

**CITY OF REDWATER, TEXAS**

**Annual Financial Report  
For the Year Ended September 30, 2011**

**CITY OF REDWATER, TEXAS**  
**Annual Financial Report**  
**For the Year Ended September 30, 2011**

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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, 2011, 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, 2011, 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 13, 2012, 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 13, 2012

**CITY OF REDWATER, TEXAS**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2011**

**-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, 2011. 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 2011 by \$3,591,373. Of this amount, \$517,632 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 \$1,114,733 and combined total expenses were \$1,074,192. Therefore, there was an increase in net assets of \$40,541.

The general fund reported a positive fund balance of \$208,582. The general fund balance at September 30, 2010, was \$181,223.

**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, 2011.

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, 2011**

**-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, 2011**

**-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 \$3,591,373 at the close of the September 30, 2011, fiscal year end.

The net assets of the City's governmental activities increased by 3.4 percent (\$1,257,922 compared to \$1,216,510). 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 \$296,903 in 2010 to \$324,263 in 2011, an increase of 9.2 percent. The net assets of our business-type activities decreased by 0.04 percent (\$2,333,451 compared to \$2,334,322).

The cost of all government-wide activities this year was \$1,074,192. 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 \$297,840 because some of the costs were paid by those who directly benefited from the programs (\$776,352). For the 2010 fiscal year, the cost of all governmental activities was \$818,778.

**Governmental Activities**

The decrease in the change in net assets from 2010 to 2011 of \$25,774 is mainly due to the increase of operating grants of \$93,834 and the increase of general government expense of \$122,326.

**CITY OF REDWATER, TEXAS  
Management's Discussion and Analysis  
For the Year Ended September 30, 2011**

**-UNAUDITED-**

**Business-type Activities**

The decrease in the change in net assets from 2010 to 2011 of \$167,823 is due to the difference in grant revenue. There was a decrease from \$236,206 in 2010 to \$115,695 in 2011. Another explanation of the increase in the change in net assets is the 79.7 percent increase in expenses, largely due to the increase in repairs and maintenance, utilities, salaries, supplies and water purchases.

**The City's Funds**

As of September 30, 2011, the governmental funds reported a combined ending fund balance of \$392,858, an increase of \$38,274, from the prior year. Of the ending fund balance, \$71,873 was restricted.

The General Fund reported a fund balance of \$208,582, all of which was considered unrestricted.

**Debt Administration**

At year-end, the city had outstanding bonds and certificates of obligation totaling \$1,497,553, which is a decrease of \$33,414 from the September 30, 2010 balance.

**Outstanding Debt at Year-end**

|                            | <b>Governmental<br/>Activities</b> |                 | <b>Business-type<br/>Activities</b> |                    | <b>Total Primary<br/>Government</b> |                    |
|----------------------------|------------------------------------|-----------------|-------------------------------------|--------------------|-------------------------------------|--------------------|
|                            | 2011                               | 2010            | 2011                                | 2010               | 2011                                | 2010               |
| Certificate of Obligations | \$ -                               | \$ -            | \$ 396,553                          | \$ 413,967         | \$ 396,553                          | \$ 413,967         |
| Bonds Payable              | -                                  | -               | 1,101,000                           | 1,117,000          | 1,101,000                           | 1,117,000          |
| Notes Payable              | 9,626                              | 12,682          | -                                   | -                  | 9,626                               | 12,682             |
|                            | <u>\$ 9,626</u>                    | <u>\$12,682</u> | <u>\$1,497,553</u>                  | <u>\$1,530,967</u> | <u>\$1,507,179</u>                  | <u>\$1,543,649</u> |



**CITY OF REDWATER, TEXAS**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2011**

**-UNAUDITED-**

**Capital Assets**

At September 30, 2011, the City had \$4,267,622 invested in a broad range of capital assets, including facilities, equipment, and land. This amount represents a net decrease of \$46,477, or 1.1 percent (see Table III, p11).

This year's major additions included:

|                   |                   |
|-------------------|-------------------|
| Equipment         | \$ 4,314          |
| Pumps & treatment | 105,000           |
| Lines & storage   | 21,279            |
| Water meters      | 746               |
| Sewer system      | 266,069           |
|                   | <u>\$ 397,408</u> |

This year's major deletions included:

|           |                  |
|-----------|------------------|
| Equipment | \$ 21,303        |
|           | <u>\$ 21,303</u> |

Depreciation expense for the year ended September 30, 2011 was \$216,148.

**Budget and Actual Revenues and Expenses**

The variance between budgeted and actual revenues for the General Fund is a positive \$85,710. The variance between budgeted and actual expenditures is a negative \$58,351.

**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**

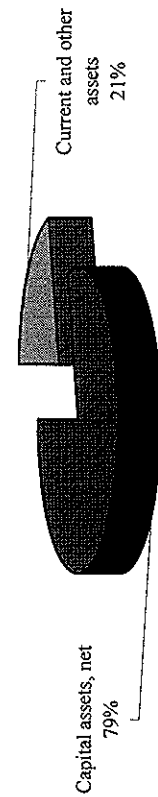
This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, 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, 2011**

