

*CITY OF REDWATER, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2012*

**CITY OF REDWATER, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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CITY OF REDWATER, TEXAS
CITY DIRECTORY

MAYOR

Robert Lorance

CITY COUNCIL

Paula Coggin

Tammy Cowdery

Chuck Bradford

Kevin Crites

Leo Whelchel

CITY OFFICIALS

Dessie Whelchel, City Secretary

Independent Auditor's Report

June 7, 2013

Honorable Mayor and
Members of the City Council
City of Redwater, Texas

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of city of Redwater, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the city of Redwater, Texas. Our responsibility is to express an opinion on these financial statements based on our audit.

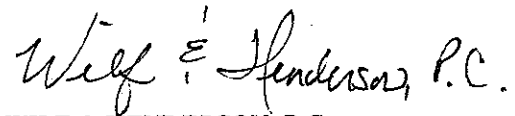
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the city of Redwater, Texas, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof 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 June 7, 2013, on our consideration of the city of Redwater, Texas' internal control over financial reporting and 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 on pages 4 through 9, the budgetary comparison information on page 33, and the retirement schedule on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of the 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 response 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.

Handwritten signature in cursive script that reads "Wilf & Henderson, P.C.".

WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

June 7, 2013

*City of Redwater, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2012*

The Management's Discussion and Analysis (MD&A) for the City of Redwater, Texas is designed to:

1. Assist the reader in focusing on significant financial issues;
2. Provide an overview of the City's financial activities;
3. Identify changes in the City's overall financial position and results of operations and assist the user in determining whether financial position has improved or deteriorated as a result of the year's operations;
4. Identify any significant variations from the original, amended, and final budget amounts and include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity; and
5. Identify individual fund issues or concerns.

The information contained within this MD&A should be considered only as part of a greater whole. The readers of this statement should take time to read and evaluate all sections of this report, including the footnotes that are provided in addition to this MD&A.

Overview of the Financial Statements

The MD&A requires supplementary information that introduces the reader to the basic financial statements and provides an overview of the City's financial activities. The City's basic financial statements consist of the following components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

A general description of the components of the basic financial statements follows.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to present the financial operations of the City as a whole in a format similar to private sector companies. All governmental and business-type activities are consolidated into columns which add to a total for the Primary Government. If the City determines that presentation of a component unit (which are other governmental units for which the City can exercise significant influence or for which the Primary Government financial statements would be misleading if component unit information is not presented) is necessary to allow the reader to determine the relationship of the component unit and primary government, the component unit information is presented in a separate column of the financial statements or in a separate footnote.

The focus is on the government-wide (entity-wide) Statement of Net Assets and Statement of Activities to give the reader a broad overview of the City's financial position and results of operations.

a) The Statement of Net Assets presents information on the City's assets and liabilities using the accrual basis of accounting, in a manner similar to the accounting used by private business enterprises. The difference between the assets and liabilities is reported as net assets. Over time, the increases or decreases in net assets (and changes in the components of net assets) may serve as a useful indicator of whether the financial position of the City is improving or weakening. Although the focus of this MD&A will be on the analysis of the overall changes to net assets, the reader should refer to Note A - Significant Accounting Policies for an explanation of the components of net assets.

b) The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. The format for the Statement of Activities presents the expenses for each function (administrative, police protection, fire protection, public works and sanitation) reduced by the Program Revenues (charges for services, operating grants and contributions, and capital grants and contributions) directly related to each respective function, to determine net costs of each function. The net costs of each function are normally covered by general revenues.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related and legal requirements. The City of Redwater, Texas uses two categories of funds to account for financial transactions: governmental funds and proprietary funds.

Governmental funds are used to account for most of the basic services and projects reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances that are left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The City of Redwater, Texas' governmental funds include the General Fund for accounting for the City's basic services.

The Proprietary Fund accounts for water and sewer services for the City of Redwater, Texas. Enterprise funds are used to account for the same functions as business-type activities presented in the government-wide financial statements, but the fund presentation provides more detail.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, there are differences in the information presented for government funds and for governmental activities in the government-wide financial statements. Review of these differences provides the reader of the financial statements insight on the long-term impact of the City's more immediate decisions on the current use of financial resources. We describe the differences between government-wide financial statements (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.

