

**CITY OF REDWATER, TEXAS**

**Annual Financial Report  
For the Year Ended September 30, 2010**

**CITY OF REDWATER, TEXAS**  
**Annual Financial Report**  
**For the Year Ended September 30, 2010**

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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, 2010, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Redwater, Texas, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, 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 22, 2011, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Redwater, Texas's financial statements as a whole. 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 financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on them.



Williams & Co., P.C.

Texarkana, USA

April 22, 2011

**CITY OF REDWATER, TEXAS**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2010**

**-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, 2010. 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 2010 by \$3,550,832. Of this amount, \$507,250 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 \$1,052,916 and combined total expenses were \$818,779. Therefore, there was an increase in net assets of \$234,137.

The general fund reported a positive fund balance of \$181,223. The general fund balance at September 30, 2009, was \$128,395.

**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, 2010.

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, 2010**

**-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, 2010**

**-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 & p10) of the City's governmental activities and business-type activities. Overall, the City's assets exceeded liabilities by \$3,550,832 at the close of the September 30, 2010, fiscal year end.

The net assets of the City's governmental activities increased by 5.8 percent (\$1,216,510 compared to \$1,149,324). 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 \$244,076 in 2009 to \$296,903 in 2010, an increase of 21.6 percent. The net assets of our business-type activities increased by 7.7 percent (\$2,334,322 compared to \$2,167,370).

The cost of all government-wide activities this year was \$818,779. 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 \$124,242 because some of the costs were paid by those who directly benefited from the programs (\$694,537). For the 2009 fiscal year, the cost of all governmental activities was \$959,323.

**Governmental Activities**

The increase in the change in net assets from 2009 to 2010 of \$69,838 is mainly due to the decrease of general government expense of \$69,786 or 43.0 percent. The other factor is the increase of revenue of \$52.

**CITY OF REDWATER, TEXAS**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2010**

**-UNAUDITED-**

**Business-type Activities**

The increase in the change in net assets from 2009 to 2010 of \$317,188 is due to the difference in grant revenue. There was an increase from \$0 in 2009 to \$236,206 in 2010. Another explanation of the increase in the change in net assets is the 8.9 percent decrease in expenses, largely due to the decrease in repairs and maintenance, salaries, supplies and water purchases.

**The City's Funds**

As of September 30, 2010, the governmental funds reported a combined ending fund balance of \$354,584, an increase of \$63,999, from the prior year. Of the ending fund balance, \$60,876 was restricted.

The General Fund reported a fund balance of \$181,223, all of which was considered unrestricted.

**Debt Administration**

At year-end, the city had outstanding bonds and certificates of obligation totaling \$1,530,967, which is a decrease of \$63,054 from the September 30, 2009 balance.

**Outstanding Debt at Year-end**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Certificate of Obligations	\$ -	\$ -	\$ 413,967	\$ 461,021	\$ 413,967	\$ 461,021
Bonds Payable	-	-	1,117,000	1,133,000	1,117,000	1,133,000
Notes Payable	12,682	15,744	-	-	12,682	15,744
	<u>\$12,682</u>	<u>\$15,744</u>	<u>\$1,530,967</u>	<u>\$1,594,021</u>	<u>\$1,543,649</u>	<u>\$1,609,765</u>



**CITY OF REDWATER, TEXAS**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2010**

**-UNAUDITED-**

**Capital Assets**

At September 30, 2010, the City had \$4,314,099 invested in a broad range of capital assets, including facilities, equipment, and land. This amount represents a net increase of \$39,305, or 0.9 percent (see Table III, p11).

This year's major additions included:

Equipment	\$ 15,590
Pumps & treatment	4,954
Lines & storage	375
Office furniture and equipment	1,905
Water meters	570
Construction in progress- sewer	<u>227,737</u>
	<u>\$ 251,131</u>

This year's major deletions included:

Pumps & treatment	\$ 5,058
	<u>\$ 5,058</u>

Depreciation expense for the year ended September 30, 2010 was \$207,731.

**Budget and Actual Revenues and Expenses**

The variance between budgeted and actual revenues for the General Fund is a negative \$440. The variance between budgeted and actual expenditures is a positive \$53,268.

