

CITY OF REDWATER, TEXAS

**Annual Financial Report
For the Year Ended September 30, 2009**

CITY OF REDWATER, TEXAS

**Annual Financial Report
For the Year Ended September 30, 2009**

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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 29, 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 29, 2010

CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2009

-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, 2009. Please read it in conjunction with the independent auditor's report on pages 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 2009 by \$3,316,694. Of this amount, \$407,036 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 \$806,435 and combined total expenses were \$959,323. Therefore, there was a decrease in net assets of \$152,888.

The general fund reported a positive fund balance of \$128,395. The general fund balance at September 30, 2008, was \$144,819.

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, 2009.

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 to 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, 2009

-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, 2009

-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 \$3,316,694 at the close of the September 30, 2009, fiscal year end.

The net assets of the City's governmental activities decreased by 0.2 percent (\$1,149,324 compared to \$1,151,976). 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 \$260,500 in 2008 to \$244,076 in 2009, a decrease of 6.3 percent. The net assets of our business-type activities decreased by 6.5 percent (\$2,167,370 compared to \$2,317,606).

The cost of all government-wide activities this year was \$959,323. 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 \$280,421 because some of the costs were paid by those who directly benefited from the programs (\$678,902). For the 2008 fiscal year, the cost of all governmental activities was \$836,971.

Governmental Activities

The decrease in the change in net assets from 2009 to 2008 of \$69,797 is mainly due to the increase of general government expense of \$67,295. The other factor is the decrease of revenue of \$2,502 or 2.2 percent.

CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2009

-UNAUDITED-

Business-type Activities

The decrease in the change in net assets from 2009 to 2008 of \$55,741 is due to the difference in grant revenue. There was a decrease from \$17,498 in 2008 to \$0 in 2009. Another explanation of the decrease in the change in net assets is the 6.0 percent increase in expenses, largely due to the increase in depreciation expense, and salaries.

The City's Funds

As of September 30, 2009, the governmental funds reported a combined ending fund balance of \$290,585, a decrease of \$8,674, from the prior year. Of the ending fund balance, \$49,580 was restricted.

The General Fund reported a fund balance of \$128,395, all of which was considered unrestricted.

Debt Administration

At year-end, the city had outstanding bonds and certificates of obligation totaling \$1,594,021, which is a decrease of \$30,711 from the September 30, 2008 balance.

Outstanding Debt at Year-end

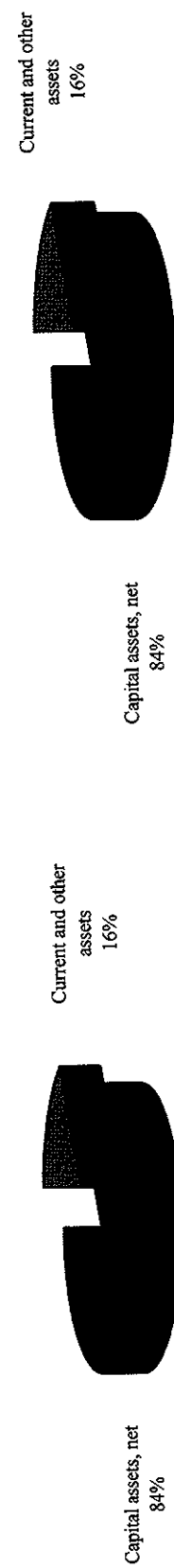
	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Certificate of Obligations	\$ -	\$ -	\$ 461,021	\$ 477,732	\$ 461,021	\$ 477,732
Bonds Payable	-	-	1,133,000	1,147,000	1,133,000	1,147,000
Notes Payable	15,744	18,695	-	-	15,744	18,695
	<u>\$15,744</u>	<u>\$18,695</u>	<u>\$1,594,021</u>	<u>\$1,624,732</u>	<u>\$1,609,765</u>	<u>\$1,643,427</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF REDWATER, TEXAS
For the Year Ended September 30, 2009**

