

CITY OF REDWATER, TEXAS

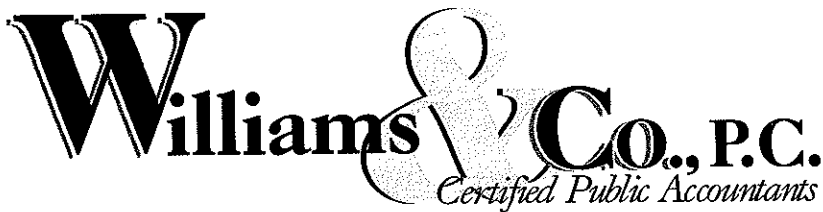
**Annual Financial Report
For the Year Ended September 30, 2008**

CITY OF REDWATER, TEXAS

**Annual Financial Report
For the Year Ended September 30, 2008**

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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, 2008, 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, 2008, 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 April 30, 2009, 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.

Member of the Texas Society of Certified Public Accountants

Member of the Arkansas Society of Certified Public Accountants

Member of the American Institute of Certified Public Accountants
Private Companies Practice Section

The management's discussion and analysis on pages 3 through 11, 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
April 24, 2009

CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2008

-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, 2008. 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 12. 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 2008 by \$3,469,583. Of this amount, \$473,558 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 \$809,621 and combined total expenses were \$836,971. Therefore, there was a decrease in net assets of \$27,350.

The general fund reported a positive fund balance of \$144,819. The general fund balance at September 30, 2007, was \$93,087.

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, 2008.

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 12, 13, and 14). 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 21 to 25).

CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2008

-UNAUDITED-

Using This Annual Report (Continued)

The fund financial statements (on pages 15 to 19) 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 12. 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.

Reporting The City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 15 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, 2008

-UNAUDITED-

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.

The City as a Whole

We present the current year data and discuss significant changes in the accounts. Our analysis focuses on the net assets (Table I, p8) and changes in net assets (Table II, p9 & 10) of the City's governmental activities and business-type activities. Overall, the City's assets exceeded liabilities by \$3,469,582 at the close of the September 30, 2008, fiscal year end.

The net assets of the City's governmental activities increased by 5.8 percent (\$1,151,976 compared to \$1,084,832). Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – changed from \$208,750 in 2007 to \$260,500 in 2008, an increase of 19.9 percent. The net assets of our business-type activities decreased by 3.9 percent (\$2,317,606 compared to \$2,412,100).

The cost of all government-wide activities this year was \$836,971. However, as shown in the Statement of Activities on page 14, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$166,547 because some of the costs were paid by those who directly benefited from the programs (\$670,424). For the 2007 fiscal year, the cost of all governmental activities was \$792,202.

Governmental Activities

The increase in the change in net assets from 2008 to 2007 of \$42,902 is partly due to the decrease of street repair expense of \$34,083. The other factor is the overall increase of revenue of \$9,943 or 6.5 percent.

CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2008

-UNAUDITED-

Business-type Activities

The decrease in the change in net assets from 2008 to 2007 of \$279,055 is due significantly to the difference in grant revenue. The decrease from \$225,118 in 2007 to \$17,498 in 2008 (\$207,620) is a result of timing differences and status of grants. Another explanation of the decrease in the change in net assets is the 10 percent increase in expenses, largely due to the increase in depreciation expense, salaries and testing services.

The City's Funds

As of September 30, 2008, the governmental funds reported a combined ending fund balance of \$299,259, a decrease of \$62,918, from the prior year. Of the ending fund balance, \$38,759 was restricted.

The General Fund reported a fund balance of \$144,819, all of which was considered unrestricted.

Debt Administration

At year-end, the city had outstanding bonds and certificates of obligation totaling \$1,624,732, which is a decrease of \$30,383 from the September 30, 2007, balance.

Outstanding Debt at Year-end

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|----------------------------|--------------------------------|-----------------|---------------------------------|--------------------|---------------------------------|--------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Certificate of Obligations | \$ - | \$ - | \$ 477,732 | \$ 494,115 | \$ 477,732 | \$ 494,115 |
| Bonds Payable | - | - | 1,147,000 | 1,161,000 | 1,147,000 | 1,161,000 |
| Notes Payable | 18,695 | 21,529 | - | - | 18,695 | 21,529 |
| | <u>\$18,695</u> | <u>\$21,529</u> | <u>\$1,624,732</u> | <u>\$1,655,115</u> | <u>\$1,643,427</u> | <u>\$1,676,644</u> |

CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2008

-UNAUDITED-

Capital Assets

At September 30, 2008, the City had \$4,427,132 invested in a broad range of capital assets, including facilities, equipment, and land. This amount represents a net decrease of \$88,327, or 2 percent (see Table III, p11). Construction in progress balance of \$615,393 at year end 2007 was closed in 2008 and transferred to the capital asset account, Sewer system.