- UNAUDITED -

**Table I**  
**NET ASSETS**

|   | Governmental Activities |                    | Business-type Activities |                    | Total Primary Government |                    |
|---|-------------------------|--------------------|--------------------------|--------------------|--------------------------|--------------------|
|   | 2011                    | 2010               | 2011                     | 2010               | 2011                     | 2010               |
| Current and other assets                        | \$ 401,735              | \$ 362,933         | \$ 614,288               | \$ 749,680         | \$ 1,016,023             | \$ 1,112,613       |
| Capital assets, net                             | 871,412                 | 871,412            | 3,396,210                | 3,442,687          | 4,267,622                | 4,314,099          |
| <b>Total assets</b>                             | <b>1,273,147</b>        | <b>1,234,345</b>   | <b>4,010,498</b>         | <b>4,192,367</b>   | <b>5,283,645</b>         | <b>5,426,712</b>   |
| Long-term liabilities                           | 6,348                   | 9,486              | 1,544,360                | 1,756,115          | 1,550,708                | 1,765,601          |
| Other liabilities                               | 8,877                   | 8,349              | 132,687                  | 101,930            | 141,564                  | 110,279            |
| <b>Total liabilities</b>                        | <b>15,225</b>           | <b>17,835</b>      | <b>1,677,047</b>         | <b>1,858,045</b>   | <b>1,692,272</b>         | <b>1,875,880</b>   |
| <b>Net assets:</b>                              |                         |                    |                          |                    |                          |                    |
| Invested in capital assets, net of related debt | 861,786                 | 858,731            | 1,898,657                | 1,911,720          | 2,760,443                | 2,770,451          |
| Restricted                                      | 71,873                  | 60,876             | 241,425                  | 212,255            | 313,298                  | 273,131            |
| Unrestricted                                    | 324,263                 | 296,903            | 193,369                  | 210,347            | 517,632                  | 507,250            |
| <b>Total net assets</b>                         | <b>\$1,257,922</b>      | <b>\$1,216,510</b> | <b>\$2,333,451</b>       | <b>\$2,334,322</b> | <b>\$3,591,373</b>       | <b>\$3,550,832</b> |



**2010 TOTAL ASSETS**

**2009 TOTAL ASSETS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**CITY OF REDWATER, TEXAS**  
**For the Year Ended September 30, 2011**

- UNAUDITED -

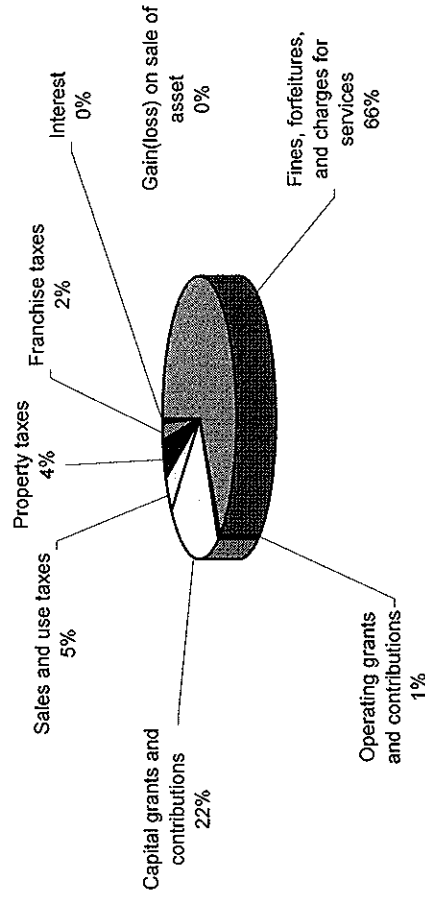
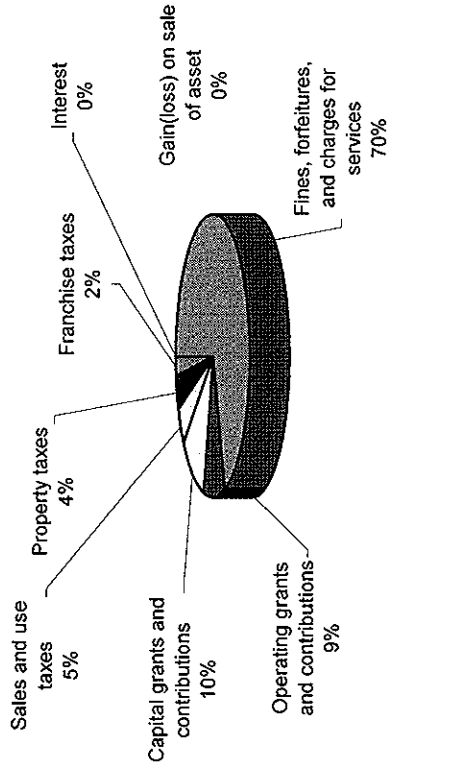
**Table II**  
**CHANGES IN NET ASSETS**

|  | Governmental<br>Activities |                  | Business-type<br>Activities |                   | Total Primary<br>Government |                   |
|--|----------------------------|------------------|-----------------------------|-------------------|-----------------------------|-------------------|
|  | 2011                       | 2010             | 2011                        | 2010              | 2011                        | 2010              |
| <b>Revenues:</b>                             |                            |                  |                             |                   |                             |                   |
| Program revenues:                            |                            |                  |                             |                   |                             |                   |
| Fines, forfeitures, and charges for services | \$ 34,418                  | \$ 34,302        | \$ 741,934                  | \$ 660,235        | \$ 776,352                  | \$ 694,537        |
| Operating grants and contributions           | 103,698                    | 9,864            | -                           | -                 | 103,698                     | 9,864             |
| Capital grants and contributions             | -                          | -                | 115,695                     | 236,206           | 115,695                     | 236,206           |
| General revenues:                            |                            |                  |                             |                   |                             |                   |
| Sales and use taxes                          | 50,341                     | 47,790           | -                           | -                 | 50,341                      | 47,790            |
| Property taxes                               | 42,531                     | 44,895           | -                           | -                 | 42,531                      | 44,895            |
| Franchise taxes                              | 24,908                     | 22,045           | -                           | -                 | 24,908                      | 22,045            |
| Gain(loss) on sale of asset                  | -                          | -                | 350                         | (4,095)           | 350                         | (4,095)           |
| Interest                                     | 274                        | 722              | 584                         | 952               | 858                         | 1,674             |
| Total revenues                               | 256,170                    | 159,618          | 858,563                     | 893,298           | 1,114,733                   | 1,052,916         |
| <b>Expenses:</b>                             |                            |                  |                             |                   |                             |                   |
| General government                           | 208,758                    | 86,432           | -                           | -                 | 208,758                     | 86,432            |
| Public safety                                | 6,000                      | 6,000            | -                           | -                 | 6,000                       | 6,000             |
| Water  | -                          | -                | 859,434                     | 726,346           | 859,434                     | 726,346           |
| Total expenses                               | 214,758                    | 92,432           | 859,434                     | 726,346           | 1,074,192                   | 818,778           |
| Transfers                                    | -                          | -                | -                           | -                 | -                           | -                 |
| <b>Change in net assets</b>                  | <b>\$ 41,412</b>           | <b>\$ 67,186</b> | <b>\$ (871)</b>             | <b>\$ 166,952</b> | <b>\$ 40,541</b>            | <b>\$ 234,138</b> |

