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CITY OF REDWATER, TEXAS

**Annual Financial Report
For the Year Ended September 30, 2006**

CITY OF REDWATER, TEXAS

**Annual Financial Report
For the Year Ended September 30, 2006**

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Redwater, Texas:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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.

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Private Companies Practice Section

The management's discussion and analysis on pages 3 through 9, 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 Redwater, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major 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, statistical section, and information required by the revenue bond covenants 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.



Williams & Co., P.C.

Texarkana, USA
February 19, 2007

CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2006

-UNAUDITED-

Management's discussion and analysis provides a narrative overview of the City of Redwater, Texas's financial performance for the fiscal year ended September 30, 2006. Please read it in conjunction with the independent auditor's report on page 1 and 2, and the City's financial statements, which begin on page 10. This discussion and analysis includes information for this year, with comparative data for the prior year.

Financial Highlights

The assets of the City exceeded its liabilities at the close of fiscal year 2006 by \$3,288,129. Of this amount, \$477,883 is considered unrestricted, which is available to meet the City's ongoing obligations to creditors.

Total combined revenues for governmental and business-type activities were \$760,819 and combined total expenses were \$795,598. Therefore, there was a decrease in net assets of \$34,779.

The general fund reported a positive fund balance of \$81,546. The general fund balance at September 30, 2005, was \$65,705.

Using this Annual Report

This area of the discussion and analysis is merely intended to serve as an introduction for the City's basic financial statements for the year ended September 30, 2006.

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 10, 11, and 12). These provide information about the activities of the City as a whole and present a long-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector enterprise. The Statement of Net Assets provides information about the City's total assets and liabilities, and the Statement of Activities provides information on the revenues and expenses of all of the cities activities.

For proprietary activities, fund financial statements tell how services of the City were sold to external customers and how the sales revenues covered the expenses of the goods or services (on pages 19 to 23).

CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2006

-UNAUDITED-

Using This Annual Report (Continued)

The fund financial statements (on pages 13 to 17) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and expenses.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such as grants and revenues provided by the taxpayers. All of the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current year or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, we divide the City into one type of activity, governmental activities. Governmental activities include the General Fund, Special Revenue Fund, and Capital Project Fund.

The fund financial statements begin on page 13 and provide detailed information about the most significant funds – not the City as a whole. Laws and contracts require the City to establish some funds. The City's administration establishes other funds to help it control and manage money for particular purposes. The City maintains two kinds of funds, governmental and proprietary.

CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2006

-UNAUDITED-

Reporting The City's Most Significant Funds

Fund Financial Statements

Governmental Funds – Most of the City's basic services are reported in its three governmental funds: the General Fund, the Special Revenue Fund, and the Capital Project Fund. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary Fund – The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. The internal service funds report activities that provide supplies and services for the City's other programs and activities, such as the City's self-insurance programs.

Government-Wide Financial Analysis

We present the current year data and discuss significant changes in the accounts. Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the City's governmental activities and business-type activities combined. Overall, the City's assets exceeded liabilities by \$3,288,129 at the close of the September 30, 2006, fiscal year end. Seventy-nine percent (79%) of the City's net assets are reflected in capital assets (land, buildings, equipment, etc.), less any related debt.

The cost of all government-wide activities this year was \$795,598. Costs in the amount of \$659,913 were paid by those who directly benefited from the programs.

The City's Funds

Total revenues of the governmental funds for the year ended September 30, 2006 decreased by \$161,598 or 56%. Total expenses (including transfers) of governmental funds decreased by \$184,254 or 64%.

Debt Administration

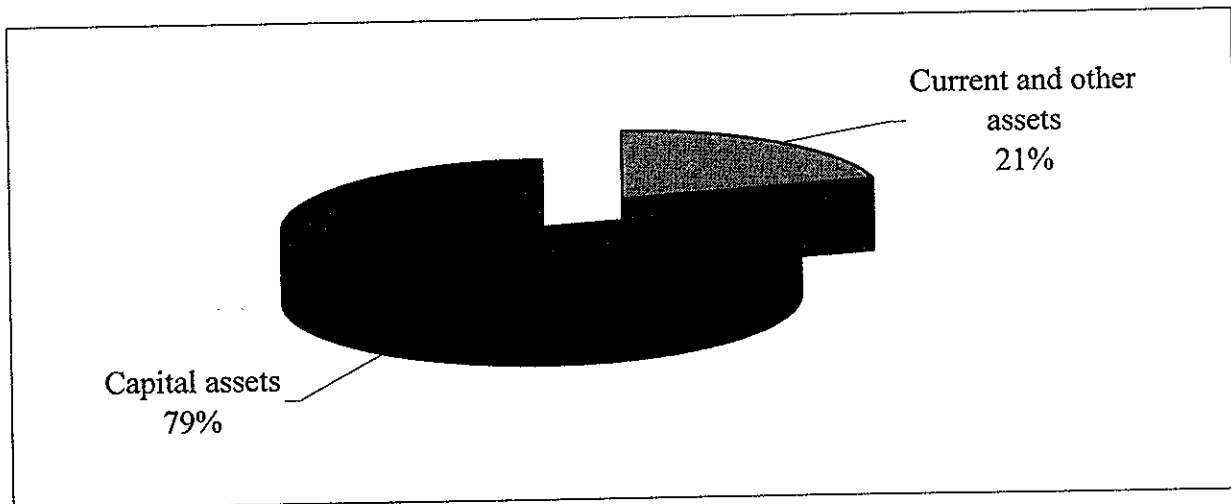
At year-end, the city had outstanding bonds and certificates of obligation totaling \$1,685,188, which is an increase of \$451,225 from the September 30, 2005, balance.

CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2006

- UNAUDITED -

Table I
NET ASSETS

	<u>Primary Government 2006</u>
Current and other assets	\$ 1,087,674
Capital assets	4,054,203
Total assets	<u>5,141,877</u>
Long-term liabilities	1,709,664
Other liabilities	144,084
Total liabilities	<u>1,853,748</u>
Net assets:	
Invested in capital assets net of related debt	2,334,539
Restricted	475,707
Unrestricted	477,883
Total net assets	<u><u>\$ 3,288,129</u></u>



CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2006

- UNAUDITED -

Table II
CHANGES IN NET ASSETS

	<u>Primary Government 2006</u>
Revenues:	
Program revenues:	
Fines, forfeitures, and charges for services	\$ 659,913
Operating grants and contributions	3,433
General Revenues	
Sales and use taxes	38,057
Property taxes	30,289
Franchise taxes	25,576
Interest	3,551
Total revenues	<u>760,819</u>
Expenses:	
General government	94,975
Public safety	5,500
Water	695,123
Total expenses	<u>795,598</u>
Change in net assets	<u>\$ (34,779)</u>

CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2006

- UNAUDITED -

Table II
CHART A - REVENUES

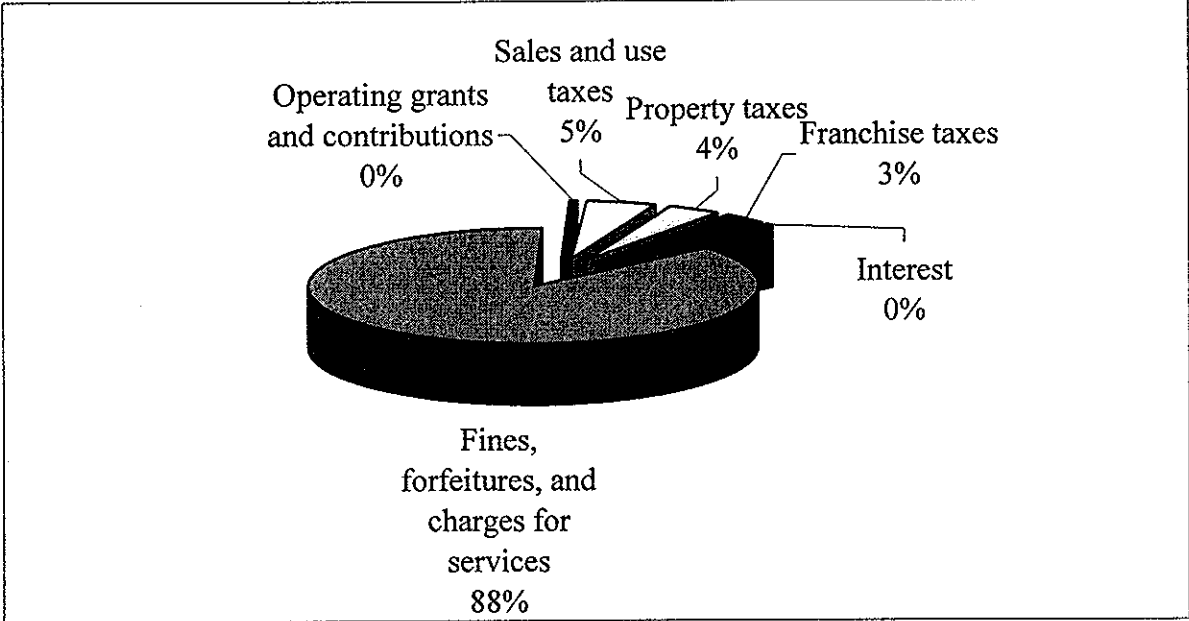
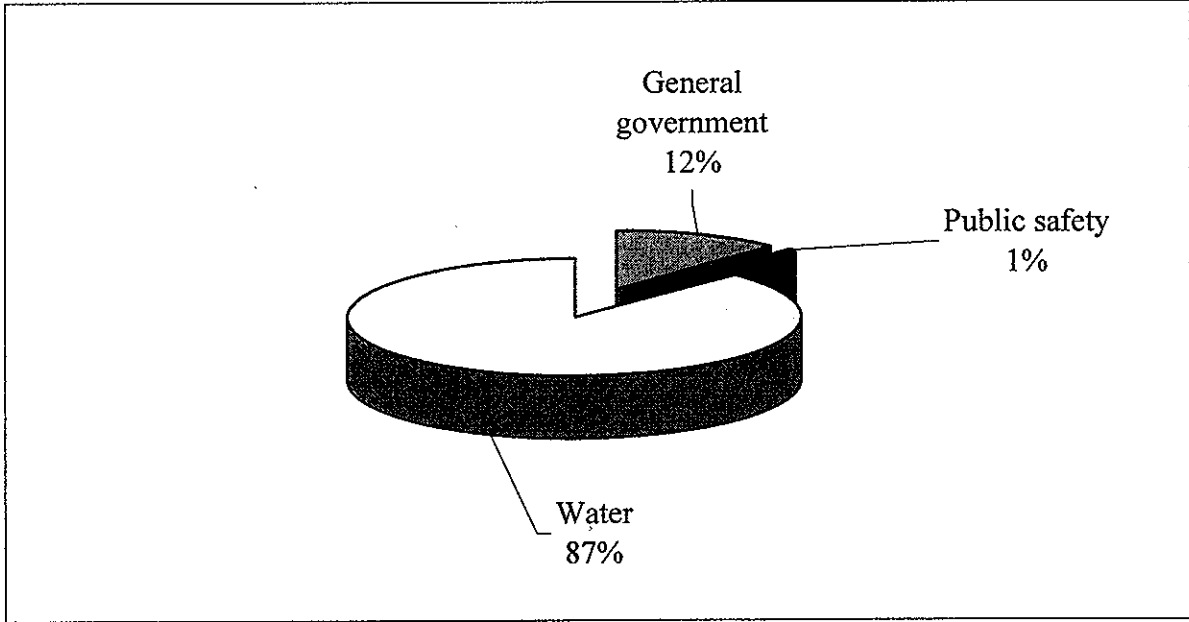