- UNAUDITED -

**Table I
NET ASSETS**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 295,607	\$ 302,683	\$ 515,847	\$ 537,858	\$ 811,454	\$ 840,541
Capital assets, net	871,412	871,412	3,403,382	3,555,720	4,274,794	4,427,132
Total assets	1,167,019	1,174,095	3,919,229	4,093,578	5,086,248	5,267,673
Long-term liabilities	12,673	15,744	1,633,726	1,667,577	1,646,399	1,683,321
Other liabilities	5,022	6,375	118,133	108,395	123,155	114,770
Total liabilities	17,695	22,119	1,751,859	1,775,972	1,769,554	1,798,091
Net assets:						
Invested in capital assets, net of related debt	855,668	852,717	1,809,361	1,930,989	2,665,029	2,783,706
Restricted	49,580	38,759	195,049	173,560	244,629	212,319
Unrestricted	244,076	260,500	162,960	213,057	407,036	473,557
Total net assets	\$ 1,149,324	\$ 1,151,976	\$ 3,167,370	\$ 3,217,606	\$ 4,076,694	\$ 4,469,582



2009 TOTAL ASSETS

2008 TOTAL ASSETS

CITY OF REDWATER, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2009

-UNAUDITED-

Capital Assets

At September 30, 2009, the City had \$4,274,794 invested in a broad range of capital assets, including facilities, equipment, and land. This amount represents a net decrease of \$152,338, or 3.4 percent (see Table III, p11).

This year's major additions included:

Equipment	\$ 15,201
Pumps & treatment	15,351
Lines & storage	16,337
Sewer system	7,824
Water meters	<u>894</u>
Total	\$ <u>55,607</u>

No deletions occurred this year.

Depreciation expense for the year ended September 30, 2009 was \$207,945.

Budget and Actual Revenues and Expenses

The variance between budgeted and actual revenues for the General Fund is a positive \$10,697. The variance between budgeted and actual expenditures is a negative \$41,121.

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, 2009

- UNAUDITED -

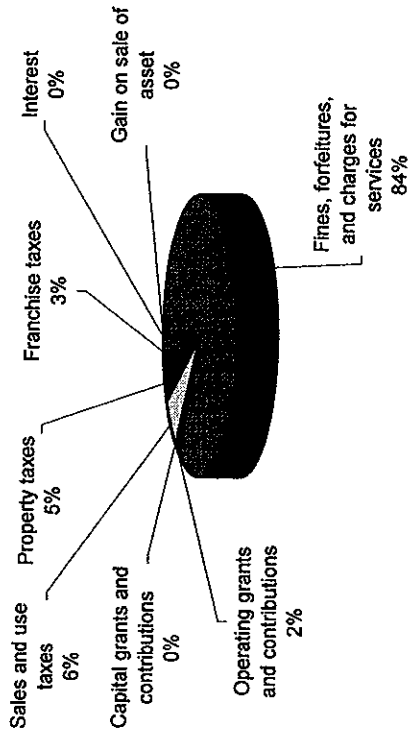
Table II
 CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Fines, forfeitures, and charges for services	\$ 34,022	\$ 32,154	\$ 644,880	\$ 638,270	\$ 678,902	\$ 670,424
Operating grants and contributions	16,443	8,031	-	-	16,443	8,031
Capital grants and contributions	-	-	-	17,498	-	17,498
General revenues:						
Sales and use taxes	47,324	45,784	-	-	47,324	45,784
Property taxes	37,804	38,815	-	-	37,804	38,815
Franchise taxes	22,603	24,758	-	-	22,603	24,758
Gain on sale of asset	-	-	400	477	400	477
Interest	1,370	2,246	1,589	1,588	2,959	3,834
Total revenues	159,566	151,788	646,869	657,833	806,435	809,621
Expenses:						
General government	156,218	78,643	-	-	156,218	78,643
Public safety	6,000	6,000	-	-	6,000	6,000
Water	-	-	797,105	752,328	797,105	752,328
Total expenses	162,218	84,643	797,105	752,328	959,323	836,971
Transfers	-	-	-	-	-	-
Change in net assets	\$ (2,652)	\$ 67,145	\$ (150,236)	\$ (94,495)	\$ (152,888)	\$ (27,350)

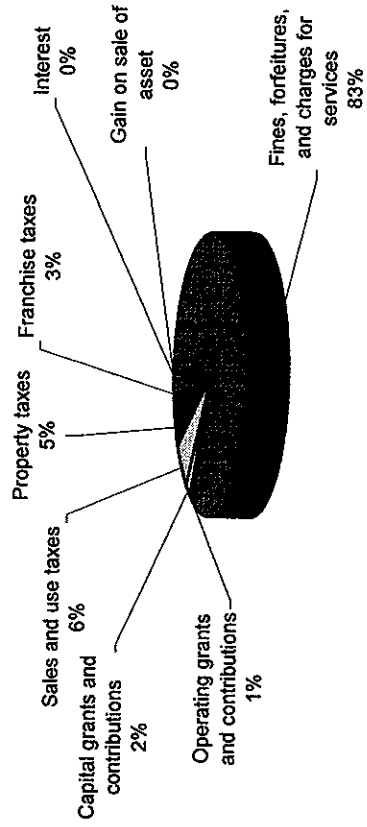
MANAGEMENT'S DISCUSSION AND ANALYSIS
 CITY OF REDWATER, TEXAS
 For the Year Ended September 30, 2009