Notes to the Financial Statements

The Notes to the Financial Statements, in particular Note A - Significant Accounting Policies, present the changes in presentation and reporting required under the GASB 54 standard. When reviewing this MD&A, the reader should also refer to and review the Notes to the Financial Statements, as well as the Government-Wide and Fund Financial Statements.

City Highlights

Net assets balance at September 30, 2012 in the governmental activities (including the General Fund) increased from \$785,368 to \$791,159. The business-type activities (consisting of the City's water and sewer) net assets balance decreased from \$2,333,451 to \$2,197,915.

- For governmental activities, the total net assets invested in capital, net of related debt (after subtracting out debt owed on capital assets) decreased from \$576,786 to \$542,593
- For business-type activities, the total of net assets invested in capital, net of related debt decreased from \$1,898,657 to \$1,730,332.

- For business-type activities, the City's long-term debt at September 30, 2012 decreased from \$1,460,000 to \$1,422,000.
- The most significant continuing revenue sources for governmental activities of the City consisted of \$38,433 in charges for services, \$47,620 in property tax and related revenues, \$24,605 in franchise fees, and \$33,870 in sales tax revenues.

Charges for business-type activities of the enterprise fund totaled \$702,611.

Government-Wide Financial Analysis

Statement of Net Assets

Included is a Statement of Net Assets for the City of Redwater, Texas. The format allows the reader to view the overall financial position of the City. The prior year financials have been restated to reflect the affects of prior period adjustments.

	Governmental Activities		Business-Type Activities		Component Unit	
	2012	2011	2012	2011	2012	2011
Current assets	\$ 250,469	\$ 214,181	\$ 602,871	\$ 578,038	\$ 82,959	\$ 71,873
Capital assets, net	542,593	576,786	3,190,332	3,396,210	115,693	115,693
Other assets	-	-	34,360	36,250	-	-
Total Assets	793,062	790,967	3,827,563	4,010,498	198,652	187,566
Other liabilities	1,903	5,599	207,648	217,047	12	3,290
Long-term liabilities	-	-	1,422,000	1,460,000	6,625	6,348
Total Liabilities	1,903	5,599	1,629,648	1,677,047	6,637	9,638
Net assets						
Invested in capital assets, net of related debt	542,593	576,786	1,730,332	1,898,657	109,068	106,067
Restricted	-	-	253,422	241,425	82,947	71,861
Unrestricted	248,566	208,582	214,161	193,369	-	-
Total Net Assets	\$ 791,159	\$ 785,368	\$ 2,197,915	\$ 2,333,451	\$ 192,015	\$ 177,928

Governmental Activities - Statement of Net Assets

The major component of the current and other assets category consists of cash and cash equivalents of \$237,539. The balance in this category comprised of various receivables (amounts due) for taxes and for revenues due from intergovernmental agencies. The total for cash and cash equivalents reflects the City's past performance in meeting budgetary goals and the accumulation of resources for future needs of the City.

Capital assets totaling \$542,593 (net of accumulated depreciation) is the largest component of assets, and represents the City's investment in capital assets necessary to provide services to citizens of the City of Redwater, Texas. The major categories of fixed assets (land, buildings, machinery and equipment, vehicles, and parks) reflect the type services currently provided to the City's residents.

Business-Type Activities - Statement of Net Assets

For business-type activities (utility fund), there are three major components of current. Unrestricted cash, cash equivalents and certificates of deposit, totaling \$106,170 at fiscal year-end, is available to support current operations, long-range improvement of the utility system, and future debt requirements. Restricted cash and cash equivalents totals \$356,694. Accounts and unbilled receivable balances of \$98,974 represent outstanding water and sewer billings at fiscal year-end.

Capital assets totaling \$3,190,332 (net of accumulated depreciation) represent the City's investment in equipment, vehicles, and systems and improvement for the water and sewer systems. Long-term debt outstanding consists of \$1,460,000 for notes payable to support operations of the utility system. Other liabilities at fiscal year-end consist primarily of accounts payable, accrued expenses and other liabilities, and customer meter deposits payable.

Net assets invested in capital assets, net of related debt is the major component of net assets for business-type activities (enterprise fund) at a total of \$1,730,332. Net assets restricted for debt service totaled \$253,422. The balance of \$214,161 comprises Unrestricted Net Assets.