This year's major additions included:

| | |
|--------------------------------|-------------------|
| Buildings | \$ 1,000 |
| Equipment | 43,881 |
| Pumps & treatment | 4,152 |
| Office furniture and equipment | 6,395 |
| Sewer system | 661,884 |
| Water meters | <u>945</u> |
| Total | \$ <u>718,257</u> |

This year's major deletions included:

| | |
|-----------|-----------------|
| Equipment | \$ <u>6,500</u> |
| Total | \$ <u>6,500</u> |

Depreciation expense for the year ended September 30, 2008 was \$191,190.

Budget and Actual Revenues and Expenses

The variance between budgeted and actual revenues for the General Fund is a positive \$17,420. The variance between budgeted and actual expenditures is a positive \$34,312.

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

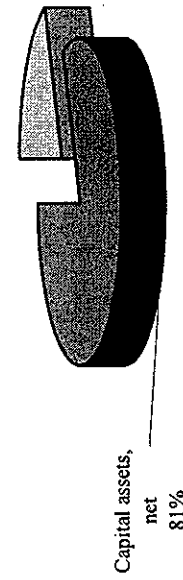
This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information,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

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF REDWATER, TEXAS
For the Year Ended September 30, 2008

- UNAUDITED -

Table I
NET ASSETS

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|-------------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Current and other assets | \$ 302,683 | \$ 265,591 | \$ 537,858 | \$ 770,672 | \$ 840,541 | \$ 1,036,263 |
| Capital assets, net | 871,412 | 870,019 | 3,555,720 | 3,645,440 | 4,427,132 | 4,515,459 |
| Total assets | 1,174,095 | 1,135,610 | 4,093,578 | 4,416,112 | 5,267,673 | 5,551,722 |
| Long-term liabilities | 15,744 | 21,529 | 1,667,577 | 1,655,115 | 1,683,321 | 1,676,644 |
| Other liabilities | 6,375 | 29,249 | 108,395 | 348,897 | 114,770 | 378,146 |
| Total liabilities | 22,119 | 50,778 | 1,775,972 | 2,004,012 | 1,798,091 | 2,054,790 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 852,717 | 848,490 | 1,930,989 | 1,990,324 | 2,783,706 | 2,838,814 |
| Restricted | 38,759 | 27,592 | 173,560 | 60,003 | 212,319 | 87,595 |
| Unrestricted | 260,500 | 208,750 | 213,057 | 361,773 | 473,557 | 570,523 |
| Total net assets | <u>\$ 1,151,976</u> | <u>\$ 1,084,832</u> | <u>\$ 2,317,606</u> | <u>\$ 2,412,100</u> | <u>\$ 3,469,582</u> | <u>\$ 3,496,932</u> |



2008 TOTAL ASSETS

2007 TOTAL ASSETS

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF REDWATER, TEXAS
For the Year Ended September 30, 2008