- UNAUDITED -

Table II
 CHART A - TOTAL REVENUES

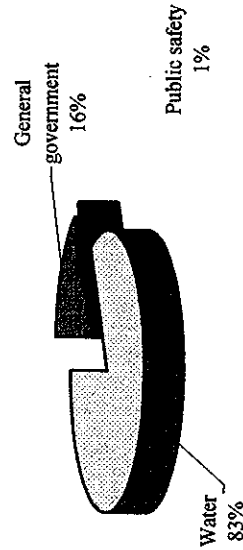


2009

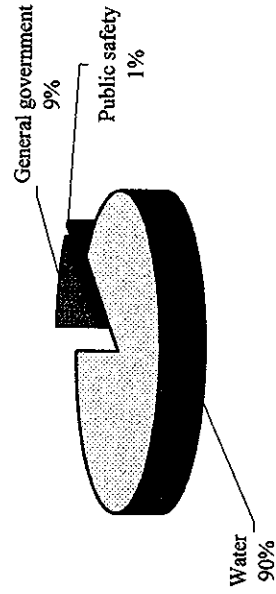


2008

Table II
 CHART B - TOTAL EXPENSES



2009



2008

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF REDWATER, TEXAS
For the Year Ended September 30, 2009**

- UNAUDITED -

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Land	\$ 146,322	\$ 146,322	\$ 25,331	\$ 25,331	\$ 171,653	\$ 171,653
Building	87,700	87,700	13,673	15,456	101,373	103,156
Office furniture and equipment	17,965	17,965	5,154	7,651	23,119	25,616
Equipment and tools	23,269	23,269	65,801	74,711	89,070	97,980
Park facilities	596,156	596,156	-	-	596,156	596,156
Pumps and equipment	-	-	121,978	118,096	121,978	118,096
Lines and storage	-	-	1,628,940	1,682,930	1,628,940	1,682,930
Water meters	-	-	56,413	66,992	56,413	66,992
Sewer systems	-	-	1,486,092	1,564,553	1,486,092	1,564,553
	<u>\$ 871,412</u>	<u>\$ 871,412</u>	<u>\$ 3,403,382</u>	<u>\$ 3,555,720</u>	<u>\$ 4,274,794</u>	<u>\$ 4,427,132</u>

BASIC FINANCIAL STATEMENTS

CITY OF REDWATER, TEXAS
Statement of Net Assets
September 30, 2009

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 110,023	\$ 56,233	\$ 166,256
Certificates of deposit	55,782	13,998	69,780
Accounts receivable, net of allowances	6,940	56,824	63,764
Unbilled receivables	-	16,905	16,905
Due from other funds	(42,411)	42,411	-
Restricted assets	49,580	289,443	339,023
Total Current Assets	<u>179,914</u>	<u>475,814</u>	<u>655,728</u>
Other Assets			
Deferred issuance costs	-	40,033	40,033
Other investments - restricted	115,693	-	115,693
Total Other Assets	<u>115,693</u>	<u>40,033</u>	<u>155,726</u>
Capital Assets			
Land	146,322	25,331	171,653
Buildings, net	87,700	13,673	101,373
Furniture and equipment, net	17,965	5,154	23,119
Equipment and tools, net	23,269	65,801	89,070
Park facilities, net	596,156	-	596,156
Pumps and equipment, net	-	121,978	121,978
Lines and storage, net	-	1,628,940	1,628,940
Water meters, net	-	56,413	56,413
Sewer systems, net	-	1,486,092	1,486,092
Total Capital Assets	<u>871,412</u>	<u>3,403,382</u>	<u>4,274,794</u>
TOTAL ASSETS	<u>\$ 1,167,019</u>	<u>\$ 3,919,229</u>	<u>\$ 5,086,248</u>