Statement of Activities

A Statement of Activities for the City of Redwater, Texas is presented below listing the major categories of revenues and expenses for the fiscal year ended September 30, 2012 and 2011. An explanation of the components of this statement is included immediately following the table.

City of Redwater, Texas Statement of Activities						
	Governmental Activities		Business-Type Activities		Component Unit	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for Services	\$ 38,433	\$ 34,418	\$ 702,611	\$ 741,934	\$ -	\$ -
Operating Grants and Contributions	-	103,698	-	-	-	-
Capital Grants and Contributions	-	-	-	115,695	-	-
General Revenues:						
Property taxes	47,620	42,531	-	-	-	-
Franchise taxes	24,605	24,908	-	-	-	-
Sales and use taxes	33,870	33,561	-	-	16,935	16,780
Gain(loss) on sale of asset	-	-	-	350	-	-
Interest	314	221	528	584	98	53
Other Income	5,033	-	4,099	-	-	-
Total Revenues	149,875	239,337	707,238	858,563	17,033	16,833
Program Expenses:						
General Government	108,276	205,978	-	-	-	-
Parks	29,808	-	-	-	-	-
Economic Development	-	-	-	-	2,946	2,780
Public Safety	6,000	6,000	-	-	-	-
Water and Sewer	-	-	842,774	859,434	-	-
Total Expenses	144,084	211,978	842,774	859,434	2,946	2,780
Increase (Decrease) in Net Assets	5,791	27,359	(135,536)	(871)	14,087	14,053

Government-Wide Review of Statement of Activities

The Statement of Net Assets presents revenues, expenses, and changes in net assets separately for governmental activities and business-type activities. The format allows for presentation of program revenues (charges for services, operating grants and contributions, and capital grants and contributions) followed by a listing of general revenues to support the City's overall governmental or business-type activities. Expenses are presented on a functional basis, with depreciation on fixed assets directly allocated to the related expense (general and administrative, parks, etc.).

Governmental Activities - Statement of Activities

As noted above, there are two categories of revenues on the Statement of Activities - program revenues and general revenues. Program revenues derive directly from the program itself or from parties outside the City's taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government's general revenues. Program revenues are further divided into charges for services, operating grants and contributions, and capital grants and contributions. For governmental activities, the major revenues for the City in the charges for services are \$21,493 for refuse income, \$6,000 for public safety activities and \$10,940 for miscellaneous charges in general and administrative activities.

General revenues include all revenues not required to be reported as program revenues. All taxes are to be reported by type tax. For the City of Redwater, Texas, the major tax revenues are property tax and related revenues of \$47,620, franchise fees of \$24,605 and sales tax revenues of \$33,870.

Program expenses are presented in the above Statement of Activities by function and total \$144,084 for the current fiscal year-end. Revenues less expenses presented in this statement total to a positive change in net assets of \$5,791.

Business-Type Activities - Statement of Activities

Business-type activities provided by the City of Redwater, Texas consist of water and sewer. All revenues are in the category of program revenues, with the exception of interest income reported as general revenue. Program revenues for the current fiscal year in the charges for services subcategory consist of billings of \$702,611 for water and sewer.

The City reports the total amount of expenses for operation of the utility system as \$842,774 for the fiscal year ended September 30, 2012. The change in net assets (revenues less expenses and transfers) for the current fiscal year was a decrease in net assets of \$135,536. Water and sewer program expenses include \$225,570 of depreciation expense.

Governmental Funds

At year-end, the City's governmental funds reported combined fund balance of \$248,566 as unassigned. Under the modified-accrual basis for fund financial statements, the emphasis is on accounting for current financial resources of the City. Assets consist primarily of \$237,539 cash and cash equivalents. Liabilities for the City consist primarily of accounts payable, accrued expenses and other liabilities and due to the Proprietary Fund.

The fund reporting format presents in the Statement of Revenues, Expenditures, and Changes in Fund Balance all revenue types followed by the expenses of the City, also presented on a functional basis. However, for the fund financial statements, the City reports only current year capital expenditures and does not report depreciation on capital assets. Principal payments on loans are reported only as a current year expenditure and not the related long-term loan liability as in the government-wide financial statements. The major revenue sources are similar to the government-wide presentation above, with additional detail provided for services for which the City receives a fee or charge for services (refuse and rental fees). The General Fund reports a balance of \$39,984 of revenues and other sources over expenditures and other uses. Fund balance at the end of the current fiscal year for the General Fund was \$248,566.