**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**

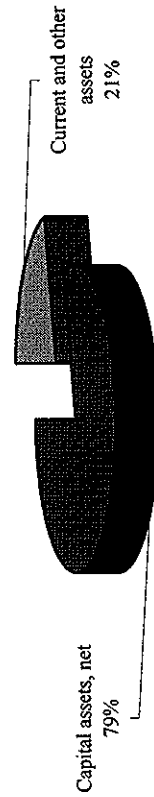
This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, 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, 2010**

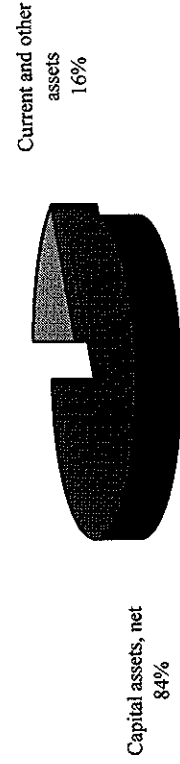
- UNAUDITED -

**Table I  
NET ASSETS**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 362,933	\$ 295,607	\$ 749,680	\$ 515,847	\$ 1,112,613	\$ 811,454
Capital assets, net	871,412	871,412	3,442,687	3,403,382	4,314,099	4,274,794
Total assets	1,234,345	1,167,019	4,192,367	3,919,229	5,426,712	5,086,248
Long-term liabilities	9,486	12,673	1,756,115	1,633,726	1,765,601	1,646,399
Other liabilities	8,349	5,022	101,930	118,133	110,279	123,155
Total liabilities	17,835	17,695	1,858,045	1,751,859	1,875,880	1,769,554
Net assets:						
Invested in capital assets, net of related debt	858,731	855,668	1,911,720	1,809,361	2,770,451	2,665,029
Restricted	60,876	49,580	212,255	195,049	273,131	244,629
Unrestricted	296,903	244,076	210,347	162,960	507,250	407,036
Total net assets	<u>\$1,216,510</u>	<u>\$1,149,324</u>	<u>\$2,334,322</u>	<u>\$2,167,370</u>	<u>\$3,550,832</u>	<u>\$3,316,694</u>



**2010 TOTAL ASSETS**



**2009 TOTAL ASSETS**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
 CITY OF REDWATER, TEXAS  
 For the Year Ended September 30, 2010

- UNAUDITED -

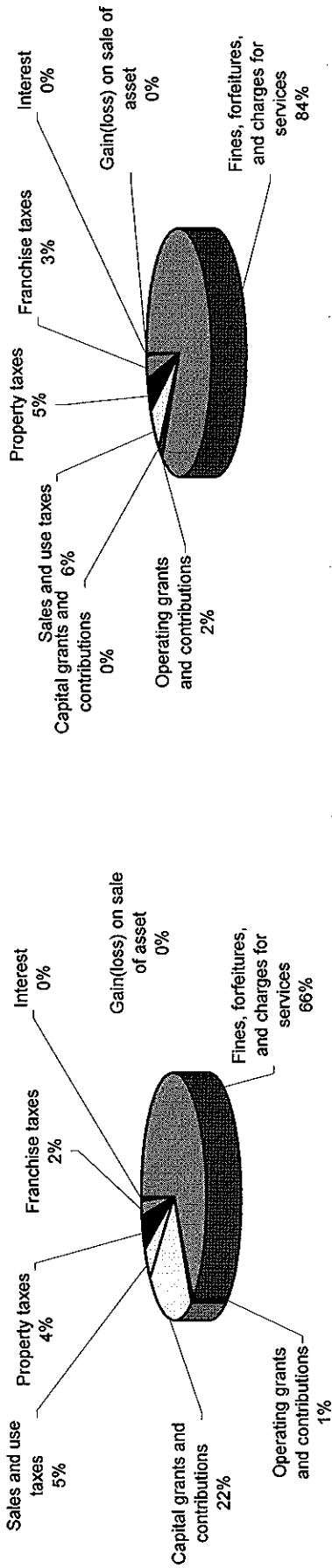
Table II  
 CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
Program revenues:						
Fines, forfeitures, and charges for services	\$ 34,302	\$ 34,022	\$ 660,235	\$ 644,880	\$ 694,537	\$ 678,902
Operating grants and contributions	9,864	16,443	-	-	9,864	16,443
Capital grants and contributions	-	-	236,206	-	236,206	-
General revenues:						
Sales and use taxes	47,790	47,324	-	-	47,790	47,324
Property taxes	44,895	37,804	-	-	44,895	37,804
Franchise taxes	22,045	22,603	-	-	22,045	22,603
Gain(loss) on sale of asset	-	-	(4,095)	400	(4,095)	400
Interest	722	1,370	952	1,589	1,674	2,959
Total revenues	159,618	159,566	893,298	646,869	1,052,916	806,435
<b>Expenses:</b>						
General government	86,432	156,218	-	-	86,432	156,218
Public safety	6,000	6,000	-	-	6,000	6,000
Water	-	-	726,346	797,105	726,346	797,105
Total expenses	92,432	162,218	726,346	797,105	818,778	959,323
Transfers	-	-	-	-	-	-
Change in net assets	\$ 67,186	\$ (2,652)	\$ 166,952	\$ (150,236)	\$ 234,138	\$ (152,888)