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

CITY OF REDWATER, TEXAS
Statement of Net Assets
September 30, 2009

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts payable	396	51,254	51,650
Accrued salaries and taxes	1,555	12,190	13,745
Accrued interest payable	-	21,636	21,636
Notes payable - current	3,071	-	3,071
Certificates, revenue bonds payable - current	-	33,053	33,053
Total Current Liabilities	<u>5,022</u>	<u>118,133</u>	<u>123,155</u>
Noncurrent Liabilities			
Utility deposits - payable from restricted	-	72,758	72,758
Notes payable	12,673	-	12,673
Certificates, revenue bonds payable	-	1,560,968	1,560,968
Total Noncurrent Liabilities	<u>12,673</u>	<u>1,633,726</u>	<u>1,646,399</u>
TOTAL LIABILITIES	<u>17,695</u>	<u>1,751,859</u>	<u>1,769,554</u>
NET ASSETS			
Invested in capital assets, net of related debt	855,668	1,809,361	2,665,029
Restricted	49,580	195,049	244,629
Unrestricted	244,076	162,960	407,036
TOTAL NET ASSETS	<u>\$ 1,149,324</u>	<u>\$ 2,167,370</u>	<u>\$ 3,316,694</u>

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

CITY OF REDWATER, TEXAS
Statement of Activities
For the Year Ended September 30, 2009

	Expenses		Program Revenues		Net Expenses, Revenues and	
			Charges for Services	Operating Grants & Contributions	Governmental Activities	Business Activities
Governmental Activities:						
General government	\$ 156,218	\$ 28,522	\$ 16,443	\$ -	\$ (111,253)	\$ -
Public safety	6,000	5,500	-	-	(500)	(500)
Total Governmental Activities	162,218	34,022	16,443	-	(111,753)	(111,753)
Business-type Activities:						
Water	797,105	502,970	-	-	-	(294,135)
Sewer	-	83,673	-	-	-	83,673
Late charges	-	30,099	-	-	-	30,099
Tapping/transfer/tampering	-	13,445	-	-	-	13,445
Line extensions/bore charges	-	4,801	-	-	-	4,801
Other fees	-	5,451	-	-	-	5,451
Miscellaneous	-	4,441	-	-	-	4,441
Total Business-type Activities	797,105	644,880	-	-	(152,225)	(152,225)
Total	\$ 959,323	\$ 678,902	\$ 16,443	\$ -	\$ (111,753)	\$ (111,753)
General Revenues:						
Sales and use taxes					\$ 47,324	\$ 47,324
Property taxes					37,804	37,804
Franchise taxes					22,603	22,603
Gain(loss) on sale of asset					-	400
Interest					1,370	1,589
Total General Revenues and Transfers					109,101	111,090
Change in Net Assets					(2,652)	(152,888)
Net Assets, Beginning					1,151,976	3,469,582
Net Assets, Ending						

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

CITY OF REDWATER, TEXAS

Balance Sheet

Governmental Funds

September 30, 2009

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 110,023	\$ -	\$ 110,023
Certificates of deposit	55,782	-	55,782
Receivables, net allowances	6,940	-	6,940
Due from other funds	12	-	12
Restricted assets	-	49,580	49,580
Total Current Assets	172,757	49,580	222,337
Other Assets			
Investments-restricted		115,693	115,693
Total Other Assets	-	115,693	115,693
TOTAL ASSETS	\$ 172,757	\$ 165,273	\$ 338,030
LIABILITIES			
Current Liabilities			
Accounts payable	396	-	396
Notes payable	-	3,071	3,071
Accrued salaries and taxes	1,555	-	1,555
Due to other funds	42,411	12	42,423
Total Current Liabilities	44,362	3,083	47,445
TOTAL LIABILITIES	44,362	3,083	47,445
Fund Balances			
Restricted	-	49,580	49,580
Unrestricted	128,395	112,610	241,005
TOTAL FUND BALANCES	128,395	162,190	290,585
TOTAL LIABILITIES AND FUND BALANCES	\$ 172,757	\$ 165,273	\$ 338,030

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, 2009

Total Fund Balances - Governmental Funds	290,585
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(12,673)
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	1,119,324