Table II
CHART B - EXPENSES



CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2006

-UNAUDITED-

Capital Assets

At September 30, 2006, the City had \$4,054,203 invested in a broad range of capital assets, including facilities, equipment, and land. This amount represents a net decrease of \$89,804.

This year's major additions included:

Equipment	\$ 20,691
Lines and storage	17,549
Office furniture and equipment	180
Construction in progress - sewer	24,844
Water meters	<u>1207</u>
Total	\$ 64,471

Depreciation expense for the year ended September 30, 2006 was \$154,275.

Budget and Actual Revenues and Expenses

The variance between budgeted and actual revenues for the General Fund is a positive \$18,655. The variance between budgeted and actual expenditures is a negative \$2,815.

Notes to the Financial Statements

The financial statements are followed by Notes to the Financial Statements. The Notes to the Financial Statements provide additional information about the data provided about the City in the financial statements and are an integral part of the financial statements.

Contacting The City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office at the City of Redwater, Texas, P.O. Box 209, Redwater, Texas 75573.

BASIC FINANCIAL STATEMENTS

CITY OF REDWATER, TEXAS
Statement of Net Assets
September 30, 2006

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 51,553	\$ 153,110	\$ 204,663
Certificates of deposit	50,000	10,000	60,000
Accounts receivable, net of allowances	6,362	71,201	77,563
Unbilled receivables	-	23,410	23,410
Due from other funds	(23,495)	23,495	-
Restricted assets	18,029	542,608	560,637
Total Current Assets	102,449	823,824	926,273
Other Assets			
Deferred issuance costs	-	45,708	45,708
Other investments - restricted	115,693	-	115,693
Total Other Assets	115,693	45,708	161,401
Capital Assets			
Land	146,322	25,331	171,653
Construction in progress-sewer project	-	26,519	26,519
Buildings, net	87,700	8,430	96,130
Furniture and equipment, net	16,572	4,592	21,164
Equipment and tools, net	23,269	56,923	80,192
Park facilities, net	596,156	-	596,156
Pumps and equipment, net	-	129,490	129,490
Lines and storage, net	-	1,823,657	1,823,657
Water meters, net	-	86,915	86,915
Sewer systems, net	-	1,022,327	1,022,327
Total Capital Assets	870,019	3,184,184	4,054,203
TOTAL ASSETS	\$ 1,088,161	\$ 4,053,716	\$ 5,141,877

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

CITY OF REDWATER, TEXAS
Statement of Net Assets
September 30, 2006

	Governmental Activities	Business-Type Activities	Totals
LIABILITIES			
Current Liabilities			
Accounts payable	1,795	49,781	51,576
Accrued salaries and taxes	1,301	6,277	7,578
Accrued interest payable	-	22,553	22,553
Utility deposits - payable from restricted	-	62,377	62,377
Total Current Liabilities	3,096	140,988	144,084
Noncurrent Liabilities			
Due within one year	2,715	30,073	32,788
Due in more than one year	21,761	1,655,115	1,676,876
Total Noncurrent Liabilities	24,476	1,685,188	1,709,664
TOTAL LIABILITIES	27,572	1,826,176	1,853,748
NET ASSETS			
Invested in capital assets, net of related debt	845,543	1,488,996	2,334,539
Restricted	18,029	457,678	475,707
Unrestricted	197,017	280,866	477,883
TOTAL NET ASSETS	\$ 1,060,589	\$ 2,227,540	\$ 3,288,129