MANAGEMENT'S DISCUSSION AND ANALYSIS  
 CITY OF REDWATER, TEXAS  
 For the Year Ended September 30, 2010

- UNAUDITED -

Table II  
 CHART A - TOTAL REVENUES



2010

2009

Table II  
 CHART B - TOTAL EXPENSES



2010

2009

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**CITY OF REDWATER, TEXAS**  
**For the Year Ended September 30, 2010**

- UNAUDITED -

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land	\$ 146,322	\$ 146,322	\$ 25,331	\$ 25,331	\$ 171,653	\$ 171,653
Construction in process	-	-	227,737	-	227,737	-
Building	87,700	87,700	12,430	13,673	100,130	101,373
Office furniture and equipment	17,965	17,965	5,105	5,154	23,070	23,119
Equipment and tools	23,269	23,269	57,313	65,801	80,582	89,070
Park facilities	596,156	596,156	-	-	596,156	596,156
Pumps and equipment	-	-	110,326	121,978	110,326	121,978
Lines and storage	-	-	1,558,565	1,628,940	1,558,565	1,628,940
Water meters	-	-	45,443	56,413	45,443	56,413
Sewer systems	-	-	1,400,437	1,486,092	1,400,437	1,486,092
	<u>\$ 871,412</u>	<u>\$ 871,412</u>	<u>\$ 3,442,687</u>	<u>\$ 3,403,382</u>	<u>\$ 4,314,099</u>	<u>\$ 4,274,794</u>

**BASIC FINANCIAL STATEMENTS**

**CITY OF REDWATER, TEXAS**  
**Statement of Net Assets**  
**September 30, 2010**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 177,351	\$ 80,903	\$ 258,254
Certificates of deposit	45,089	14,229	59,318
Accounts receivable, net of allowances	6,222	248,785	255,007
Unbilled receivables	-	18,734	18,734
Due from other funds	(42,298)	42,298	-
Restricted assets	60,876	306,589	367,465
<b>Total Current Assets</b>	<b>247,240</b>	<b>711,538</b>	<b>958,778</b>
<b>Other Assets</b>			
Deferred issuance costs	-	38,142	38,142
Other investments - restricted	115,693	-	115,693
<b>Total Other Assets</b>	<b>115,693</b>	<b>38,142</b>	<b>153,835</b>
<b>Capital Assets</b>			
Land	146,322	25,331	171,653
Construction in Process, net	-	227,737	227,737
Buildings, net	87,700	12,430	100,130
Furniture and equipment, net	17,965	5,105	23,070
Equipment and tools, net	23,269	57,313	80,582
Park facilities, net	596,156	-	596,156
Pumps and equipment, net	-	110,326	110,326
Lines and storage, net	-	1,558,565	1,558,565
Water meters, net	-	45,443	45,443
Sewer systems, net	-	1,400,437	1,400,437
<b>Total Capital Assets</b>	<b>871,412</b>	<b>3,442,687</b>	<b>4,314,099</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,234,345</b>	<b>\$ 4,192,367</b>	<b>\$ 5,426,712</b>