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, 2009

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Property taxes, including penalty and interest	\$ 37,804	\$ -	\$ 37,804
Franchise taxes	22,603	-	22,603
Sales taxes	31,549	15,775	47,324
Intergovernmental	5,500	-	5,500
Refuse income	19,522	-	19,522
Rental income	9,000	-	9,000
Interest	1,326	44	1,370
Grant income	13,086	-	13,086
Miscellaneous	3,357	-	3,357
Total Revenues	<u>143,747</u>	<u>15,819</u>	<u>159,566</u>
Expenditures			
Current:			
General government			
Accounting and audit fees	1,620	-	1,620
Appraisal district fees	1,670	-	1,670
Beautification	943	-	943
Dues and subscriptions	961	-	961
Grant expense	4,478	-	4,478
Insurance	6,258	-	6,258
Legal and filing fees	1,332	-	1,332
Office supplies and expenses	2,765	-	2,765
Repairs and maintenance	30,494	-	30,494
Retirement	1,169	-	1,169
Salaries	29,362	-	29,362
Taxes-payroll	648	-	648
Telephone	2,150	-	2,150
Travel and mileage	1,003	-	1,003
Utilities	2,854	-	2,854
Miscellaneous	3,871	1,814	5,685
Public safety	6,000	-	6,000
Public works	62,593	-	62,593
Debt service:			
Interest and other charges	-	233	233
Total Expenditures	<u>160,171</u>	<u>2,047</u>	<u>162,218</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, 2009

	General Fund	Special Revenue Fund	Total Governmental Funds
Excess (Deficiency) of Revenues Over Expenditures	(16,424)	13,772	(2,652)
Net Change in Fund Balances	(16,424)	13,772	(2,652)
Fund Balances, Beginning	144,819	148,418	293,237
Fund Balances, Ending	<u>\$ 128,395</u>	<u>\$ 162,190</u>	<u>\$ 290,585</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, 2009

Net Change in Fund Balances - Total Governmental Funds **\$ (2,652)**

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. -

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. -

Change in Net Assets - Governmental Activities

\$ (2,652)

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, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes, including penalty and interest	\$ 36,000	\$ 37,804	\$ 1,804
Franchise taxes	22,000	22,603	603
Sales taxes	29,000	31,549	2,549
Intergovernmental	6,000	5,500	(500)
Refuse income	14,000	19,522	5,522
Rental income	9,000	9,000	-
Interest	250	1,326	1,076
Grant income	14,000	13,086	(914)
Miscellaneous	2,800	3,357	557
Total Revenues	<u>133,050</u>	<u>143,747</u>	<u>10,697</u>
Expenditures			
General government	64,050	91,578	(27,528)
Public safety	6,000	6,000	-
Public works	49,000	62,593	(13,593)
Total Expenditures	<u>119,050</u>	<u>160,171</u>	<u>(41,121)</u>
Excess of revenues and other financing sources over expenditures	<u>14,000</u>	<u>(16,424)</u>	<u>(30,424)</u>
Fund balance, beginning of year		<u>144,819</u>	
Fund balance, end of year		<u>\$ 128,395</u>	

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

CITY OF REDWATER, TEXAS
Statement of Net Assets
Proprietary Fund
September 30, 2009

		Water & Sewer Fund
ASSETS		
Current Assets:		
Cash and cash equivalents	\$	56,233
Certificates of deposit		13,998
Receivables, net		56,824
Unbilled receivables		16,905
Due from other funds		42,411
		42,411
Total Current Assets		186,371
Noncurrent Assets:		
Restricted cash and cash equivalents		289,256
Restricted receivables		187
Deferred issuance costs		40,033
Capital assets:		
Land		25,331
Buildings		37,858
Furniture and equipment		19,976
Equipment and tools		246,818
Pumps and equipment		217,910
Lines and storage		2,296,545
Water meters		146,634
Sewer systems		2,201,949
Less accumulated depreciation		(1,789,639)
		(1,789,639)
Total Noncurrent Assets		3,732,858
TOTAL ASSETS		3,919,229

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

CITY OF REDWATER, TEXAS
Statement of Net Assets
Proprietary Fund
September 30, 2009

		Water & Sewer Fund
LIABILITIES		
Current Liabilities:		
Accounts payable	51,254	
Accrued salaries and taxes	12,190	
Accrued interest payable	21,636	
Certificates, revenue bonds payable-current	33,053	
Total Current Liabilities		118,133
Noncurrent Liabilities:		
Certificates, revenue bonds payable	1,560,968	
Utility deposits-payable from restricted assets	72,758	
Total Noncurrent Liabilities		1,633,726
TOTAL LIABILITIES		1,751,859
NET ASSETS		
Invested in capital assets, net of related debt	1,809,361	
Restricted	195,049	
Unrestricted	162,960	
TOTAL NET ASSETS		2,167,370