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

CITY OF REDWATER, TEXAS
Statement of Activities
For the Year Ended September 30, 2006

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 94,975	\$ 22,787	\$ 3,433	\$ -	\$ (68,755)	\$ -	\$ (68,755)
Public safety	5,500	6,000	-	-	500	-	500
Total Governmental Activities	100,475	28,787	3,433	-	(68,255)	-	(68,255)
Business-type Activities:							
Water	695,123	500,404	-	-	-	(194,719)	(194,719)
Sewer	-	75,998	-	-	-	75,998	75,998
Late charges	-	27,358	-	-	-	27,358	27,358
Tapping/transfer/tampering	-	17,675	-	-	-	17,675	17,675
Line extensions/bore charges	-	6,561	-	-	-	6,561	6,561
Miscellaneous	-	3,130	-	-	-	3,130	3,130
Total Business-type Activities	695,123	631,126	-	-	-	(63,997)	(63,997)
Total	\$ 795,598	\$ 659,913	\$ 3,433	\$ -	\$ (68,255)	\$ (63,997)	\$ (132,252)
General Revenues:							
Sales and use taxes				\$ 38,057	\$ -	\$ -	\$ 38,057
Property taxes				30,289	-	-	30,289
Franchise taxes				25,576	-	-	25,576
Interest				881	2,670	-	3,551
Total General Revenues and Transfers				94,803	2,670	-	97,473
Change in Net Assets				26,548	(61,327)	(34,779)	(34,779)
Net Assets, Beginning				1,034,041	2,288,867	3,322,908	3,322,908
Net Assets, Ending				\$ 1,060,589	\$ 2,227,540	\$ 3,288,129	\$ 3,288,129

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

CITY OF REDWATER, TEXAS
Balance Sheet
Governmental Funds
September 30, 2006

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 51,553	\$ -	\$ 51,553
Certificates of deposit	50,000	-	50,000
Receivables, net allowances	6,362	-	6,362
Due from other funds	12	-	12
Restricted assets	-	18,029	18,029
Total Current Assets	<u>107,927</u>	<u>18,029</u>	<u>125,956</u>
Other Assets			
Investments-restricted	-	115,693	115,693
Total Other Assets	<u>-</u>	<u>115,693</u>	<u>115,693</u>
TOTAL ASSETS	<u>\$ 107,927</u>	<u>\$ 133,722</u>	<u>\$ 241,649</u>
LIABILITIES			
Current Liabilities			
Accounts payable	1,585	210	1,795
Accrued salaries and taxes	1,301	-	1,301
Due to other funds	23,495	12	23,507
Total Current Liabilities	<u>26,381</u>	<u>222</u>	<u>26,603</u>
TOTAL LIABILITIES	<u>26,381</u>	<u>222</u>	<u>26,603</u>
Fund Balances			
Restricted	-	133,500	133,500
Unrestricted	81,546	-	81,546
TOTAL FUND BALANCES	<u>81,546</u>	<u>133,500</u>	<u>215,046</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 107,927</u>	<u>\$ 133,722</u>	<u>\$ 241,649</u>

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

CITY OF REDWATER, TEXAS
Reconciliation of Balance Sheet - Governmental Funds
To Statement of Net Assets
September 30, 2006

Total Fund Balances - Governmental Funds	\$ 215,046
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	870,019
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(24,476)</u>
Net Assets of Governmental Activities	<u>\$ 1,060,589</u>

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

CITY OF REDWATER, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2006

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Property taxes, including penalty and interest	\$ 30,289	\$ -	\$ 30,289
Franchise taxes	25,576	-	25,576
Sales taxes	25,371	12,686	38,057
Rental income	9,000	-	9,000
Intergovernmental	6,000	-	6,000
Interest	799	82	881
Refuse income	13,787	-	13,787
Miscellaneous	3,433	-	3,433
Total Revenues	<u>114,255</u>	<u>12,768</u>	<u>127,023</u>
Expenditures			
Current:			
General government			
Appraisal district fees	1,080	-	1,080
Accounting and audit fees	3,074	294	3,368
Awards and recognition	-	-	-
Beautification	181	-	181
Dues and subscriptions	-	-	-
Insurance	6,199	-	6,199
Legal and filing fees	2,349	367	2,716
Office supplies and expenses	2,911	188	3,099
Repairs and maintenance	1,276	-	1,276
Retirement	602	-	602
Salaries	24,573	-	24,573
Taxes-payroll	-	-	-
Telephone	2,127	-	2,127
Travel and mileage	644	-	644
Utilities	2,994	-	2,994
Miscellaneous	4,153	175	4,328
Public safety	5,500	-	5,500
Public works	40,752	-	40,752
Debt service:			
Principal	-	2,609	2,609
Interest and other charges	-	1,036	1,036
Total Expenditures	<u>98,415</u>	<u>4,669</u>	<u>103,084</u>