- UNAUDITED -

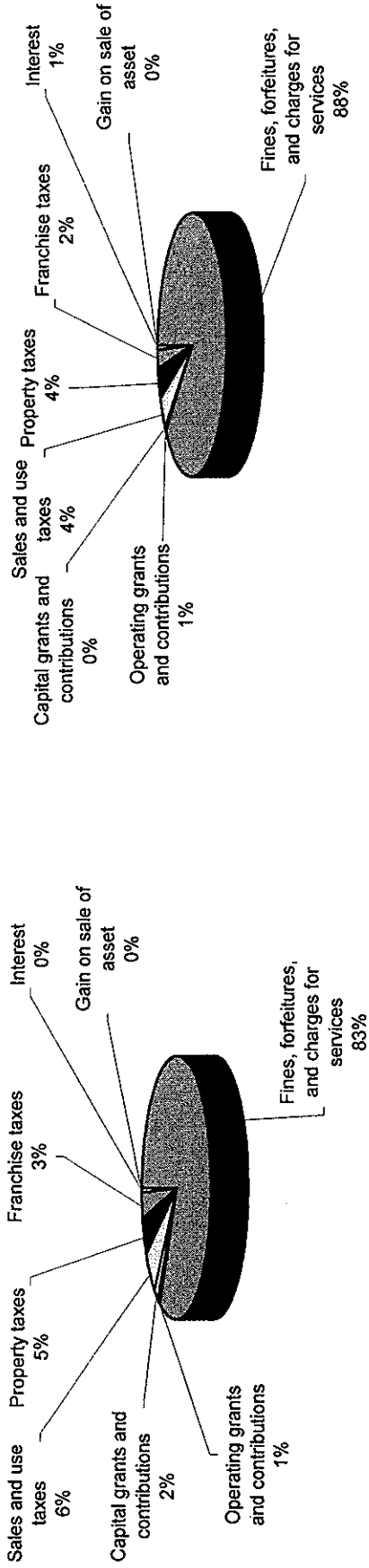
Table II
CHANGES IN NET ASSETS

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|----------------------------|------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Fines, forfeitures, and charges for services | \$ 32,154 | \$ 30,013 | \$ 638,270 | \$ 855,937 | \$ 670,424 | \$ 885,950 |
| Operating grants and contributions | 8,031 | 6,451 | - | - | 8,031 | 6,451 |
| Capital grants and contributions | - | - | 17,498 | - | 17,498 | - |
| General revenues: | | | | | | |
| Sales and use taxes | 45,784 | 43,155 | - | - | 45,784 | 43,155 |
| Property taxes | 38,815 | 37,792 | - | - | 38,815 | 37,792 |
| Franchise taxes | 24,758 | 21,403 | - | - | 24,758 | 21,403 |
| Gain on sale of asset | - | - | 477 | - | 477 | - |
| Interest | 2,246 | 3,031 | 1,588 | 3,223 | 3,834 | 6,254 |
| Total revenues | <u>151,788</u> | <u>141,845</u> | <u>657,833</u> | <u>859,160</u> | <u>809,621</u> | <u>1,001,005</u> |
| Expenses: | | | | | | |
| General government | 78,643 | 111,602 | - | - | 78,643 | 111,602 |
| Public safety | 6,000 | 6,000 | - | - | 6,000 | 6,000 |
| Water | - | - | 752,328 | 674,600 | 752,328 | 674,600 |
| Total expenses | <u>84,643</u> | <u>117,602</u> | <u>752,328</u> | <u>674,600</u> | <u>836,971</u> | <u>792,202</u> |
| Transfers | - | - | - | - | - | - |
| Change in net assets | <u>\$ 67,145</u> | <u>\$ 24,243</u> | <u>\$ (94,495)</u> | <u>\$ 184,560</u> | <u>\$ (27,350)</u> | <u>\$ 208,803</u> |

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF REDWATER, TEXAS
For the Year Ended September 30, 2008**

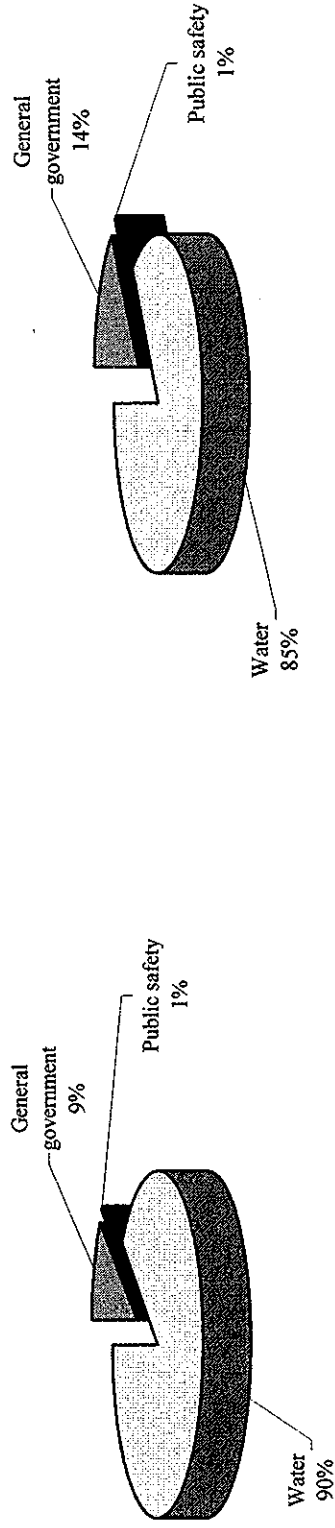
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**Table II
CHART A - TOTAL REVENUES**



2007

**Table II
CHART B - TOTAL EXPENSES**



2007

2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF REDWATER, TEXAS
For the Year Ended September 30, 2008

- UNAUDITED -

Table III
Capital Assets at Year-end
(Net of Depreciation)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--------------------------------|----------------------------|------------------|-----------------------------|--------------------|-----------------------------|--------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Construction in Progress | \$ - | \$ - | \$ - | \$ 615,393 | \$ - | \$ 615,393 |
| Land | 146,322 | 146,322 | 25,331 | 25,331 | 171,653 | 171,653 |
| Building | 87,700 | 87,700 | 15,456 | 16,459 | 103,156 | 104,159 |
| Office furniture and equipment | 17,965 | 16,572 | 7,651 | 4,726 | 25,616 | 21,298 |
| Equipment and tools | 23,269 | 23,269 | 74,711 | 48,993 | 97,980 | 72,262 |
| Park facilities | 596,156 | 596,156 | - | - | 596,156 | 596,156 |
| Pumps and equipment | - | - | 118,096 | 124,081 | 118,096 | 124,081 |
| Lines and storage | - | - | 1,682,930 | 1,752,646 | 1,682,930 | 1,752,646 |
| Water meters | - | - | 66,992 | 77,615 | 66,992 | 77,615 |
| Sewer systems | - | - | 1,564,553 | 980,196 | 1,564,553 | 980,196 |
| | <u>\$871,412</u> | <u>\$870,019</u> | <u>\$3,555,720</u> | <u>\$3,645,440</u> | <u>\$4,427,132</u> | <u>\$4,515,459</u> |