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, 2009

	Water & Sewer Fund
OPERATING REVENUES	
Water sales	\$ 502,970
Sewer sales	83,673
Tapping fees	10,730
Transfer fees	2,565
Line extensions	3,601
Bore charges	1,200
Inspection fee	390
Late charges	18,468
Reconnect/reinstall fees	10,340
Returned check fee	1,291
Sewer dump fees	5,061
Tampering fees	150
Miscellaneous	4,441
	644,880
OPERATING EXPENSES	
Accounting	9,044
Amortization	1,892
Bad debt expense	6,677
Chemicals	14,442
Contract backhoe	2,550
Contract labor	1,466
Depreciation	207,945
Dues and memberships	643
Employee expenses	1,470
Engineering services	5,369
Equipment repairs and maintenance	4,013
Equipment supplies	3,461
Insurance	23,016
Legal and advertising	1,381
Meter replacements	3,103
Mileage	127
Miscellaneous	957
Office supplies and expense	6,848
Permits, licenses, and fees	2,569
Postage	5,572

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, 2009

**Water & Sewer
Fund**

OPERATING EXPENSES (Continued)

Radio expense	981
Refuse	1,679
Rent - building	9,000
Rent - equipment	2,986
Repairs and maintenance	22,078
Retirement	5,698
Salaries	152,857
Special services	50
Supplies - operating	32,735
Taxes - payroll	11,961
Telephone	3,981
Testing service	11,780
Tools	2,404
Training	6,206
Uniforms	2,868
Utilities	38,630
Vehicle repairs	2,326
Vehicle supplies	9,616
Water purchases	109,745
Total Operating Expenses	<u>730,126</u>
Operating Income (Loss)	<u>(85,246)</u>
Non-operating Revenues (Expenses)	
Gain on sale of asset	400
Grant income	-
Interest income	1,589
Interest expense	(66,579)
Paying agent fees	(400)
Net Non-operating Revenues (Expenses)	<u>(64,990)</u>
Change in Net Assets	(150,236)
Total Net Assets - Beginning	<u>2,317,606</u>
Total Net Assets - Ending	<u>\$ 2,167,370</u>

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, 2009

Cash flows from operating activities:		
Receipts from customers	\$ 640,266	
Payments to suppliers	(354,849)	
Payments to employees	(157,739)	
Net cash provided by operating activities		<u>127,678</u>
Cash flows from capital and related financing activities:		
Proceeds from the sale of asset	400	
Principal paid on revenue bonds	(14,000)	
Interest paid on revenue bonds	(48,748)	
Acquisition of capital assets	(55,607)	
Principal paid on certificates of obligations	(16,711)	
Interest paid on certificates of obligations	(18,138)	
Fees paid to paying agent	(400)	
Net cash used by capital and related financing activities		<u>(153,204)</u>
Cash flows from investing activities:		
Purchase of certificates of deposit	(488)	
Interest on investments	1,674	
Net cash provided by investing activities		<u>1,186</u>
Net decrease in cash and cash equivalents		(24,340)
Cash and cash equivalents - beginning of year		<u>369,829</u>
Cash and cash equivalents - end of year		<u>345,489</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)		\$ (85,246)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	207,945	
Amortization	1,892	
Change in assets and liabilities:		
Increase in accounts receivable	(3,817)	
Increase in payroll liabilities	7,079	
Decrease in customer deposits payable	(797)	
Increase in accounts payable	622	
Total adjustments		<u>212,924</u>
Net cash provided by operating activities		<u>\$ 127,678</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, 2009

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, 2009

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, 2009

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, 2009

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, 2009

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, 2009

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, 2008 until October 1, 2009.

<u>Coverage Provided</u>	<u>Limits or Amounts</u>
Real and Personal Property	\$ 2,270,803 Limit
Boiler and Machinery	\$ 1,000,000 Limit
Mobile Equipment	\$ 94,004 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, 2009, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$574,871 and the bank balance was \$580,578.