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

**CITY OF REDWATER, TEXAS**  
**Statement of Net Assets**  
**September 30, 2010**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	3,052	38,654	41,706
Accrued salaries and taxes	2,101	8,986	11,087
Accrued interest payable	-	20,876	20,876
Notes payable - current	3,196	-	3,196
Contracts payable	-	167,739	167,739
Retainage payable	-	17,365	17,365
Certificates, revenue bonds payable - current	-	33,414	33,414
<b>Total Current Liabilities</b>	<b>8,349</b>	<b>287,034</b>	<b>295,383</b>
<b>Noncurrent Liabilities</b>			
Utility deposits - payable from restricted	-	73,458	73,458
Notes payable	9,486	-	9,486
Certificates, revenue bonds payable	-	1,497,553	1,497,553
<b>Total Noncurrent Liabilities</b>	<b>9,486</b>	<b>1,571,011</b>	<b>1,580,497</b>
<b>TOTAL LIABILITIES</b>	<b>17,835</b>	<b>1,858,045</b>	<b>1,875,880</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	858,731	1,911,720	2,770,451
Restricted	60,876	212,255	273,131
Unrestricted	296,903	210,347	507,250
<b>TOTAL NET ASSETS</b>	<b>\$ 1,216,510</b>	<b>\$ 2,334,322</b>	<b>\$ 3,550,832</b>

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



**CITY OF REDWATER, TEXAS**  
**Statement of Activities**  
**For the Year Ended September 30, 2010**

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
<b>Governmental Activities:</b>							
General government	\$ 86,432	\$ 27,802	\$ 9,864	\$ -	\$ (48,766)	\$ -	\$ (48,766)
Public safety	6,000	6,500	-	-	500	-	500
<b>Total Governmental Activities</b>	<b>92,432</b>	<b>34,302</b>	<b>9,864</b>	<b>-</b>	<b>(48,266)</b>	<b>-</b>	<b>(48,266)</b>
<b>Business-type Activities:</b>							
Water	726,346	512,705	-	-	-	(213,641)	(213,641)
Grant	-	-	-	236,206	-	236,206	236,206
Sewer	-	96,099	-	-	-	96,099	96,099
Late charges	-	26,530	-	-	-	26,530	26,530
Tapping/transfer/tampering	-	4,990	-	-	-	4,990	4,990
Line extensions/bore charges	-	4,947	-	-	-	4,947	4,947
Other fees	-	7,271	-	-	-	7,271	7,271
Miscellaneous	-	7,693	-	-	-	7,693	7,693
<b>Total Business-type Activities</b>	<b>726,346</b>	<b>660,235</b>	<b>-</b>	<b>236,206</b>	<b>-</b>	<b>170,095</b>	<b>170,095</b>
<b>Total</b>	<b>\$ 818,778</b>	<b>\$ 694,537</b>	<b>\$ 9,864</b>	<b>\$ 236,206</b>	<b>\$ (48,266)</b>	<b>\$ 170,095</b>	<b>\$ 121,829</b>
<b>General Revenues:</b>							
Sales and use taxes					\$ 47,790	\$ -	\$ 47,790
Property taxes					44,895	-	44,895
Franchise taxes					22,045	-	22,045
Gain(loss) on sale of asset					-	(4,095)	(4,095)
Interest					722	952	1,674
<b>Total General Revenues and Transfers</b>					<b>115,452</b>	<b>(3,143)</b>	<b>112,309</b>
<b>Change in Net Assets</b>					<b>67,186</b>	<b>166,952</b>	<b>234,138</b>
<b>Net Assets, Beginning</b>					<b>1,149,324</b>	<b>2,167,370</b>	<b>3,316,694</b>
<b>Net Assets, Ending</b>					<b>\$ 1,216,510</b>	<b>\$ 2,334,322</b>	<b>\$ 3,550,832</b>