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

CITY OF REDWATER, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2006

	General Fund	Special Revenue Fund	Total Governmental Funds
Excess (Deficiency) of Revenues Over Expenditures	15,840	8,099	23,939
Net Change in Fund Balances	15,840	8,099	23,939
Fund Balances, Beginning	65,706	125,402	191,108
Fund Balances, Ending	<u>\$ 81,546</u>	<u>\$ 133,501</u>	<u>\$ 215,047</u>

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

CITY OF REDWATER, 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

\$ 23,939

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

Note payable proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.

2,609

Change in Net Assets - Governmental Activities

\$ 26,548

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

CITY OF REDWATER, TEXAS
Statement of Revenues, Expenditures, and Changes
In Fund Balances - Budget and Actual
General Fund
For the Year Ended September 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes, including penalty and interest	\$ 27,000	\$ 30,289	\$ 3,289
Franchise taxes	20,000	25,576	5,576
Sales taxes	27,500	25,371	(2,129)
Interest	150	799	649
Rental income	9,000	9,000	-
Intergovernmental	1,800	6,000	4,200
Refuse income	10,000	13,787	3,787
Miscellaneous	150	3,433	3,283
Total Revenues	<u>95,600</u>	<u>114,255</u>	<u>18,655</u>
Expenditures			
General government	73,800	52,163	21,637
Public safety	1,800	5,500	(3,700)
Public works	20,000	40,752	(20,752)
Total Expenditures	<u>95,600</u>	<u>98,415</u>	<u>(2,815)</u>
Excess of revenues and other financing sources over expenditures	<u>-</u>	<u>15,840</u>	<u>15,840</u>
Fund balance, beginning of year		<u>65,706</u>	
Fund balance, end of year		<u>\$ 81,546</u>	

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

CITY OF REDWATER, TEXAS
Statement of Net Assets
Proprietary Fund
September 30, 2006

		Water & Sewer Fund
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 153,110	
Certificates of deposit	10,000	
Receivables, net	71,201	
Unbilled receivables	23,410	
Due from other funds	23,495	
Total Current Assets		<u>281,216</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	542,608	
Deferred issuance costs	45,708	
Capital assets:		
Land	25,331	
Construction in progress	26,519	
Buildings	27,452	
Furniture and equipment	13,060	
Equipment and tools	186,241	
Pumps and equipment	193,495	
Lines and storage	2,280,208	
Water meters	143,381	
Sewer systems	1,530,340	
Less accumulated depreciation	(1,241,843)	
Total Noncurrent Assets		<u>3,772,500</u>
TOTAL ASSETS		4,053,716

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

CITY OF REDWATER, TEXAS
Statement of Net Assets
Proprietary Fund
September 30, 2006

		Water & Sewer Fund
LIABILITIES		
Current Liabilities:		
Accounts payable	49,781	
Accrued salaries and taxes	6,277	
Accrued interest payable	22,553	
Certificates, revenue bonds payable-current	30,073	
Total Current Liabilities		108,684
Noncurrent Liabilities:		
Certificates, revenue bonds payable	1,655,115	
Utility deposits-payable from restricted assets	62,377	
Total Noncurrent Liabilities		1,717,492
TOTAL LIABILITIES		1,826,176
NET ASSETS		
Invested in capital assets, net of related debt	1,488,996	
Restricted	457,678	
Unrestricted	280,866	
TOTAL NET ASSETS		\$ 2,227,540

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

CITY OF REDWATER, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2006

	Water & Sewer Fund
OPERATING REVENUES	
Water sales	\$ 500,404
Sewer sales	75,998
Tapping fees	15,200
Transfer fees	2,175
Tampering fees	300
Line extensions	3,561
Bore charges	3,000
Inspection fee	1,140
Late charges	19,489
Reconnect/reinstall fees	7,165
Returned check fee	704
Miscellaneous	1,990
	631,126
Total Operating Revenues	
OPERATING EXPENSES	
Accounting	15,672
Amortization	1,145
Bad debt expense	7,641
Chemicals	11,096
Contract backhoe	2,000
Contract maintenance	3,188
Depreciation	154,275
Dues and memberships	168
Employee expenses	50
Engineering services	810
Equipment repairs and maintenance	3,836
Equipment supplies	2,334
Insurance	28,375
Legal and advertising	679
Meter replacements	2,356
Mileage	298
Miscellaneous	701
Office supplies and expense	3,369
Permits, licenses, and fees	1,754
Postage	3,709
Radio expense	540
Refuse	2,735
Rent - building	9,000