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, 2009, \$11,145 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, 2009

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, 2009 are as follows:

<u>Type of Restrictd Asset</u>	<u>Governmental Activities</u>	<u>Business-type Activites</u>	<u>Total</u>
Deposits	\$ -	\$ 72,758	\$ 72,758
TWDB Construction Fund	-	59,623	59,623
Maintenance Fund	-	29,052	29,052
Bond Reserve Fund	-	8,598	8,598
2003 Debt Service Fund	-	46,806	46,806
2005 Debt Service Fund	-	39,426	39,426
Industrial Development	49,580	-	49,580
Maintenance Fund - Investments	-	32,993	32,993
Interest Receivable	-	187	187
Total Restricted Assets	\$ 49,580	\$ 289,443	\$ 339,023

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2009

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, 2009, was as follows:

Business-type activities

	Balance 10/01/08	Additions	Deletions	Balance 9/30/09
Building	\$ 37,858	\$ -	\$ -	\$ 37,858
Office furniture and equipment	19,976	-	-	19,976
Equipment and tools	231,617	15,201	-	246,818
Pumps and treatment	202,559	15,351	-	217,910
Lines and storage	2,280,208	16,337	-	2,296,545
Water meters	145,740	894	-	146,634
Sewer system	2,194,125	7,824	-	2,201,949
Land	25,331	-	-	25,331
Total	\$ 5,137,414	\$ 55,607	\$ -	\$ 5,193,021

Business-type activities - accumulated depreciation

	Balance 10/01/08	Additions	Deletions	Balance 9/30/09
Building	\$ 22,402	\$ 1,783	\$ -	\$ 24,185
Office furniture and equipment	12,325	2,497	-	14,822
Equipment and tools	156,905	24,112	-	181,017
Pumps and treatment	84,463	11,469	-	95,932
Lines and storage	597,278	70,327	-	667,605
Water meters	78,748	11,473	-	90,221
Sewer system	629,573	86,284	-	715,857
Total	\$ 1,581,694	\$ 207,945	\$ -	\$ 1,789,639

Business-type activities capital assets, net

\$ 3,403,382

Governmental activities

	Balance 10/01/08	Additions	Deletions	Balance 9/30/09
Buildings	\$ 87,700	\$ -	\$ -	\$ 87,700
Office furniture and equipment	17,965	-	-	17,965
Equipment and tools	23,269	-	-	23,269
Park facilities	596,156	-	-	596,156
Land	13,322	-	-	13,322
Park land	133,000	-	-	133,000
Total	\$ 871,412	\$ -	\$ -	\$ 871,412

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2009

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

4. Accounts Receivable

The accounts receivable for September 30, 2009 are as follows:

<u>Accounts Receivable</u>	<u>Governmental Activities</u>	<u>Business-type Activites</u>	<u>Total</u>
Franchise Tax	\$ 4,746	\$ -	\$ 4,746
Property Tax	14,056	-	14,056
Interest	144	127	271
Grant	1,473	-	1,473
Customer	-	61,323	61,323
Other	-	751	751
Allowance for doubtful accounts	<u>(13,479)</u>	<u>(5,377)</u>	<u>(18,856)</u>
Total Accounts Receivable	<u>\$ 6,940</u>	<u>\$ 56,824</u>	<u>\$ 63,764</u>

5. Bonds Payable

Bonds payable at September 30, 2009, 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.	\$ 21,021
\$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%.	564,000
\$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%.	569,000
\$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>440,000</u>
Total Bonds Payable	<u>\$1,594,021</u>
Current portions of the long term bonds payable total	\$33,053

CITY OF REDWATER, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2009

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, 2009:

<u>Type of Debt</u>	<u>Balance Sept 30, 2008</u>	<u>Addition s</u>	<u>Deductions</u>	<u>Balance Sept 30, 2009</u>	<u>Amounts Due Within</u>
Business-type Activities					
Certificate of Obligations	\$ 477,732	\$ -	\$ 16,711	\$ 461,021	\$ 17,053
Revenue Bonds	1,147,000	-	14,000	1,133,000	16,000
Total Long-term Debt	\$ 1,624,732	\$ -	\$ 30,711	\$ 1,594,021	\$ 33,053

The annual requirements to amortize notes of obligation as of September 30, 2009, are as follows:

Year Ending September 30	1989 Series		2003 Series		2005 Series		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
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	6,554	153	-	-	-	-	6,707
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	\$21,021	\$1,574	\$ 1,133,000	\$ 1,029,860	\$440,000	\$ 177,780	\$2,803,235

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, 2009

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.



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**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, 2009, which collectively comprise the City of Redwater, Texas' basic financial statements and have issued our report thereon dated April 29, 2010. 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.

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.

Williams & Co., P.C.

Texarkana, USA
April 29, 2010