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

**CITY OF REDWATER, TEXAS**

**Balance Sheet**

**Governmental Funds**

**September 30, 2010**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 177,351	\$ -	\$ 177,351
Certificates of deposit	45,089	-	45,089
Receivables, net allowances	6,222	-	6,222
Due from other funds	12	-	12
Restricted assets	-	60,876	60,876
<b>Total Current Assets</b>	<b>228,674</b>	<b>60,876</b>	<b>289,550</b>
<b>Other Assets</b>			
Investments-restricted	-	115,693	115,693
<b>Total Other Assets</b>	<b>-</b>	<b>115,693</b>	<b>115,693</b>
<b>TOTAL ASSETS</b>	<b>\$ 228,674</b>	<b>\$ 176,569</b>	<b>\$ 405,243</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	3,052	-	3,052
Notes payable	-	3,196	3,196
Accrued salaries and taxes	2,101	-	2,101
Due to other funds	42,298	12	42,310
<b>Total Current Liabilities</b>	<b>47,451</b>	<b>3,208</b>	<b>50,659</b>
<b>TOTAL LIABILITIES</b>	<b>47,451</b>	<b>3,208</b>	<b>50,659</b>
<b>Fund Balances</b>			
Restricted	-	60,876	60,876
Unrestricted	181,223	112,485	293,708
<b>TOTAL FUND BALANCES</b>	<b>181,223</b>	<b>173,361</b>	<b>354,584</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 228,674</b>	<b>\$ 176,569</b>	<b>\$ 405,243</b>

**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, 2010**

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<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 354,584</b>
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(9,486)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>871,412</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 1,216,510</u></b>

**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, 2010**

	General Fund	Special Revenue Fund	Total Governmental Funds
<b>Revenues</b>			
Property taxes, including penalty and interest	\$ 44,895	\$ -	\$ 44,895
Franchise taxes	22,045	-	22,045
Sales taxes	31,860	15,930	47,790
Intergovernmental	6,500	-	6,500
Refuse income	18,802	-	18,802
Rental income	9,000	-	9,000
Interest	667	55	722
Grant income	5,387	-	5,387
Miscellaneous	4,477	-	4,477
<b>Total Revenues</b>	<u>143,633</u>	<u>15,985</u>	<u>159,618</u>
<b>Expenditures</b>			
Current:			
General government			
Accounting and audit fees	1,976	186	2,162
Appraisal district fees	1,294	-	1,294
Beautification	1,377	-	1,377
Grant expense	5,661	-	5,661
Insurance	6,232	-	6,232
Legal and filing fees	624	-	624
Office supplies and expenses	3,892	-	3,892
Repairs and maintenance	2,242	-	2,242
Retirement	1,330	-	1,330
Salaries	32,627	-	32,627
Taxes-payroll	155	-	155
Telephone	2,081	-	2,081
Utilities	2,910	-	2,910
Miscellaneous	6,252	985	7,237
Public safety	6,000	-	6,000
Public works	16,152	-	16,152
Debt service:			
Interest and other charges	-	456	456
<b>Total Expenditures</b>	<u>90,805</u>	<u>1,627</u>	<u>92,432</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, 2010**

	General Fund	Special Revenue Fund	Total Governmental Funds
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	52,828	14,358	67,186
<b>Net Change in Fund Balances</b>	52,828	14,358	67,186
<b>Fund Balances, Beginning</b>	128,395	159,003	287,398
<b>Fund Balances, Ending</b>	<u>\$ 181,223</u>	<u>\$ 173,361</u>	<u>\$ 354,584</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, 2010**

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**Net Change in Fund Balances - Total Governmental Funds** **\$ 67,186**

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** **\$ 67,186**

**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, 2010**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Property taxes, including penalty and interest	\$ 43,703	\$ 44,895	\$ 1,192
Franchise taxes	23,000	22,045	(955)
Sales taxes	42,000	31,860	(10,140)
Intergovernmental	6,000	6,500	500
Refuse income	18,000	18,802	802
Rental income	9,000	9,000	-
Interest	150	667	517
Grant income	-	5,387	5,387
Miscellaneous	2,220	4,477	2,257
<b>Total Revenues</b>	<u>144,073</u>	<u>143,633</u>	<u>(440)</u>
<b>Expenditures</b>			
General government	98,713	68,653	30,060
Public safety	6,000	6,000	-
Public works	39,360	16,152	23,208
<b>Total Expenditures</b>	<u>144,073</u>	<u>90,805</u>	<u>53,268</u>
Excess of revenues and other financing sources over expenditures	<u>-</u>	<u>52,828</u>	<u>52,828</u>
Fund balance, beginning of year		<u>128,395</u>	
Fund balance, end of year		<u>\$ 181,223</u>	