BASIC FINANCIAL STATEMENTS

CITY OF REDWATER, TEXAS
Statement of Net Assets
September 30, 2008

| | Governmental Activities | Business-Type Activities | Totals |
|--|------------------------------------|-------------------------------------|---------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 120,458 | \$ 101,043 | \$ 221,501 |
| Certificates of deposit | 54,115 | 13,510 | 67,625 |
| Accounts receivable, net of allowances | 7,043 | 56,139 | 63,182 |
| Unbilled receivables | - | 22,799 | 22,799 |
| Due from other funds | (33,385) | 33,385 | - |
| Restricted assets | 38,759 | 269,057 | 307,816 |
| Total Current Assets | 186,990 | 495,933 | 682,923 |
| Other Assets | | | |
| Deferred issuance costs | - | 41,925 | 41,925 |
| Other investments - restricted | 115,693 | - | 115,693 |
| Total Other Assets | 115,693 | 41,925 | 157,618 |
| Capital Assets | | | |
| Land | 146,322 | 25,331 | 171,653 |
| Buildings, net | 87,700 | 15,456 | 103,156 |
| Furniture and equipment, net | 17,965 | 7,651 | 25,616 |
| Equipment and tools, net | 23,269 | 74,711 | 97,980 |
| Park facilities, net | 596,156 | - | 596,156 |
| Pumps and equipment, net | - | 118,096 | 118,096 |
| Lines and storage, net | - | 1,682,930 | 1,682,930 |
| Water meters, net | - | 66,992 | 66,992 |
| Sewer systems, net | - | 1,564,553 | 1,564,553 |
| Total Capital Assets | 871,412 | 3,555,720 | 4,427,132 |
| TOTAL ASSETS | \$ 1,174,095 | \$ 4,093,578 | \$ 5,267,673 |

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

CITY OF REDWATER, TEXAS
Statement of Net Assets
September 30, 2008

| | Governmental Activities | Business-Type Activities | Totals |
|---|------------------------------------|-------------------------------------|---------------------|
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable | 637 | 50,632 | 51,269 |
| Accrued salaries and taxes | 2,787 | 5,111 | 7,898 |
| Accrued interest payable | - | 21,942 | 21,942 |
| Notes payable - current | 2,951 | - | 2,951 |
| Certificates, revenue bonds payable - current | - | 30,710 | 30,710 |
| Total Current Liabilities | 6,375 | 108,395 | 114,770 |
| Noncurrent Liabilities | | | |
| Utility deposits - payable from restricted | - | 73,555 | 73,555 |
| Notes payable | 15,744 | - | 15,744 |
| Certificates, revenue bonds payable | - | 1,594,022 | 1,594,022 |
| Total Noncurrent Liabilities | 15,744 | 1,667,577 | 1,683,321 |
| TOTAL LIABILITIES | 22,119 | 1,775,972 | 1,798,091 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 852,717 | 1,930,989 | 2,783,706 |
| Restricted | 38,759 | 173,560 | 212,319 |
| Unrestricted | 260,500 | 213,057 | 473,557 |
| TOTAL NET ASSETS | \$ 1,151,976 | \$ 2,317,606 | \$ 3,469,582 |

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

CITY OF REDWATER, TEXAS
Statement of Activities
For the Year Ended September 30, 2008

| 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 | \$ 78,643 | \$ 26,154 | \$ 8,031 | \$ - | \$ (44,458) | \$ - | \$ (44,458) |
| Public safety | 6,000 | 6,000 | - | - | - | - | - |
| Total Governmental Activities | 84,643 | 32,154 | 8,031 | - | (44,458) | - | (44,458) |
| Business-type Activities: | | | | | | | |
| Water | 752,328 | 495,524 | - | - | - | (256,804) | (256,804) |
| Grant | - | - | - | 17,498 | - | 17,498 | 17,498 |
| Sewer | - | 83,385 | - | - | - | 83,385 | 83,385 |
| Late charges | - | 32,852 | - | - | - | 32,852 | 32,852 |
| Tapping/transfer/tampering | - | 14,470 | - | - | - | 14,470 | 14,470 |
| Line extensions/bore charges | - | 2,336 | - | - | - | 2,336 | 2,336 |
| Other fees | - | 4,310 | - | - | - | 4,310 | 4,310 |
| Miscellaneous | - | 5,393 | - | - | - | 5,393 | 5,393 |
| Total Business-type Activities | 752,328 | 638,270 | - | 17,498 | - | (96,560) | (96,560) |
| Total | \$ 836,971 | \$ 670,424 | \$ 8,031 | \$ 17,498 | \$ (44,458) | \$ (96,560) | \$ (141,018) |
| General Revenues: | | | | | | | |
| Sales and use taxes | | | | | \$ 45,784 | \$ - | \$ 45,784 |
| Property taxes | | | | | 38,815 | - | 38,815 |
| Franchise taxes | | | | | 24,758 | - | 24,758 |
| Gain(loss) on sale of asset | | | | | - | 477 | 477 |
| Interest | | | | | 2,246 | 1,588 | 3,834 |
| Total General Revenues and Transfers | | | | | 111,603 | 2,065 | 113,668 |
| Change in Net Assets | | | | | 67,145 | (94,495) | (27,350) |
| Net Assets, Beginning | | | | | 1,084,831 | 2,412,101 | 3,496,932 |
| Net Assets, Ending | | | | | \$ 1,151,976 | \$ 2,317,606 | \$ 3,469,582 |