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

CITY OF REDWATER, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2006

	Water & Sewer Fund
OPERATING EXPENSES (Continued)	
Rent - equipment	437
Repairs and maintenance	7,281
Retirement	2,588
Salaries	134,904
Special services	3,459
Supplies - operating	33,315
Taxes - payroll	12,063
Telephone	3,568
Testing service	17,855
Training	1,793
Uniforms	2,349
Utilities	37,243
Vehicle repairs	6,552
Vehicle supplies	9,004
Water purchases	106,070
	Total Operating Expenses 634,212
Operating Income (Loss)	(3,086)
Non-operating Revenues (Expenses)	
Interest income	2,670
Interest expense	(59,611)
Paying agent fees	(1,300)
	Net Non-operating Revenues (Expenses) (58,241)
Change in Net Assets	(61,327)
Total Net Assets - Beginning	2,288,867
Total Net Assets - Ending	\$ 2,227,540

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

CITY OF REDWATER, TEXAS
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2006

Cash flows from operating activities:		
Receipts from customers	\$ 624,824	
Payments to suppliers	(331,719)	
Payments to employees	(148,235)	
Net cash provided by operating activities		<u>144,870</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of certificates of obligations	470,000	
Principal paid on revenue bonds	(13,000)	
Interest paid on revenue bonds	(50,490)	
Acquisition of capital assets	(64,470)	
Deferred issuance costs	(25,602)	
Principal paid on certificates of obligations	(5,775)	
Interest paid on certificates of obligations	(3,479)	
Fees paid to paying agent	(1,300)	
Net cash used by capital and related financing activities		<u>305,884</u>
Cash flows from investing activities:		
Purchase of certificates of deposit	(10,000)	
Interest on investments	2,669	
Net cash provided by investing activities		<u>(7,331)</u>
Net increase in cash and cash equivalents		443,423
Cash and cash equivalents - beginning of year		<u>252,295</u>
Cash and cash equivalents - end of year		<u><u>\$ 695,718</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)		\$ (3,086)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	154,275	
Amortization	1,145	
Change in assets and liabilities:		
Increase in accounts receivable	(11,109)	
Increase in payroll liabilities	1,320	
Increase in customer deposits payable	4,807	
Decrease in accounts payable	(2,482)	
Total adjustments		<u>147,956</u>
Net cash provided by operating activities		<u><u>\$ 144,870</u></u>

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

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Redwater, Texas (“the City”), was incorporated on October 20, 1941, and was reactivated in May of 1988 under the provisions of the State of Texas. The City operates under a Council-Mayor form of government. In addition, the City owns and operates a water and sewer system.

The City’s financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*. This statement requires a Management Discussion and Analysis section and requires that financial statements be prepared using the full accrual method.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. A blended component unit, although a separate legal entity, is in substance part of the City’s operations, and data from this unit is combined with the data of the primary government.

Blended Component Unit:

- Redwater Industrial Development Corporation (RIDC) was created May 12, 1999, exclusively for the purposes of and to act on behalf of the City for the promotion and development of commercial, industrial, and manufacturing enterprises, and to promote and encourage employment and the public welfare pursuant to the Development Corporation Act of 1979, under which it was formed. The operations of the RIDC are accounted for by the City as a special revenue fund.

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2006

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

2. Basic Financial Statements-Government-Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's public protection, parks, public works and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. These statements report all of the non-fiduciary activities of the primary government and its component units. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (parks, public works, etc.) The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (parks, public works, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales and use taxes, intergovernmental revenues, interest income, etc.).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2006

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

3. Basic Financial Statements - Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the City:

a. Governmental Funds:

The focus of the governmental funds measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City: a) 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. b) The special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. c) The capital project fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).

b. Proprietary Funds:

The focus of proprietary fund management is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the City:

The water and sewer fund is used to account for operations for which a fee is charged to external users for goods or services and the activity a) is financed with debt that is solely secured by a pledge of the net revenues, b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or c) established fees and charges based on a pricing policy designed to recover similar costs.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing water and sewer services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2006

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

4. Basis of Accounting

The basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

a. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

b. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

5. Financial Statement Amounts

a. Cash and Cash Equivalents:

The City has defined cash and cash equivalents to include cash on hand and demand deposits.

b. Investments:

Investments are recorded at cost which approximates fair market value.

c. Capital Assets:

Government-Wide Financial Statements

Capital assets purchased or acquired that the City would like to track are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. As of October 1, 2004, new infrastructure assets, such as roads, bridges, underground pipe (other than those related to utilities), traffic signals, etc., are required to be depreciated under GASB 34.

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2006

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

Depreciation has been provided in the water and sewer fund in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. The service lives by type of asset are as follows:

Buildings	5 - 20 years
Office Furniture and Equipment	5 - 10 years
Equipment and Tools	3 - 7 years
Pumps and Treatment Equipment	5 - 20 years
Lines and Storage	10 - 50 years
Water Meters	10 years
Sewer System	7 - 50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for in the same manner as in the government-wide statements.

d. Amortization of Deferred Issuance Costs

The cost of the City assuming the certificates of obligation of The Redwater Water Supply and Sewer Service Corporation are being amortized over the remaining life of the certificates on a straight line basis.