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF REDWATER, TEXAS  
For the Year Ended September 30, 2011**

- UNAUDITED -

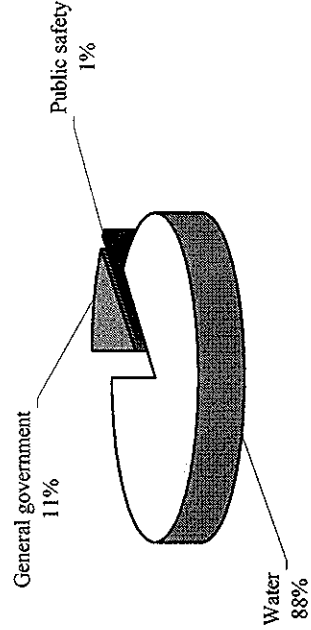
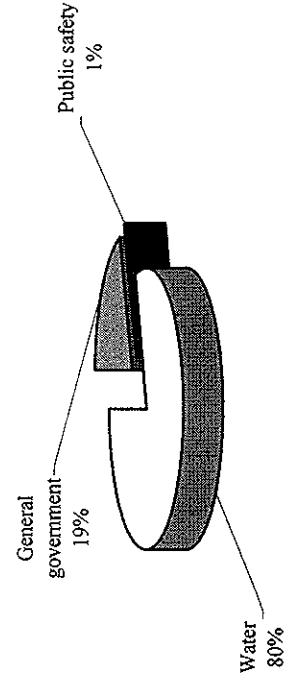
**Table II  
CHART A - TOTAL REVENUES**



**2011**

**2010**

**Table II  
CHART B - TOTAL EXPENSES**



**2011**

**2010**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**CITY OF REDWATER, TEXAS**  
**For the Year Ended September 30, 2011**

- UNAUDITED -

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

|                                | Governmental<br>Activities |                   | Business-type<br>Activities |                     | Total Primary<br>Government |                     |
|--------------------------------|----------------------------|-------------------|-----------------------------|---------------------|-----------------------------|---------------------|
|                                | 2011                       | 2010              | 2011                        | 2010                | 2011                        | 2010                |
| 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            | 11,250                      | 12,430              | 98,950                      | 100,130             |
| Office furniture and equipment | 17,965                     | 17,965            | 3,338                       | 5,105               | 21,303                      | 23,070              |
| Equipment and tools            | 23,269                     | 23,269            | 38,911                      | 57,313              | 62,180                      | 80,582              |
| Park facilities                | 596,156                    | 596,156           | -                           | -                   | 596,156                     | 596,156             |
| Pumps and equipment            | -                          | -                 | 202,110                     | 110,326             | 202,110                     | 110,326             |
| Lines and storage              | -                          | -                 | 1,508,635                   | 1,558,565           | 1,508,635                   | 1,558,565           |
| Water meters                   | -                          | -                 | 34,702                      | 45,443              | 34,702                      | 45,443              |
| Sewer systems                  | -                          | -                 | 1,571,933                   | 1,400,437           | 1,571,933                   | 1,400,437           |
|                                | <u>\$ 871,412</u>          | <u>\$ 871,412</u> | <u>\$ 3,396,210</u>         | <u>\$ 3,442,687</u> | <u>\$ 4,267,622</u>         | <u>\$ 4,314,099</u> |

**BASIC FINANICAL STATEMENTS**

**CITY OF REDWATER, TEXAS**  
**Statement of Net Assets**  
**September 30, 2011**

|  | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Totals</b>       |
|--|------------------------------------|-------------------------------------|---------------------|
| <b>ASSETS</b>                          |                                    |                                     |                     |
| <b>Current Assets</b>                  |                                    |                                     |                     |
| Cash and cash equivalents              | \$ 198,086                         | \$ 88,160                           | \$ 286,246          |
| Certificates of deposit                | 25,108                             | 14,289                              | 39,397              |
| Accounts receivable, net of allowances | 33,390                             | 71,795                              | 105,185             |
| Unbilled receivables                   | -                                  | 22,653                              | 22,653              |
| Due from other funds                   | (42,415)                           | 42,415                              | -                   |
| Restricted assets                      | 71,873                             | 338,726                             | 410,599             |
| <b>Total Current Assets</b>            | <b>286,042</b>                     | <b>578,038</b>                      | <b>864,080</b>      |
| <b>Other Assets</b>                    |                                    |                                     |                     |
| Deferred issuance costs                | -                                  | 36,250                              | 36,250              |
| Other investments - restricted         | 115,693                            | -                                   | 115,693             |
| <b>Total Other Assets</b>              | <b>115,693</b>                     | <b>36,250</b>                       | <b>151,943</b>      |
| <b>Capital Assets</b>                  |                                    |                                     |                     |
| Land                                   | 146,322                            | 25,331                              | 171,653             |
| Buildings, net                         | 87,700                             | 11,250                              | 98,950              |
| Furniture and equipment, net           | 17,965                             | 3,338                               | 21,303              |
| Equipment and tools, net               | 23,269                             | 38,911                              | 62,180              |
| Park facilities, net                   | 596,156                            | -                                   | 596,156             |
| Pumps and equipment, net               | -                                  | 202,110                             | 202,110             |
| Lines and storage, net                 | -                                  | 1,508,635                           | 1,508,635           |
| Water meters, net                      | -                                  | 34,702                              | 34,702              |
| Sewer systems, net                     | -                                  | 1,571,933                           | 1,571,933           |
| <b>Total Capital Assets</b>            | <b>871,412</b>                     | <b>3,396,210</b>                    | <b>4,267,622</b>    |
| <b>TOTAL ASSETS</b>                    | <b>\$ 1,273,147</b>                | <b>\$ 4,010,498</b>                 | <b>\$ 5,283,645</b> |