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

CITY OF REDWATER, TEXAS

Balance Sheet

Governmental Funds

September 30, 2008

| | General Fund | Special Revenue Fund | Total Governmental Funds |
|--|-------------------------|-------------------------------------|---|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 120,458 | \$ - | \$ 120,458 |
| Certificates of deposit | 54,115 | - | 54,115 |
| Receivables, net allowances | 7,043 | - | 7,043 |
| Due from other funds | 12 | - | 12 |
| Restricted assets | - | 38,759 | 38,759 |
| Total Current Assets | 181,628 | 38,759 | 220,387 |
| Other Assets | | | |
| Investments-restricted | | 115,693 | 115,693 |
| Total Other Assets | - | 115,693 | 115,693 |
| TOTAL ASSETS | \$ 181,628 | \$ 154,452 | \$ 336,080 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable | 637 | - | 637 |
| Accrued salaries and taxes | 2,787 | - | 2,787 |
| Due to other funds | 33,385 | 12 | 33,397 |
| Total Current Liabilities | 36,809 | 12 | 36,821 |
| TOTAL LIABILITIES | 36,809 | 12 | 36,821 |
| Fund Balances | | | |
| Restricted | - | 38,759 | 38,759 |
| Unrestricted | 144,819 | 115,681 | 260,500 |
| TOTAL FUND BALANCES | 144,819 | 154,440 | 299,259 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 181,628 | \$ 154,452 | \$ 336,080 |

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, 2007

| | |
|---|----------------------------|
| Total Fund Balances - Governmental Funds | \$ 299,259 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | (18,695) |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | <u>871,412</u> |
| Net Assets of Governmental Activities | <u>\$ 1,151,976</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, 2008

| | General Fund | Special Revenue Fund | Total Governmental Funds |
|---|-----------------|----------------------------|--------------------------------|
| Revenues | | | |
| Property taxes, including penalty and interest | \$ 38,815 | \$ - | \$ 38,815 |
| Franchise taxes | 24,758 | - | 24,758 |
| Sales taxes | 30,523 | 15,261 | 45,784 |
| Rental income | 9,000 | - | 9,000 |
| Intergovernmental | 6,000 | - | 6,000 |
| Interest | 2,189 | 57 | 2,246 |
| Refuse income | 17,154 | - | 17,154 |
| Miscellaneous | 8,031 | - | 8,031 |
| Total Revenues | <u>136,470</u> | <u>15,318</u> | <u>151,788</u> |
| Expenditures | | | |
| Current: | | | |
| General government | | | |
| Appraisal district fees | 1,300 | - | 1,300 |
| Accounting and audit fees | 1,490 | - | 1,490 |
| Beautification | 1,038 | - | 1,038 |
| Dues and subscriptions | 746 | - | 746 |
| Insurance | 6,800 | - | 6,800 |
| Legal and filing fees | 863 | - | 863 |
| Office supplies and expenses | 3,347 | - | 3,347 |
| Repairs and maintenance | 1,346 | - | 1,346 |
| Retirement | 1,223 | - | 1,223 |
| Salaries | 29,809 | - | 29,809 |
| Taxes-payroll | 515 | - | 515 |
| Telephone | 2,090 | - | 2,090 |
| Travel and mileage | 960 | - | 960 |
| Utilities | 3,018 | - | 3,018 |
| Miscellaneous | 3,598 | 488 | 4,086 |
| Public safety | 6,000 | - | 6,000 |
| Public works | 20,595 | - | 20,595 |
| Debt service: | | | |
| Principal | - | 2,835 | 2,835 |
| Interest and other charges | - | 810 | 810 |
| Total Expenditures | <u>84,738</u> | <u>4,133</u> | <u>88,871</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, 2008

| | General Fund | Special Revenue Fund | Total Governmental Funds |
|--|--------------------------|-------------------------------------|---|
| Excess (Deficiency) of Revenues Over Expenditures | <u>51,732</u> | <u>11,185</u> | <u>62,917</u> |
| Net Change in Fund Balances | 51,732 | 11,185 | 62,917 |
| Fund Balances, Beginning | <u>93,087</u> | <u>143,255</u> | <u>236,342</u> |
| Fund Balances, Ending | <u>\$ 144,819</u> | <u>\$ 154,440</u> | <u>\$ 299,259</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, 2008

Net Change in Fund Balances - Total Governmental Funds **\$ 62,917**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets are reported as capital assets. This is the amount of capital outlay in the current period. 1,393