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

**CITY OF REDWATER, TEXAS**  
**Statement of Net Assets**  
**Proprietary Fund**  
**September 30, 2010**

		<b>Water &amp; Sewer Fund</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 80,903	
Certificates of deposit	14,229	
Receivables, net	248,785	
Unbilled receivables	18,734	
Due from other funds	42,298	
<b>Total Current Assets</b>		<b>404,949</b>
<b>Noncurrent Assets:</b>		
Restricted cash and cash equivalents	306,585	
Restricted receivables	4	
Deferred issuance costs	38,142	
Capital assets:		
Land	25,331	
Construction in Process	227,737	
Buildings	37,858	
Furniture and equipment	21,881	
Equipment and tools	262,408	
Pumps and equipment	217,806	
Lines and storage	2,296,920	
Water meters	147,204	
Sewer systems	2,201,949	
Less accumulated depreciation	(1,996,407)	
<b>Total Noncurrent Assets</b>		<b>3,787,418</b>
<b>TOTAL ASSETS</b>		<b>4,192,367</b>

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



**CITY OF REDWATER, TEXAS**  
**Statement of Net Assets**  
**Proprietary Fund**  
**September 30, 2010**

		<b>Water &amp; Sewer Fund</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts payable	38,654	
Accrued salaries and taxes	8,986	
Accrued interest payable	20,876	
Contracts payable	167,739	
Retainage payable	17,365	
Certificates, revenue bonds payable-current	33,414	
<b>Total Current Liabilities</b>		<b>287,034</b>
<b>Noncurrent Liabilities:</b>		
Certificates, revenue bonds payable	1,497,553	
Utility deposits-payable from restricted assets	73,458	
<b>Total Noncurrent Liabilities</b>		<b>1,571,011</b>
<b>TOTAL LIABILITIES</b>		<b>1,858,045</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	1,911,720	
Restricted	212,255	
Unrestricted	210,347	
<b>TOTAL NET ASSETS</b>		<b>\$ 2,334,322</b>

**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, 2010**

	<b>Water &amp; Sewer Fund</b>
<b>OPERATING REVENUES</b>	
Water sales	\$ 512,705
Sewer sales	96,099
Tapping fees	2,550
Transfer fees	2,340
Line extensions	4,647
Bore charges	300
Inspection fee	225
Late charges	18,010
Reconnect/reinstall fees	8,520
Returned check fee	823
Sewer dump fees	6,223
Tampering fees	100
Miscellaneous	7,693
	660,235
<b>Total Operating Revenues</b>	
<b>OPERATING EXPENSES</b>	
Accounting	9,244
Amortization	1,892
Bad debt expense	3,585
Chemicals	13,454
Contract backhoe	300
Contract labor	2,325
Contract maintenance	2,251
Depreciation	207,731
Dues and memberships	445
Employee expenses	754
Equipment repairs and maintenance	5,797
Equipment supplies	2,918
Insurance	22,527
Legal and advertising	1,931
Meter replacements	1,161
Miscellaneous	20
Office supplies and expense	3,655
Permits, licenses, and fees	5,358
Postage	4,918

**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, 2010**

	<b>Water &amp; Sewer Fund</b>
<b>OPERATING EXPENSES (Continued)</b>	
Radio expense	720
Refuse	2,822
Rent - building	9,000
Rent - equipment	797
Repairs and maintenance	12,895
Retirement	5,763
Salaries	144,070
Supplies - operating	19,554
Taxes - payroll	12,144
Telephone	4,878
Testing service	9,335
Tools	2,160
Training	4,658
Uniforms	2,149
Utilities	32,638
Vehicle repairs	4,316
Vehicle supplies	15,112
Water purchases	88,586
	661,863
<b>Total Operating Expenses</b>	<b>661,863</b>
<b>Operating Income (Loss)</b>	<b>(1,628)</b>
<b>Non-operating Revenues (Expenses)</b>	
Loss on sale of asset	(4,095)
Grant income	236,206
Interest income	952
Interest expense	(64,183)
Paying agent fees	(300)
	168,580
<b>Net Non-operating Revenues (Expenses)</b>	<b>168,580</b>
<b>Change in Net Assets</b>	<b>166,952</b>
<b>Total Net Assets - Beginning</b>	<b>2,167,370</b>
<b>Total Net Assets - Ending</b>	<b>\$ 2,334,322</b>