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

**CITY OF REDWATER, TEXAS**  
**Statement of Net Assets**  
**September 30, 2011**

|   | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Totals</b>       |
|---|------------------------------------|-------------------------------------|---------------------|
| <b>LIABILITIES</b>                              |                                    |                                     |                     |
| <b>Current Liabilities</b>                      |                                    |                                     |                     |
| Accounts payable                                | 3,911                              | 67,404                              | 71,315              |
| Accrued salaries and taxes                      | 1,688                              | 7,202                               | 8,890               |
| Accrued interest payable                        | -                                  | 20,528                              | 20,528              |
| Notes payable - current                         | 3,278                              | -                                   | 3,278               |
| Contracts payable                               | -                                  | 7,587                               | 7,587               |
| Certificates, revenue bonds payable - current   | -                                  | 37,553                              | 37,553              |
| <b>Total Current Liabilities</b>                | <b>8,877</b>                       | <b>140,274</b>                      | <b>149,151</b>      |
| <b>Noncurrent Liabilities</b>                   |                                    |                                     |                     |
| Utility deposits - payable from restricted      | -                                  | 76,773                              | 76,773              |
| Notes payable                                   | 6,348                              | -                                   | 6,348               |
| Certificates, revenue bonds payable             | -                                  | 1,460,000                           | 1,460,000           |
| <b>Total Noncurrent Liabilities</b>             | <b>6,348</b>                       | <b>1,536,773</b>                    | <b>1,543,121</b>    |
| <b>TOTAL LIABILITIES</b>                        | <b>15,225</b>                      | <b>1,677,047</b>                    | <b>1,692,272</b>    |
| <b>NET ASSETS</b>                               |                                    |                                     |                     |
| Invested in capital assets, net of related debt | 861,786                            | 1,898,657                           | 2,760,443           |
| Restricted                                      | 71,873                             | 241,425                             | 313,298             |
| Unrestricted                                    | 324,263                            | 193,369                             | 517,632             |
| <b>TOTAL NET ASSETS</b>                         | <b>\$ 1,257,922</b>                | <b>\$ 2,333,451</b>                 | <b>\$ 3,591,373</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, 2011**

| 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                          | \$ 208,758          | \$ 28,918            | \$ 103,698                       | \$ -  | \$ (76,142)             | \$ -                     | \$ (76,142)         |
| Public safety                               | 6,000               | 5,500                | -                                | -   | (500)                   | -                        | (500)               |
| Total Governmental Activities               | 214,758             | 34,418               | 103,698                          | -   | (76,642)                | -                        | (76,642)            |
| <b>Business-type Activities:</b>            |                     |                      |                                  |   |                         |                          |                     |
| Water                                       | 859,434             | 557,498              | -                                | -   | -                       | (301,936)                | (301,936)           |
| Grant                                       | -                   | -                    | -                                | 115,695   | -                       | 115,695                  | 115,695             |
| Sewer                                       | -                   | 106,821              | -                                | -   | -                       | 106,821                  | 106,821             |
| Late charges                                | -                   | 27,303               | -                                | -   | -                       | 27,303                   | 27,303              |
| Tapping/transfer/tampering                  | -                   | 8,410                | -                                | -   | -                       | 8,410                    | 8,410               |
| Line extensions/bore charges                | -                   | 682                  | -                                | -   | -                       | 682                      | 682                 |
| Other fees                                  | -                   | 7,717                | -                                | -   | -                       | 7,717                    | 7,717               |
| Miscellaneous                               | -                   | 33,503               | -                                | -   | -                       | 33,503                   | 33,503              |
| Total Business-type Activities              | 859,434             | 741,934              | -                                | 115,695   | -                       | (1,805)                  | (1,805)             |
| <b>Total</b>                                | <b>\$ 1,074,192</b> | <b>\$ 776,352</b>    | <b>\$ 103,698</b>                | <b>\$ 115,695</b>                                 | <b>\$ (76,642)</b>      | <b>\$ (1,805)</b>        | <b>\$ (78,447)</b>  |
| <b>General Revenues:</b>                    |                     |                      |                                  |   |                         |                          |                     |
| Sales and use taxes                         |                     |                      |                                  |   | \$ 50,341               | \$ -                     | \$ 50,341           |
| Property taxes                              |                     |                      |                                  |   | 42,531                  | -                        | 42,531              |
| Franchise taxes                             |                     |                      |                                  |   | 24,908                  | -                        | 24,908              |
| Gain(loss) on sale of asset                 |                     |                      |                                  |   | -                       | 350                      | 350                 |
| Interest                                    |                     |                      |                                  |   | 274                     | 584                      | 858                 |
| <b>Total General Revenues and Transfers</b> |                     |                      |                                  |   | <b>118,054</b>          | <b>934</b>               | <b>118,988</b>      |
| <b>Change in Net Assets</b>                 |                     |                      |                                  |   | <b>41,412</b>           | <b>(871)</b>             | <b>40,541</b>       |
| <b>Net Assets, Beginning</b>                |                     |                      |                                  |   | <b>1,216,510</b>        | <b>2,334,322</b>         | <b>3,550,832</b>    |
| <b>Net Assets, Ending</b>                   |                     |                      |                                  |   | <b>\$ 1,257,922</b>     | <b>\$ 2,333,451</b>      | <b>\$ 3,591,373</b> |