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. 2,835

Change in Net Assets - Governmental Activities **\$ 67,145**

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, 2008

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|----------------|--------------------------|--|
| Revenues | | | |
| Property taxes, including penalty and interest | \$ 36,000 | \$ 38,815 | \$ 2,815 |
| Franchise taxes | 22,000 | 24,758 | 2,758 |
| Sales taxes | 29,000 | 30,523 | 1,523 |
| Interest | 250 | 2,189 | 1,939 |
| Rental income | 9,000 | 9,000 | - |
| Intergovernmental | 6,000 | 6,000 | - |
| Refuse income | 14,000 | 17,154 | 3,154 |
| Miscellaneous | 2,800 | 8,031 | 5,231 |
| Total Revenues | <u>119,050</u> | <u>136,470</u> | <u>17,420</u> |
| Expenditures | | | |
| General government | 64,050 | 58,143 | 5,907 |
| Public safety | 6,000 | 6,000 | - |
| Public works | 49,000 | 20,595 | 28,405 |
| Total Expenditures | <u>119,050</u> | <u>84,738</u> | <u>34,312</u> |
| Excess of revenues and other financing sources over expenditures | <u>-</u> | <u>51,732</u> | <u>51,732</u> |
| Fund balance, beginning of year | | <u>93,087</u> | |
| Fund balance, end of year | | <u>\$ 144,819</u> | |

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

CITY OF REDWATER, TEXAS
Statement of Net Assets
Proprietary Fund
September 30, 2008

| | | Water & Sewer Fund |
|--------------------------------------|-------------|-------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 101,043 | |
| Certificates of deposit | 13,510 | |
| Receivables, net | 56,139 | |
| Unbilled receivables | 22,799 | |
| Due from other funds | 33,385 | |
| | | |
| Total Current Assets | | 226,876 |
| Noncurrent Assets: | | |
| Restricted cash and cash equivalents | 268,786 | |
| Restricted receivables | 271 | |
| Deferred issuance costs | 41,925 | |
| Capital assets: | | |
| Land | 25,331 | |
| Buildings | 37,858 | |
| Furniture and equipment | 19,976 | |
| Equipment and tools | 231,616 | |
| Pumps and equipment | 202,559 | |
| Lines and storage | 2,280,208 | |
| Water meters | 145,740 | |
| Sewer systems | 2,194,126 | |
| Less accumulated depreciation | (1,581,694) | |
| | | |
| Total Noncurrent Assets | | 3,866,702 |
| TOTAL ASSETS | | 4,093,578 |

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

CITY OF REDWATER, TEXAS
Statement of Net Assets
Proprietary Fund
September 30, 2008

| | | <u>Water & Sewer Fund</u> |
|---|-----------|-------------------------------|
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable | 50,632 | |
| Accrued salaries and taxes | 5,111 | |
| Accrued interest payable | 21,942 | |
| Certificates, revenue bonds payable-current | 30,710 | |
| | | |
| Total Current Liabilities | | <u>108,395</u> |
| Noncurrent Liabilities: | | |
| Certificates, revenue bonds payable | 1,594,022 | |
| Utility deposits-payable from restricted assets | 73,555 | |
| | | |
| Total Noncurrent Liabilities | | <u>1,667,577</u> |
| TOTAL LIABILITIES | | <u><u>1,775,972</u></u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 1,930,989 | |
| Restricted | 173,560 | |
| Unrestricted | 213,057 | |
| | | |
| TOTAL NET ASSETS | | <u><u>\$ 2,317,606</u></u> |

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, 2008

| | Water & Sewer Fund |
|-----------------------------------|-----------------------------------|
| OPERATING REVENUES | |
| Water sales | \$ 495,524 |
| Sewer sales | 83,385 |
| Tapping fees | 10,750 |
| Transfer fees | 2,670 |
| Line extensions | 236 |
| Bore charges | 2,100 |
| Inspection fee | 600 |
| Late charges | 20,437 |
| Reconnect/reinstall fees | 10,840 |
| Returned check fee | 1,575 |
| Back flow fees | 2,474 |
| Sewer dump fees | 1,236 |
| Tampering fees | 1,050 |
| Miscellaneous | 5,393 |
| | 638,270 |
| OPERATING EXPENSES | |
| Accounting | 8,653 |
| Amortization | 1,892 |
| Bad debt expense | 5,774 |
| Chemicals | 8,435 |
| Contract backhoe | 1,800 |
| Contract labor | 504 |
| Contract maintenance | 4,211 |
| Depreciation | 191,190 |
| Employee expenses | 1,791 |
| Equipment repairs and maintenance | 7,607 |
| Equipment supplies | 3,164 |
| Inspection fees | 640 |
| Insurance | 21,932 |
| Legal and advertising | 1,329 |
| Meter replacements | 964 |
| Mileage | 179 |
| Miscellaneous | 1,040 |
| Office supplies and expense | 4,723 |
| Permits, licenses, and fees | 5,435 |
| Postage | 5,011 |
| Radio expense | 720 |