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, 2010**

<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 467,258	
Payments to suppliers	(309,230)	
Payments to employees	(159,418)	
<b>Net cash provided by operating activities</b>		<b>(1,390)</b>
<b>Cash flows from capital and related financing activities:</b>		
Grant contribution	236,206	
Loss on sale of asset	(4,095)	
Principal paid on revenue bonds	(16,000)	
Interest paid on revenue bonds	(48,152)	
Acquisition of capital assets	(246,074)	
Rest-contracts, retainage payable	185,104	
Principal paid on certificates of obligations	(47,415)	
Interest paid on certificates of obligations	(16,790)	
Fees paid to paying agent	(300)	
<b>Net cash used by capital and related financing activities</b>		<b>42,484</b>
<b>Cash flows from investing activities:</b>		
Purchase of certificates of deposit	(230)	
Interest on investments	1,135	
<b>Net cash provided by investing activities</b>		<b>905</b>
<b>Net decrease in cash and cash equivalents</b>		<b>41,999</b>
<b>Cash and cash equivalents - beginning of year</b>		<b>345,489</b>
<b>Cash and cash equivalents - end of year</b>		<b>\$ 387,488</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)		\$ (1,628)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	206,768	
Amortization	1,892	
Change in assets and liabilities:		
Increase in accounts receivable	(193,678)	
Decrease in payroll liabilities	(3,204)	
Increase in customer deposits payable	700	
Decrease in accounts payable	(12,240)	
<b>Total adjustments</b>		<b>238</b>
<b>Net cash provided by operating activities</b>		<b>\$ (1,390)</b>

**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, 2010**

**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, 2010**

**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, 2010**

**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, 2010**

**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, 2010**

**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, 2010**

**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, 2009 until October 1, 2010.

<u>Coverage Provided</u>	<u>Limits or Amounts</u>
Real and Personal Property	\$ 2,183,960 Limit
Boiler and Machinery	\$ 1,000,000 Limit
Mobile Equipment	\$ 89,819 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, 2010, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$685,033 and the bank balance was \$688,463.

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, 2010, none 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, 2010**

**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, 2010 are as follows:

<u>Type of Restrictd Asset</u>	<u>Governmental Activities</u>	<u>Business-type Activites</u>	<u>Total</u>
Deposits	\$ -	\$ 73,458	\$ 73,458
TCDP 726521	-	9,470	9,470
Maintenance Fund	-	47,090	47,090
Bond Reserve Fund	-	39,329	39,329
2003 Debt Service Fund	-	21,911	21,911
2005 Debt Service Fund	-	81,813	81,813
Industrial Development	60,876	-	60,876
Maintenance Fund - Investments	-	33,514	33,514
Interest Receivable	-	4	4
<b>Total Restricted Assets</b>	<b>\$ 60,876</b>	<b>\$ 306,589</b>	<b>\$ 367,465</b>

**CITY OF REDWATER, TEXAS**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2010**

**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, 2010, was as follows:

**Business-type activities**

	Balance 10/01/09	Additions	Deletions	Balance 9/30/10
Building	\$ 37,858	\$ -	\$ -	\$ 37,858
Office furniture and equipment	19,976	1,905	-	21,881
Equipment and tools	246,818	15,590	-	262,408
Pumps and treatment	217,910	4,954	5,058	217,806
Lines and storage	2,296,545	375	-	2,296,920
Water meters	146,634	570	-	147,204
Sewer system	2,201,949	-	-	2,201,949
Constuction in Process-Sewer	-	227,737	-	227,737
Land	25,331	-	-	25,331
<b>Total</b>	<b>\$ 5,193,021</b>	<b>\$ 251,131</b>	<b>\$ 5,058</b>	<b>\$ 5,439,094</b>