The cost of the City issuing the Series 2003-A and 2003-B revenue bonds is being amortized over the remaining life of the certificates on a straight-line basis.

The cost of the City issuing the Series 2005 certificates of obligations is being amortized over the remaining life of the certificates on a straight-line basis.

e. Inter-fund Activity

Inter-fund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as inter-fund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

f. Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities.

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2006

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

g. Risk Management

The City of Redwater, Texas participates in the Texas Municipal League Intergovernmental Risk Pool to cover the risks to which the City is exposed. All policies are in effect from October 1, 2005 until October 1, 2006.

<u>Coverage Provided</u>	<u>Limits or Amounts</u>
Real and Personal Property	\$ 1,817,800 Limit
Boiler and Machinery	\$ 1,000,000 Limit
Mobile Equipment	\$ 84,979 Limit
General Liability	\$ 3,000,000 Limit
Auto Liability	\$ 500,000 Limit
Errors & Omissions	\$ 1,000,000 Limit
Workers Compensation	Statutory

NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1. Budgetary Data

A budget is adopted annually for the General Fund as a management control device. This budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

2. Depository Contract Law & Custodial Credit Risk

The funds of the City must be deposited and invested under the terms of a contract, the contents of which are set out in the *Depository Contract Law*. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2006, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$825,250 and the bank balance was \$825,481.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2006, \$80,265 of the City's bank balance was exposed to custodial credit risk. This is the amount by which the City's balance exceeded its FDIC insurance and the value of the securities pledged to cover the City's deposits.

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2006

NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

4. Revenue Restrictions

The revenue from water and sewer operations is pledged to the extent required for the following uses in the order of precedence shown:

- a. To the payment of all necessary and reasonable maintenance and operating expenses required by statute to be a first charge on and claim against the gross revenues thereof.
- b. To the payment of all amounts required to be deposited into the funds established for the payment and security of any prior lien obligations.
- c. To the payment of the amounts required to be deposited in the Bond Fund created and established for the payment of debt service on revenue bonds.
- d. To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the required reserve in accordance with provisions of the ordinance for the revenue bonds issued.

NOTE C - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

1. Property Taxes and Receivables

Property taxes attach as an enforceable lien on property as of February 1. Taxes are levied on October 1, and are due and payable at that time. Unless half payment is made by November 30, all unpaid taxes levied October 1 become delinquent February 1 of the following year.

Property tax revenues are recognized as they become available. Available includes those property tax receivables expected to be collected within sixty days after year end.

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CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2006

NOTE C - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

2. Capital Assets

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

Business -type Activities

	Balance 10/1/2005	Additions	Deletions	Balance 9/30/2006
Buildings	\$ 27,452	\$ -	\$ -	27,452
Office, furniture & equipment	12,880	180	-	13,060
Equipment & tools	165,550	20,691	-	186,241
Pumps & treatment	193,495	-	-	193,495
Lines & storage	2,262,659	17,549	-	2,280,208
Water meters	142,174	1,207	-	143,381
Sewer system	1,530,340	-	-	1,530,340
Total	\$4,334,550	\$ 39,627	\$ -	\$4,371,477

Business-type Activities-Accumulated Depreciation

	Balance 10/1/2005	Additions	Deletions	Balance 9/30/2006
Buildings	\$ 17,645	1,377	-	19,022
Office, furniture & equipment	6,773	1,696	-	8,469
Equipment & tools	116,020	13,297	-	129,317
Pumps & treatment	53,754	10,251	-	64,005
Lines & storage	385,194	71,357	-	456,551
Water meters	45,011	11,455	-	56,466
Sewer system	463,171	44,842	-	508,013
Total	\$1,087,568	154,275	-	1,241,843

Governmental Activities

	Balance 10/1/2005	Additions	Deletions	Balance 9/30/2006
Buildings	\$ 87,700	\$ -	\$ -	\$ 87,700
Office furniture & equipment	16,572	-	-	16,572
Equipment and tools	23,269	-	-	23,269
Land	13,322	-	-	13,322
Park land	133,000	-	-	133,000
Park facilities	596,156	-	-	596,156
Total	\$ 870,019	-	-	\$ 870,019

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2006

NOTE C - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

3. Bonds Payable

The following is a summary of bond transactions of the City for the year ended September 30, 2006:

	Certificates of <u>Obligations</u>	<u>Revenue</u>	<u>Total</u>
Bonds Payable-10/1/05	\$45,963	\$1,188,000	\$1,233,963
Bond Additions	470,000	--	470,000
Bonds Retired	<u>5,775</u>	<u>13,000</u>	<u>18,775</u>
Bonds Payable-9/30/06	<u>\$ 510,188</u>	<u>\$1,175,000</u>	<u>\$1,685,188</u>

Bonds payable at September 30, 2006, are comprised of the following individual issues:

Certificate of Obligations, Series 1989 R-4, payable in monthly installments of \$662 at a rate of 5% maturing September 15, 2012. \$ 40,188

\$603,000 in Series 2003A Revenue Bonds, due in semiannual installments of varying amounts on each December 1 and June 1 through 2043 at an interest rate of 4.5%. 585,000

\$609,000 in Series 2003B Revenue Bonds, due in semiannual installments of varying amounts on each December 1 and June 1 through 2043 at an interest rate of 4.5%. 590,000

\$470,000 in Series 2005 Certificates of Obligations, due in semiannual installments of varying amounts on each December 1 and June 1 through 2026, at a varying interest rate which is currently 2.85%. 470,000

Total Bonds Payable \$1,685,188

Current portions of the long term bonds payable total \$30,073

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2006

NOTE C - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

The annual requirements to amortize notes of obligation as of September 30, 2006 are as follows:

Year Ending September 30	1989 Series		2003 Series		2005 Series		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
2007	\$ 6,073	\$ 1,871	\$ 14,000	\$ 49,937	\$ 10,000	\$ 17,475	\$ 99,356
2008	6,383	1,561	14,000	49,343	10,000	17,190	98,477
2009	6,710	1,234	14,000	48,747	10,000	16,905	97,596
2010	7,053	891	16,000	48,153	10,000	16,610	98,707
2011	7,414	530	16,000	47,472	10,000	16,300	97,716
2012	6,555	153	-	-	-	-	6,708
2016	-	-	91,000	226,610	110,000	73,242	500,852
2021	-	-	112,000	205,530	140,000	50,703	508,233
2026	-	-	139,000	179,477	170,000	20,925	509,402
2031	-	-	170,000	147,518	-	-	317,518
2036	-	-	210,000	108,162	-	-	318,162
2041	-	-	260,000	59,288	-	-	319,288
2043	-	-	119,000	7,650	-	-	126,650
Totals	<u>\$40,188</u>	<u>\$ 6,240</u>	<u>\$1,175,000</u>	<u>\$1,177,887</u>	<u>\$470,000</u>	<u>\$229,350</u>	<u>\$3,098,665</u>

4. Bond Covenants

Covenants attached to the Rural Development loans for facilities financed:

- 1.) Any additional borrowings from any source in relation to the facility must be approved by Rural Development.
- 2.) May not encumber facility financed by Rural Development.
- 3.) Facilities financed must generate sufficient funds to pay:
 - a) Debt
 - b) Operations and maintenance
 - c) Establish adequate reserves
 - d) Revenues cannot be used to pay any other expense not directly incurred for the facility financed by Rural Development.
- 4.) Maintain adequate insurance for the following:
 - a) Property
 - b) Fidelity
- 5.) Obtain Rural Development's concurrence prior to refusing new or adequate services that are legal and feasible to persons.
- 6.) No free service or use of facilities is permitted.
- 7.) Establish a reserve account.

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2006

NOTE C - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Bond Covenants

Covenants attached to the Texas Water Development Board loans for facilities financed:

- 1.) An interest and sinking fund must be established.
- 2.) Proceeds may not be used to acquire investment property, unless it meets specific requirements in the bond agreement.
- 3.) The property constituting the project may not be sold unless the City obtains an opinion of a nationally recognized bond counsel that such sale will not adversely affect the tax-exempt status of the Certificates of Obligation.

NOTE D - CONCENTRATION OF RISK

The City of Redwater, Texas is located approximately 10.8 miles from Texarkana, Texas on U.S. Highway 67 with a population of 872 as of the 2000 Census. A large percentage of residents depend on employment in nearby Texarkana, Texas and Arkansas.

NOTE E - EMPLOYEE RETIREMENT PLAN

In April 2006, the City began participating in the Texas Municipal Retirement System. The City contributes 4.09% of each employee's gross pay to the plan, and the employees contribute 5% of their gross pay to the plan.

NOTE F - SUBSEQUENT ACTIVITY

Near the conclusion of the fiscal year ended September 30, 2006, the City was notified by the Office of Rural Community Affairs that the City had been awarded a grant under the Texas Community Development Block Grant Program (TxCDBG). The period of the grant agreement is July 27, 2006 through July 26, 2008; however, no financial activity occurred during the fiscal year ended September 30, 2006. The amount of the grant is \$250,000, and the funds will be used to enhance the City's sewer facilities and services.

**INDEPENDENT AUDITOR'S 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 City Council
City of Redwater, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Redwater, Texas, as of and for the year ended September 30, 2006, which collectively comprise the City of Redwater, Texas' basic financial statements and have issued our report thereon dated February 19, 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 Redwater, 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 over financial reporting 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 consider to be material weaknesses.

Compliance

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

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Private Companies Practice Section

City of Redwater, Texas
Page 2

We noted certain matters that we reported to the management of the City of Redwater, Texas, in a separate letter dated February 19, 2007.

This 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.



Williams & Co., P.C.

Texarkana, USA
February 19, 2007