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, 2008

**Water & Sewer
Fund**

OPERATING EXPENSES (Continued)

| | |
|--|---------------------|
| Refuse | 2,833 |
| Rent - building | 9,000 |
| Rent - equipment | 95 |
| Repairs and maintenance | 10,711 |
| Retirement | 5,653 |
| Salaries | 135,920 |
| Special services | 1,197 |
| Supplies - operating | 34,357 |
| Taxes - payroll | 11,006 |
| Telephone | 3,252 |
| Testing service | 36,924 |
| Training | 5,093 |
| Uniforms | 2,484 |
| Utilities | 38,008 |
| Vehicle repairs | 3,803 |
| Vehicle supplies | 13,800 |
| Water purchases | 93,010 |
| | 684,140 |
| Total Operating Expenses | 684,140 |
| Operating Income (Loss) | (45,870) |
| Non-operating Revenues (Expenses) | |
| Gain on sale of asset | 477 |
| Grant income | 17,498 |
| Interest income | 1,588 |
| Interest expense | (67,788) |
| Paying agent fees | (400) |
| | (48,625) |
| Net Non-operating Revenues (Expenses) | (48,625) |
| Change in Net Assets | (94,495) |
| Total Net Assets - Beginning | 2,412,101 |
| Total Net Assets - Ending | \$ 2,317,606 |

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, 2008

Cash flows from operating activities:

| | | |
|--|------------|----------------|
| Receipts from customers | \$ 754,251 | |
| Payments to suppliers | (348,219) | |
| Payments to employees | (147,056) | |
| Net cash provided by operating activities | | 258,976 |

Cash flows from capital and related financing activities:

| | | |
|--|-----------|------------------|
| Grant contributions | 17,498 | |
| Proceeds from the sale of asset | 477 | |
| Principal paid on revenue bonds | (14,000) | |
| Interest paid on revenue bonds | (49,343) | |
| Acquisition of capital assets | (101,470) | |
| Rest-contracts, retainage payable | (197,029) | |
| Principal paid on certificates of obligations | (16,383) | |
| Interest paid on certificates of obligations | (18,751) | |
| Fees paid to paying agent | (400) | |
| Net cash used by capital and related financing activities | | (379,401) |

Cash flows from investing activities:

| | | |
|--|---------|----------------|
| Purchase of certificates of deposit | (3,066) | |
| Interest on investments | 1,317 | |
| Net cash provided by investing activities | | (1,749) |

Net decrease in cash and cash equivalents **(122,174)**

Cash and cash equivalents - beginning of year **492,003**

Cash and cash equivalents - end of year **\$ 369,829**

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss) \$ (45,870)

Adjustments to reconcile operating income to net cash provided by operating activities:

| | | |
|---------------------------------------|---------|--|
| Depreciation | 191,190 | |
| Amortization | 1,892 | |
| Change in assets and liabilities: | | |
| Decrease in accounts receivable | 112,086 | |
| Decrease in payroll liabilities | (130) | |
| Increase in customer deposits payable | 3,895 | |
| Decrease in accounts payable | (4,087) | |
| | | |

Total adjustments **304,846**

Net cash provided by operating activities **\$ 258,976**

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, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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, 2007 until October 1, 2008.

| <u>Coverage Provided</u> | <u>Limits or Amounts</u> |
|----------------------------|--------------------------|
| Real and Personal Property | \$ 2,081,299 Limit |
| Boiler and Machinery | \$ 1,000,000 Limit |
| Mobile Equipment | \$ 91,579 Limit |
| General Liability | \$ 1,000,000 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, 2008, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$596,671 and the bank balance was \$611,507.

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, 2008, \$119,736 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, 2008

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.

2. Restricted Assets

The restricted assets as of September 30, 2008 are as follows:

| Type of Restriced Asset | Governmental Activities | Business-type Activites | Total |
|--------------------------------|----------------------------|----------------------------|-------------------|
| Deposits | \$ - | \$ 73,555 | \$ 73,555 |
| TWDB Construction Fund | - | 59,562 | 59,562 |
| TCDP Grant Fund | - | 792 | 792 |
| Maintenance Fund | - | 26,662 | 26,662 |
| Bond Reserve Fund | - | 26,635 | 26,635 |
| 2003 Debt Service Fund | - | 21,538 | 21,538 |
| 2005 Debt Service Fund | - | 27,864 | 27,864 |
| Industrial Development | 38,759 | - | 38,759 |
| Maintenance Fund - Investments | - | 32,178 | 32,178 |
| Interest Receivable | - | 271 | 271 |
| Total Restricted Assets | \$ 38,759 | \$ 269,057 | \$ 307,816 |

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2008

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

3. Capital Assets

Capital asset activity for the City for the year ended September 30, 2008, was as follows:

Business -type Activities

| | Balance 10/1/2007 | Additions | Deletions | Balance 9/30/2008 |
|-------------------------------|----------------------|-------------------|-----------------|----------------------|
| Buildings | \$ 36,858 | \$ 1,000 | \$ - | 37,858 |
| Office, furniture & equipment | 14,974 | 5,002 | - | 19,976 |
| Equipment & tools | 194,235 | 43,881 | 6,500 | 231,616 |
| Pumps & treatment | 198,407 | 4,152 | - | 202,559 |
| Lines & storage | 2,280,208 | - | - | 2,280,208 |
| Water meters | 144,795 | 945 | - | 145,740 |
| Sewer system | 1,532,242 | 661,884 | - | 2,194,126 |
| Total | \$4,401,719 | \$ 716,864 | \$ 6,500 | \$5,112,083 |

Business-type Activities-Accumulated Depreciation

| | Balance 10/1/2007 | Additions | Deletions | Balance 9/30/2008 |
|-------------------------------|----------------------|-------------------|-----------------|----------------------|
| Buildings | \$ 20,399 | 2,003 | - | 22,402 |
| Office, furniture & equipment | 10,248 | 2,077 | - | 12,325 |
| Equipment & tools | 145,243 | 18,162 | 6,500 | 156,905 |
| Pumps & treatment | 74,325 | 10,138 | - | 84,463 |
| Lines & storage | 527,562 | 69,716 | - | 597,278 |
| Water meters | 67,180 | 11,568 | - | 78,748 |
| Sewer system | 552,047 | 77,526 | - | 629,573 |
| Total | \$ 1,397,004 | \$ 191,190 | \$ 6,500 | \$1,581,694 |

Governmental Activities

| | Balance 10/1/2007 | Additions | Deletions | Balance 9/30/2008 |
|------------------------------|----------------------|----------------|-----------|----------------------|
| Buildings | \$ 87,700 | \$ - | \$ - | \$ 87,700 |
| Office furniture & equipment | 16,572 | 1,393 | - | 17,965 |
| 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 | \$1,393 | - | \$ 871,412 |

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2008

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

4. Accounts Receivable

The accounts receivable for September 30, 2008 are as follows:

| <u>Accounts Receivable</u> | <u>Governmental Activities</u> | <u>Business-type Activites</u> | <u>Total</u> |
|----------------------------------|------------------------------------|------------------------------------|-------------------------|
| Franchise Tax | \$ 6,066 | \$ - | \$ 6,066 |
| Property Tax | 10,144 | - | 10,144 |
| Interest Receivable | 166 | 116 | 282 |
| Customer | - | 60,385 | 60,385 |
| Other | - | 732 | 732 |
| Allowance for doubtful accounts | <u>(9,333)</u> | <u>(5,094)</u> | <u>(14,427)</u> |
| Total Accounts Receivable | <u>\$ 7,043</u> | <u>\$ 56,139</u> | <u>\$ 63,182</u> |

5. Bonds Payable

Bonds payable at September 30, 2008, 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. | \$ 27,732 |
| \$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%. | 571,000 |
| \$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%. | 576,000 |
| \$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%. | <u>450,000</u> |
| Total Bonds Payable | <u>\$1,624,732</u> |
| Current portions of the long term bonds payable total | \$30,710 |

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2008

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

The following is a summary of the changes in long-term debt for the year ended September 30, 2008:

| <u>Type of Debt</u> | <u>Balance Sept 30, 2007</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance Sept 30, 2008</u> | <u>Due Within One Year</u> |
|-----------------------------|----------------------------------|------------------|-------------------|----------------------------------|------------------------------------|
| Business-type Activities | | | | | |
| Certificate of Obligations | \$ 494,115 | \$ - | \$ 16,383 | \$ 477,732 | \$ 16,710 |
| Revenue Bonds | 1,161,000 | - | 14,000 | 1,147,000 | 14,000 |
| Total Long-term Debt | \$ 1,655,115 | \$ - | \$ 30,383 | \$ 1,624,732 | \$ 30,710 |

The annual requirements to amortize notes of obligation as of September 30, 2008, are as follows:

| Year Ending September 30 | 1989 Series | | 2003 Series | | 2005 Series | | Totals |
|-----------------------------|-----------------|----------------|--------------------|--------------------|------------------|------------------|--------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | |
| 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 | \$27,732 | \$2,808 | \$1,147,000 | \$1,078,607 | \$450,000 | \$194,685 | \$2,900,832 |

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.
 - a) Operations and maintenance
 - b) Establish adequate reserves

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2008

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

- 3.) Facilities financed must generate sufficient funds to pay:
 - a) Debt
 - b) 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.

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 2007, 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.

**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, 2008, which collectively comprise the City of Redwater, Texas' basic financial statements and have issued our report thereon dated April 24, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Redwater, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Redwater, Texas' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Redwater, Texas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Redwater, Texas' financial statements that is more than inconsequential will not be prevented or detected by the City of Redwater, Texas' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Redwater, Texas' internal control.

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Member of the American Institute of Certified Public Accountants
Private Companies Practice Section

Our consideration on internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

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
April 24, 2009