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

**CITY OF REDWATER, TEXAS**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2011**

|  | General<br>Fund   | Special<br>Revenue<br>Fund | Total<br>Governmental<br>Funds |
|--|-------------------|----------------------------|--------------------------------|
| <b>ASSETS</b>                                  |                   |                            |                                |
| <b>Current Assets</b>                          |                   |                            |                                |
| Cash and cash equivalents                      | \$ 198,086        | \$ -                       | \$ 198,086                     |
| Certificates of deposit                        | 25,108            | -                          | 25,108                         |
| Receivables, net allowances                    | 33,390            | -                          | 33,390                         |
| Due from other funds                           | 12                | -                          | 12                             |
| Restricted assets                              | -                 | 71,873                     | 71,873                         |
| <b>Total Current Assets</b>                    | <b>256,596</b>    | <b>71,873</b>              | <b>328,469</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>\$ 256,596</b> | <b>\$ 187,566</b>          | <b>\$ 444,162</b>              |
| <b>LIABILITIES</b>                             |                   |                            |                                |
| <b>Current Liabilities</b>                     |                   |                            |                                |
| Accounts payable                               | 3,911             | -                          | 3,911                          |
| Notes payable                                  | -                 | 3,278                      | 3,278                          |
| Accrued salaries and taxes                     | 1,688             | -                          | 1,688                          |
| Due to other funds                             | 42,415            | 12                         | 42,427                         |
| <b>Total Current Liabilities</b>               | <b>48,014</b>     | <b>3,290</b>               | <b>51,304</b>                  |
| <b>TOTAL LIABILITIES</b>                       | <b>48,014</b>     | <b>3,290</b>               | <b>51,304</b>                  |
| <b>Fund Balances</b>                           |                   |                            |                                |
| Restricted                                     | -                 | 71,873                     | 71,873                         |
| Unrestricted                                   | 208,582           | 112,403                    | 320,985                        |
| <b>TOTAL FUND BALANCES</b>                     | <b>208,582</b>    | <b>184,276</b>             | <b>392,858</b>                 |
| <b>TOTAL LIABILITIES AND<br/>FUND BALANCES</b> | <b>\$ 256,596</b> | <b>\$ 187,566</b>          | <b>\$ 444,162</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, 2011**

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|   |                            |
|---|----------------------------|
| <b>Total Fund Balances - Governmental Funds</b>   | <b>\$ 392,858</b>          |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.        | (6,348)                    |
| 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>\$ 1,257,922</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, 2011**

|   | General<br>Fund | Special<br>Revenue<br>Fund | Total<br>Governmental<br>Funds |
|---|-----------------|----------------------------|--------------------------------|
| <b>Revenues</b>                                   |                 |                            |                                |
| Property taxes, including<br>penalty and interest | \$ 42,531       | \$ -                       | \$ 42,531                      |
| Franchise taxes                                   | 24,908          | -                          | 24,908                         |
| Sales taxes                                       | 33,561          | 16,780                     | 50,341                         |
| Intergovernmental                                 | 5,500           | -                          | 5,500                          |
| Refuse income                                     | 19,918          | -                          | 19,918                         |
| Rental income                                     | 9,000           | -                          | 9,000                          |
| Interest  | 221             | 53                         | 274                            |
| Grant income                                      | 100,513         | -                          | 100,513                        |
| Miscellaneous                                     | 3,185           | -                          | 3,185                          |
| <b>Total Revenues</b>                             | <b>239,337</b>  | <b>16,833</b>              | <b>256,170</b>                 |
| <b>Expenditures</b>                               |                 |                            |                                |
| Current:  |                 |                            |                                |
| General government                                |                 |                            |                                |
| Accounting and audit fees                         | 1,820           | 186                        | 2,006                          |
| Appraisal district fees                           | 1,714           | -                          | 1,714                          |
| Beautification                                    | 429             | -                          | 429                            |
| Grant expense                                     | 101,230         | -                          | 101,230                        |
| Insurance   | 8,034           | -                          | 8,034                          |
| Legal and filing fees                             | 169             | -                          | 169                            |
| Office supplies and expenses                      | 2,166           | -                          | 2,166                          |
| Repairs and maintenance                           | 1,532           | -                          | 1,532                          |
| Retirement  | 1,450           | -                          | 1,450                          |
| Salaries  | 32,490          | -                          | 32,490                         |
| Taxes-payroll                                     | 174             | -                          | 174                            |
| Telephone   | 2,462           | -                          | 2,462                          |
| Utilities   | 3,650           | -                          | 3,650                          |
| Miscellaneous                                     | 5,660           | 2,435                      | 8,095                          |
| Public safety                                     | 6,000           | -                          | 6,000                          |
| Public works                                      | 42,998          | -                          | 42,998                         |
| Debt service:                                     |                 |                            |                                |
| Interest and other charges                        | -               | 159                        | 159                            |
| <b>Total Expenditures</b>                         | <b>211,978</b>  | <b>2,780</b>               | <b>214,758</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, 2011**

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|  | General<br>Fund   | Special<br>Revenue<br>Fund | Total<br>Governmental<br>Funds |
|--|-------------------|----------------------------|--------------------------------|
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> | 27,359            | 14,053                     | 41,412                         |
| <b>Net Change in Fund Balances</b>                           | 27,359            | 14,053                     | 41,412                         |
| <b>Fund Balances, Beginning</b>                              | 181,223           | 170,223                    | 351,446                        |
| <b>Fund Balances, Ending</b>                                 | <b>\$ 208,582</b> | <b>\$ 184,276</b>          | <b>\$ 392,858</b>              |

**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, 2011**

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**Net Change in Fund Balances - Total Governmental Funds** **\$ 41,412**

