>	<u>149,214</u>	<u>-</u>	<u>-</u>	<u>208,253</u>
FUND BALANCES, ENDING	<u>\$ 42,720</u>	<u>\$ -</u>	<u>\$ 50,013</u>	<u>\$ 109,927</u>	<u>\$ 100,029</u>

Capital Projects						
2001 Certificate of Obligation Construction	2002-B Certificate of Obligation Construction	2004/2005 Capital Purchases	2005 Certificate of Obligation Construction	2006 Capital Purchases	2006 Certificate of Obligation Construction	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,179,944
-	-	-	-	-	-	324,691
-	-	-	-	-	-	146,418
-	-	-	-	-	-	50,872
-	-	-	-	-	-	33,772
-	378	5,645	41,229	-	132,063	201,049
-	-	-	-	-	-	47,218
-	-	-	-	-	-	361,657
<u>-</u>	<u>378</u>	<u>5,645</u>	<u>41,229</u>	<u>-</u>	<u>132,063</u>	<u>2,345,621</u>
-	28,299	-	2,685	6,960	-	425,639
-	-	-	-	-	-	49,012
750	-	-	-	-	-	190,956
-	-	-	-	-	-	791,905
-	-	-	-	-	-	863,526
-	-	(719)	(9,354)	-	131,880	578,173
-	<u>16,732</u>	<u>55,346</u>	<u>155,492</u>	<u>193,140</u>	<u>-</u>	<u>424,710</u>
<u>750</u>	<u>45,031</u>	<u>54,627</u>	<u>148,823</u>	<u>200,100</u>	<u>131,880</u>	<u>3,323,921</u>
(750)	(44,653)	(48,982)	(107,594)	(200,100)	183	(978,300)
-	-	-	-	-	4,110,000	6,735,000
-	-	-	-	531,590	-	531,590
-	-	-	-	-	-	11,954
-	-	-	-	-	-	(2,511,008)
-	-	-	-	-	-	520,221
-	-	-	-	-	-	(176,805)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>531,590</u>	<u>4,110,000</u>	<u>5,110,952</u>
(750)	(44,653)	(48,982)	(107,594)	331,490	4,110,183	4,132,652
<u>750</u>	<u>102,031</u>	<u>48,982</u>	<u>1,231,224</u>	<u>-</u>	<u>-</u>	<u>1,594,430</u>
<u>\$ -</u>	<u>\$ 57,378</u>	<u>\$ -</u>	<u>\$ 1,123,630</u>	<u>\$ 331,490</u>	<u>\$ 4,110,183</u>	<u>\$ 5,727,082</u>

STATISTICAL SECTION

CITY OF CORSICANA, TEXAS

TOP TEN TAXPAYERS

SEPTEMBER 30, 2006
(UNAUDITED)

<u>Agency</u>	<u>Market</u>	<u>Taxable</u>
1. Russell Stover Candies - Abated	\$ 34,842,520	\$ 34,842,520
2. Russell Stover Candies - Abated	19,584,960	19,584,960
3. Kohl's Distribution Center - Abated	18,773,100	18,773,100
4. Guardian Industries - Abated	18,249,660	18,249,660
5. Pactive-Foam	14,431,380	14,431,380
6. Tru-Serve Corporation - Non-abated	13,605,000	13,605,000
7. TXU Electric Delivery Company	11,771,050	11,771,050
8. Russell Stover Candies	10,292,550	10,292,550
9. Williamhouse of Texas LLC	8,917,840	8,917,840
10. Wal-Mart Real Estate	8,087,320	8,087,320

CITY OF CORSICANA, TEXAS
MISCELLANEOUS STATISTICAL FACTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
(UNAUDITED)

Date of Incorporation	1848
Date of Last Amendment of City Charter	2005
Form of Government	Mayor/Council
Area	22.73 sq. miles
Building Permits:	
Permits Issued	261
Estimated Cost	\$31,056,780
Fire Protection and EMS:	
Number of Fire Stations	4
Number of Employees	60
Police Personnel	58
Recreation:	
Parks	12 with 625.5 acres
Playgrounds	9
Number of Swimming Pools	2
Municipal Water Plant:	
Number of Meters in Service	9,888
Average Daily Consumption	675 mgd.
Maximum Daily Capacity of Water Production	24.25 mgd.
Number of Gallons Registered Through Master Meter	2,592,203,000 gal.
Number of Gallons Sold	2,463,524,000 gal.
Number of Fire Hydrants	750
Municipal Employees	
Full-time	278
Part-time	56.5

Historical Data	
Population - City of Corsicana	
Year	Population *
1930	15,202
1940	15,232
1950	19,108
1960	20,344
1970	19,972
1980	21,712
1990	22,911
2000	24,485
2004	25,000 (est.)
2005	25,858 (est.)

* Data provided from Federal Census

CITY OF CORSICANA, TEXAS

TOP TEN EMPLOYERS

SEPTEMBER 30, 2006
(UNAUDITED)

<u>Taxpayer's Name</u>	<u>Nature of Business</u>	<u>Number of Employees</u>
1. Corsicana Independent School District	Government/Schools	879
2. Russell Stover Candies	Manufacturing	859
3. Navarro College	Government	827
4. Collin Street Bakery	Manufacturing	700
5. Navarro Regional Hospital	Medical Services	377
6. Guardian Glass Industries	Manufacturing	367
7. Texas Youth Commission	Government/State School	337
8. City of Corsicana (includes part-time)	Government/City	335
9. Texas Youth Commission	Government	335
10. Navarro County	Government/County	282

COMPLIANCE SECTION



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**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**

To the Honorable Mayor and
Members of the City of Council
City of Corsicana, Texas

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Corsicana, Texas, as of and for the year ended September 30, 2006, which collectively comprise the City of Corsicana, Texas' basic financial statements and have issued our report thereon dated March 30, 2007. 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 Corsicana, Texas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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 considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Corsicana, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have 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*.

We noted certain matters that we reported to management of the City of Corsicana, Texas, in a separate letter dated March 30, 2007.

That report is intended solely for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Patillo, Brown & Hill LLP

March 30, 2007