**Business-type activities - accumulated depreciation**

	Balance 10/01/09	Additions	Deletions	Balance 9/30/10
Building	\$ 24,185	\$ 1,243	\$ -	\$ 25,428
Office furniture and equipment	14,822	1,954	-	16,776
Equipment and tools	181,017	24,078	-	205,095
Pumps and treatment	95,932	12,511	963	107,480
Lines and storage	667,605	70,750	-	738,355
Water meters	90,221	11,540	-	101,761
Sewer system	715,857	85,655	-	801,512
<b>Total</b>	<b>\$ 1,789,639</b>	<b>\$ 207,731</b>	<b>\$ 963</b>	<b>\$ 1,996,407</b>

**Business-type activities capital assets, net**

**\$ 3,442,687**

**Governmental activities**

	Balance 10/01/09	Additions	Deletions	Balance 9/30/10
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
<b>Total</b>	<b>\$ 871,412</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 871,412</b>

**CITY OF REDWATER, TEXAS**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2010**

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

**4. Accounts Receivable**

The accounts receivable for September 30, 2010 are as follows:

<u>Accounts Receivable</u>	<u>Governmental Activities</u>	<u>Business-type Activites</u>	<u>Total</u>
Franchise Tax	\$ 5,760	\$ -	\$ 5,760
Property Tax	14,240	-	14,240
Interest	37	6	43
Grant	-	185,104	185,104
Customer	-	68,655	68,655
Other	-	814	814
Allowance for doubtful accounts	<u>(13,815)</u>	<u>(5,794)</u>	<u>(19,609)</u>
<b>Total Accounts Receivable</b>	<b><u>\$ 6,222</u></b>	<b><u>\$ 248,785</u></b>	<b><u>\$ 255,007</u></b>

**5. Bonds Payable**

Bonds payable at September 30, 2010, 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. \$ 13,967

\$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%. 556,000

\$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%. 561,000

\$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%. 400,000

Total Bonds Payable \$1,530,967

Current portions of the long term bonds payable total \$33,414

**CITY OF REDWATER, TEXAS**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2010**

**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, 2010:

Type of Debt	Balance Sept 30, 2009	Additions	Deductions	Balance Sept 30, 2010	Amounts Due Within
<b>Business-type Activities</b>					
Certificate of Obligations	\$ 461,021	\$ -	\$ 47,054	\$ 413,967	\$ 17,414
Revenue Bonds	1,133,000	-	16,000	1,117,000	16,000
<b>Total Long-term Debt</b>	<b>\$ 1,594,021</b>	<b>\$ -</b>	<b>\$ 63,054</b>	<b>\$ 1,530,967</b>	<b>\$ 33,414</b>

The annual requirements to amortize notes of obligation as of September 30, 2010, are as follows:

Year Ending September 30	1989 Series		2003 Series		2005 Series		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
2011	7,414	530	16,000	47,472	10,000	16,300	97,716
2012	6,553	153	16,000	46,793	15,000	15,980	100,479
2013	-	-	18,000	46,112	20,000	15,485	99,597
2014	-	-	18,000	45,348	25,000	14,805	103,153
2015	-	-	19,000	44,582	25,000	13,930	102,512
2016	-	-	20,000	43,775	25,000	13,042	101,817
2021	-	-	112,000	205,530	140,000	50,703	508,233
2026	-	-	139,000	179,477	140,000	20,925	479,402
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
<b>Totals</b>	<b>\$13,967</b>	<b>\$ 683</b>	<b>\$ 1,117,000</b>	<b>\$ 981,707</b>	<b>\$400,000</b>	<b>\$161,170</b>	<b>\$2,674,527</b>

**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, 2010**

**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 4.37% of each employee's gross pay to the plan, and the employees contribute 7.00% of their gross pay to the plan.



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**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 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, 2010, which collectively comprise the City of Redwater, Texas's basic financial statements and have issued our report thereon dated April 22, 2011. 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's 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Redwater, Texas's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration on internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 and Other Matters

As part of obtaining reasonable assurance about whether the City of Redwater, Texas's 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, City Council, others within the entity, and federal awarding agencies and pass-through entities 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 22, 2011