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** **\$ 41,412**

**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, 2011**

|   | Budget         | Actual            | Variance<br>Favorable<br>(Unfavorable) |
|---|----------------|-------------------|--|
| <b>Revenues</b>   |                |                   |  |
| Property taxes, including<br>penalty and interest                   | \$ 44,000      | \$ 42,531         | \$ (1,469)                             |
| Franchise taxes   | 22,000         | 24,908            | 2,908                                  |
| Sales taxes   | 45,000         | 33,561            | (11,439)                               |
| Intergovernmental   | 6,000          | 5,500             | (500)                                  |
| Refuse income   | 19,000         | 19,918            | 918                                    |
| Rental income   | 9,000          | 9,000             | -                                      |
| Interest  | 120            | 221               | 101                                    |
| Grant income  | 6,517          | 100,513           | 93,996                                 |
| Miscellaneous   | 1,990          | 3,185             | 1,195                                  |
| <b>Total Revenues</b>   | <u>153,627</u> | <u>239,337</u>    | <u>85,710</u>                          |
| <b>Expenditures</b>   |                |                   |  |
| General government  | 113,127        | 162,980           | (49,853)                               |
| Public safety   | 6,000          | 6,000             | -                                      |
| Public works  | 34,500         | 42,998            | (8,498)                                |
| <b>Total Expenditures</b>   | <u>153,627</u> | <u>211,978</u>    | <u>(58,351)</u>                        |
| Excess of revenues and other financing sources<br>over expenditures | <u>-</u>       | <u>27,359</u>     | <u>27,359</u>                          |
| Fund balance, beginning of year                                     |                | <u>181,223</u>    |  |
| Fund balance, end of year   |                | <u>\$ 208,582</u> |  |

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

**CITY OF REDWATER, TEXAS**  
**Statement of Net Assets**  
**Proprietary Fund**  
**September 30, 2011**

|                                      |    | <b>Water &amp; Sewer Fund</b> |
|--------------------------------------|----|-------------------------------|
| <b>ASSETS</b>                        |    |                               |
| <b>Current Assets:</b>               |    |                               |
| Cash and cash equivalents            | \$ | 88,160                        |
| Certificates of deposit              |    | 14,289                        |
| Receivables, net                     |    | 71,795                        |
| Unbilled receivables                 |    | 22,653                        |
| Due from other funds                 |    | 42,415                        |
|                                      |    | 239,312                       |
| <b>Total Current Assets</b>          |    |                               |
| <b>Noncurrent Assets:</b>            |    |                               |
| Restricted cash and cash equivalents |    | 338,726                       |
| Deferred issuance costs              |    | 36,250                        |
| Capital assets:                      |    |                               |
| Land                                 |    | 25,331                        |
| Buildings                            |    | 37,858                        |
| Furniture and equipment              |    | 21,881                        |
| Equipment and tools                  |    | 245,419                       |
| Pumps and equipment                  |    | 322,806                       |
| Lines and storage                    |    | 2,318,199                     |
| Water meters                         |    | 147,950                       |
| Sewer systems                        |    | 2,468,018                     |
| Less accumulated depreciation        |    | (2,191,252)                   |
|                                      |    | 3,771,186                     |
| <b>Total Noncurrent Assets</b>       |    |                               |
| <b>TOTAL ASSETS</b>                  |    | <b>4,010,498</b>              |

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



**CITY OF REDWATER, TEXAS**  
**Statement of Net Assets**  
**Proprietary Fund**  
**September 30, 2011**

|   |           | <b>Water &amp; Sewer Fund</b> |
|---|-----------|-------------------------------|
| <b>LIABILITIES</b>                              |           |                               |
| <b>Current Liabilities:</b>                     |           |                               |
| Accounts payable                                | 67,404    |                               |
| Accrued salaries and taxes                      | 7,202     |                               |
| Accrued interest payable                        | 20,528    |                               |
| Contracts payable                               | 7,587     |                               |
| Certificates, revenue bonds payable-current     | 37,553    |                               |
|   |           |                               |
| <b>Total Current Liabilities</b>                |           | 140,274                       |
| <b>Noncurrent Liabilities:</b>                  |           |                               |
| Certificates, revenue bonds payable             | 1,460,000 |                               |
| Utility deposits-payable from restricted assets | 76,773    |                               |
|   |           |                               |
| <b>Total Noncurrent Liabilities</b>             |           | 1,536,773                     |
| <b>TOTAL LIABILITIES</b>                        |           | <b>1,677,047</b>              |
| <b>NET ASSETS</b>                               |           |                               |
| Invested in capital assets, net of related debt | 1,898,657 |                               |
| Restricted                                      | 241,425   |                               |
| Unrestricted                                    | 193,369   |                               |
|   |           |                               |
| <b>TOTAL NET ASSETS</b>                         |           | <b>\$ 2,333,451</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, 2011**

|                                   | <b>Water &amp; Sewer<br/>Fund</b> |
|-----------------------------------|-----------------------------------|
| <b>OPERATING REVENUES</b>         |                                   |
| Water sales                       | \$ 557,498                        |
| Sewer sales                       | 106,821                           |
| Tapping fees                      | 4,657                             |
| Transfer fees                     | 3,153                             |
| Line extensions                   | 682                               |
| Inspection fee                    | 330                               |
| Late charges                      | 18,637                            |
| Reconnect/reinstall fees          | 8,666                             |
| Returned check fee                | 1,060                             |
| Sewer dump fees                   | 6,327                             |
| Tampering fees                    | 600                               |
| Miscellaneous                     | 33,503                            |
|                                   | 741,934                           |
| <b>OPERATING EXPENSES</b>         |                                   |
| Accounting                        | 9,644                             |
| Amortization                      | 1,892                             |
| Bad debt expense                  | 3,949                             |
| Chemicals                         | 15,367                            |
| Contract labor                    | 3,588                             |
| Contract maintenance              | 1,000                             |
| Depreciation                      | 216,148                           |
| Dues and memberships              | 125                               |
| Employee expenses                 | 1,257                             |
| Equipment repairs and maintenance | 4,075                             |
| Equipment supplies                | 6,500                             |
| Insurance                         | 31,104                            |
| Legal and advertising             | 428                               |
| Meter replacements                | 700                               |
| Miscellaneous                     | 2,151                             |
| Office supplies and expense       | 5,775                             |
| Permits, licenses, and fees       | 5,015                             |
| Postage                           | 4,750                             |
| Radio expense                     | 720                               |
| Refuse                            | 1,542                             |

**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, 2011**

|  | <b>Water &amp; Sewer<br/>Fund</b> |
|--|-----------------------------------|
| <b>OPERATING EXPENSES (Continued)</b>        |                                   |
| Rent - building                              | 9,000                             |
| Rent - equipment                             | 1,073                             |
| Repairs and maintenance                      | 7,905                             |
| Retirement                                   | 7,241                             |
| Salaries                                     | 161,483                           |
| Supplies - operating                         | 26,432                            |
| Taxes - payroll                              | 13,212                            |
| Telephone                                    | 4,802                             |
| Testing service                              | 10,634                            |
| Tools  | 1,421                             |
| Training                                     | 6,456                             |
| Uniforms                                     | 1,812                             |
| Utilities                                    | 40,395                            |
| Vehicle repairs                              | 20,454                            |
| Vehicle supplies                             | 24,708                            |
| Water purchases                              | 143,552                           |
|  | <b>796,310</b>                    |
| <b>Total Operating Expenses</b>              | <b>796,310</b>                    |
| <b>Operating Income (Loss)</b>               | <b>(54,376)</b>                   |
| <b>Non-operating Revenues (Expenses)</b>     |                                   |
| Gain on sale of asset                        | 350                               |
| Grant income                                 | 115,695                           |
| Interest income                              | 584                               |
| Interest expense                             | (62,724)                          |
| Paying agent fees                            | (400)                             |
|  | <b>53,505</b>                     |
| <b>Net Non-operating Revenues (Expenses)</b> | <b>53,505</b>                     |
| <b>Change in Net Assets</b>                  | <b>(871)</b>                      |
| <b>Total Net Assets - Beginning</b>          | <b>2,334,322</b>                  |
| <b>Total Net Assets - Ending</b>             | <b>\$ 2,333,451</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, 2011**

|  |            |                          |
|--|------------|--------------------------|
| <b>Cash flows from operating activities:</b>   |            |                          |
| Receipts from customers  | \$ 918,208 |                          |
| Payments to suppliers  | (357,767)  |                          |
| Payments to employees  | (172,911)  |                          |
| <b>Net cash provided by operating activities</b>   |            | <u>387,530</u>           |
| <b>Cash flows from capital and related financing activities:</b>                               |            |                          |
| Grant contribution   | 115,695    |                          |
| Loss on sale of asset  | 350        |                          |
| Principal paid on revenue bonds  | (16,000)   |                          |
| Interest paid on revenue bonds   | (47,019)   |                          |
| Acquisition of capital assets  | (376,104)  |                          |
| Rest-contracts, retainage payable  | 7,588      |                          |
| Principal paid on certificates of obligations  | (17,415)   |                          |
| Interest paid on certificates of obligations   | (15,356)   |                          |
| Fees paid to paying agent  | (400)      |                          |
| <b>Net cash used by capital and related financing activities</b>                               |            | <u>(348,661)</u>         |
| <b>Cash flows from investing activities:</b>   |            |                          |
| Purchase of certificates of deposit  | (60)       |                          |
| Interest on investments  | 589        |                          |
| <b>Net cash provided by investing activities</b>   |            | <u>529</u>               |
| <b>Net decrease in cash and cash equivalents</b>   |            | 39,398                   |
| <b>Cash and cash equivalents - beginning of year</b>   |            | <u>387,488</u>           |
| <b>Cash and cash equivalents - end of year</b>   |            | <u><b>\$ 426,886</b></u> |
| <b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b> |            |                          |
| Operating income (loss)  |            | \$ (54,376)              |
| Adjustments to reconcile operating income to net cash provided by operating activities:        |            |                          |
| Depreciation   | 216,148    |                          |
| Amortization   | 1,892      |                          |
| Change in assets and liabilities:  |            |                          |
| Decrease in accounts receivable  | 172,958    |                          |
| Increase in payroll liabilities  | 1,784      |                          |
| Increase in customer deposits payable  | 3,315      |                          |
| Increase in accounts payable   | 45,809     |                          |
| <b>Total adjustments</b>   |            | <u>441,906</u>           |
| <b>Net cash provided by operating activities</b>   |            | <u><b>\$ 387,530</b></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, 2011**

**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, 2011**

**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, 2011**

**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, 2011**

**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, 2011**

**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, 2011**

**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, 2010 until October 1, 2011.

| <u>Coverage Provided</u>           | <u>Limits or Amounts</u> |
|------------------------------------|--------------------------|
| Real and Personal Property         | \$ 3,014,260 Limit       |
| Boiler and Machinery               | \$ 1,000,000 Limit       |
| Mobile Equipment                   | \$ 117,819 Limit         |
| General Liability                  | \$ 1,000,000 Limit       |
| Auto Liability                     | \$ 500,000 Limit         |
| Errors & Omissions                 | \$ 1,000,000 Limit       |
| Crime – Public Employee Dishonesty | \$ 25,000 Limit          |
| Crime - Forgery                    | \$ 25,000 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, 2011, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$736,242 and the bank balance was \$745,846.

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, 2011, 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, 2011**

**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, 2011 are as follows:

| <u>Type of Restriced Asset</u> | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activites</u> | <u>Total</u>      |
|--------------------------------|------------------------------------|------------------------------------|-------------------|
| Deposits                       | \$ -                               | \$ 76,773                          | \$ 76,773         |
| TCDP 726521                    | -                                  | 100                                | 100               |
| Maintenance Fund               | -                                  | 65,136                             | 65,136            |
| Bond Reserve Fund              | -                                  | 45,675                             | 45,675            |
| 2003 Debt Service Fund         | -                                  | 22,058                             | 22,058            |
| 2005 Debt Service Fund         | -                                  | 95,249                             | 95,249            |
| Industrial Development         | 71,873                             | -                                  | 71,873            |
| Maintenance Fund - Investments | -                                  | 33,735                             | 33,735            |
| <b>Total Restricted Assets</b> | <b>\$ 71,873</b>                   | <b>\$ 338,726</b>                  | <b>\$ 410,599</b> |

**CITY OF REDWATER, TEXAS**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2011**

**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, 2011, was as follows:

**Business-type activities**

|                                | Balance 10/01/10    | Additions         | Deletions         | Balance 9/30/11     |
|--------------------------------|---------------------|-------------------|-------------------|---------------------|
| Building                       | \$ 37,858           | \$ -              | \$ -              | \$ 37,858           |
| Office furniture and equipment | 21,881              | -                 | -                 | 21,881              |
| Equipment and tools            | 262,408             | 4,314             | 21,303            | 245,419             |
| Pumps and treatment            | 217,806             | 105,000           | -                 | 322,806             |
| Lines and storage              | 2,296,920           | 21,279            | -                 | 2,318,199           |
| Water meters                   | 147,204             | 746               | -                 | 147,950             |
| Sewer system                   | 2,201,949           | 266,069           | -                 | 2,468,018           |
| Constuction in Process-Sewer   | 227,737             | -                 | 227,737           | -                   |
| Land                           | 25,331              | -                 | -                 | 25,331              |
| <b>Total</b>                   | <b>\$ 5,439,094</b> | <b>\$ 397,408</b> | <b>\$ 249,040</b> | <b>\$ 5,587,462</b> |

**Business-type activities - accumulated depreciation**

|                                | Balance 10/01/10    | Additions         | Deletions        | Balance 9/30/11     |
|--------------------------------|---------------------|-------------------|------------------|---------------------|
| Building                       | \$ 25,428           | \$ 1,180          | \$ -             | \$ 26,608           |
| Office furniture and equipment | 16,776              | 1,767             | -                | 18,543              |
| Equipment and tools            | 205,095             | 22,716            | 21,303           | 206,508             |
| Pumps and treatment            | 107,480             | 13,216            | -                | 120,696             |
| Lines and storage              | 738,355             | 71,209            | -                | 809,564             |
| Water meters                   | 101,761             | 11,487            | -                | 113,248             |
| Sewer system                   | 801,512             | 94,573            | -                | 896,085             |
| <b>Total</b>                   | <b>\$ 1,996,407</b> | <b>\$ 216,148</b> | <b>\$ 21,303</b> | <b>\$ 2,191,252</b> |

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

**\$ 3,396,210**

**Governmental activities**

|                                | Balance 10/01/10  | Additions   | Deletions   | Balance 9/30/11   |
|--------------------------------|-------------------|-------------|-------------|-------------------|
| 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, 2011**

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

**4. Accounts Receivable**

The accounts receivable for September 30, 2011 are as follows:

| <u>Accounts Receivable</u>       | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activites</u> | <u>Total</u>             |
|----------------------------------|------------------------------------|------------------------------------|--------------------------|
| Franchise Tax                    | \$ 7,032                           | \$ -                               | \$ 7,032                 |
| Property Tax                     | 16,144                             | -                                  | 16,144                   |
| Interest                         | 8                                  | 2                                  | 10                       |
| Grant                            | 25,486                             | 3,221                              | 28,707                   |
| Customer                         | -                                  | 74,016                             | 74,016                   |
| Allowance for doubtful accounts  | <u>(15,280)</u>                    | <u>(5,444)</u>                     | <u>(20,724)</u>          |
| <b>Total Accounts Receivable</b> | <b><u>\$ 33,390</u></b>            | <b><u>\$ 71,795</u></b>            | <b><u>\$ 105,185</u></b> |

**5. Bonds Payable**

Bonds payable at September 30, 2011, 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. \$ 6,553

\$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%. 548,000

\$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%. 553,000

\$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%. 390,000

Total Bonds Payable \$1,497,553

Current portions of the long term bonds payable total \$37,553

**CITY OF REDWATER, TEXAS**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2011**

**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, 2011:

| <u>Type of Debt</u>         | <u>Balance<br/>Sept 30, 2010</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance<br/>Sept 30, 2011</u> | <u>Amounts<br/>Due<br/>Within</u> |
|-----------------------------|----------------------------------|------------------|-------------------|----------------------------------|-----------------------------------|
| Business-type Activities    |                                  |                  |                   |                                  |                                   |
| Certificate of Obligations  | \$ 413,967                       | \$ -             | \$ 17,414         | \$ 396,553                       | \$ 21,553                         |
| Revenue Bonds               | 1,117,000                        | -                | 16,000            | 1,101,000                        | 16,000                            |
| <b>Total Long-term Debt</b> | <b>\$ 1,530,967</b>              | <b>\$ -</b>      | <b>\$ 33,414</b>  | <b>\$ 1,497,553</b>              | <b>\$ 37,553</b>                  |

The annual requirements to amortize notes of obligation as of September 30, 2011, are as follows:

| <u>Year Ending<br/>September 30</u> | <u>1989 Series</u> |                 | <u>2003 Series</u>  |                   | <u>2005 Series</u> |                  | <u>Totals</u>      |
|-------------------------------------|--------------------|-----------------|---------------------|-------------------|--------------------|------------------|--------------------|
|                                     | <u>Principal</u>   | <u>Interest</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Principal</u>   | <u>Interest</u>  |                    |
| 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>\$ 6,553</b>    | <b>\$ 153</b>   | <b>\$ 1,101,000</b> | <b>\$ 934,235</b> | <b>\$390,000</b>   | <b>\$144,870</b> | <b>\$2,576,811</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, 2011**

**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 1,056 as of the 2010 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, 2011, which collectively comprise the City of Redwater, Texas's basic financial statements and have issued our report thereon dated April 13, 2012. 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

Management of the City of Redwater, Texas is responsible for establishing and maintaining effective 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.

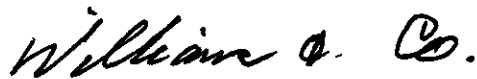
Our consideration on internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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 grant 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 13, 2012