Proprietary Fund

The total amounts presented for the Proprietary Fund (utility funds for water and sewer services) are identical to the government-wide presentation. Statement of Revenues, Expenses, and Changes in Net Assets, presents a more detailed listing of expenses than presented in the government-wide statements, pending implementation of financial reporting improvements to report activities of the water and sewer systems on a functional basis. The major operating expenses of these funds include \$143,155 for water contract, \$155,575 for salaries and wages, and \$225,570 for depreciation expense. Non-operating revenues and expenses include \$528 in interest income, \$61,690 reported for interest expense and fees on bonds, notes and capital leases payable.

Capital Assets and Long-Term Debt

Capital Assets

At the end of the fiscal year 2012, the governmental activities had \$542,593 (net of accumulated depreciation) invested in a broad range of capital assets.

The business-type activities has \$3,190,332 (net of accumulated depreciation) invested in capital assets. Business-type activities capital assets additions during the year ended September 30, 2012 include office furniture and equipment, equipment and tools, water meters, and sewer system.

More detailed information about the City's capital assets is presented in Note E to the financial statements.

Long-Term Debt

At year-end the City had \$1,460,000 in notes payable in the business-type activities. More detailed information about the City's long-term liabilities is presented in Note F to the financial statements.

Budget and Actual Revenues and Expenditures

The variance between budgeted and actual revenues for the General Fund is a positive \$4,765. The variance between budgeted and actual expenditures for the General Fund is a positive \$35,219.

Economic Factors

The City of Redwater, Texas's management approach is conservative, yet accommodating to economic development. Whenever possible, the Mayor and City Council actively pursue grants and other funding to provide more and better services for the City while relying on existing revenues and living within the budget. The City of Redwater, Texas finances long-term projects only when necessary. The property tax rate for fiscal year ending September 30, 2013 remained the same at \$0.188931.

Requests for Information

This financial report is designed to provide a general overview of the City of Redwater, Texas's finances and to demonstrate the City's accountability. If you have questions regarding this report or need additional information, contact the city hall at P.O. Box 209, Redwater, Texas, 75573. The phone number for the City is (903) 671-2775.

***CITY OF REDWATER, TEXAS
BASIC FINANCIAL STATEMENTS***

CITY OF REDWATER, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 237,539	\$ 100,384	\$ 337,923	\$ -
Certificates of deposit	23,143	5,786	28,929	-
Accounts receivable (net)	30,808	-	30,808	-
Utility accounts receivable (net)	-	77,461	77,461	-
Unbilled receivables (net)	-	21,513	21,513	-
Restricted assets - cash and cash equivalents	-	356,694	356,694	82,959
Interfund accounts	(41,033)	41,033	-	-
Due from RIDC	12	-	12	-
Capital assets (net of accumulated depreciation):				
Land	146,322	25,331	171,653	115,693
Buildings	87,700	37,858	125,558	-
Office furniture and equipment	17,965	22,423	40,388	-
Equipment and tools	23,269	258,728	281,997	-
Park facilities	596,156	-	596,156	-
Pumps and equipment	-	322,806	322,806	-
Line and storage	-	2,318,199	2,318,199	-
Water meters	-	149,091	149,091	-
Sewer system	-	2,472,718	2,472,718	-
Less accumulated depreciation	(328,819)	(2,416,822)	(2,745,641)	-
Capitalized debt issuance costs (net)	-	34,360	34,360	-
Total Assets	<u>\$ 793,062</u>	<u>\$ 3,827,563</u>	<u>\$ 4,586,265</u>	<u>\$ 198,652</u>
LIABILITIES				
Accounts payable	\$ 489	\$ 40,424	\$ 40,913	\$ -
Accrued expenses and other liabilities	1,414	7,861	9,275	-
Accrued interest payable	-	20,123	20,123	-
Contracts payable	-	18,091	18,091	-
Customer meter deposits	-	83,149	83,149	-
Due to General Fund	-	-	-	12
Noncurrent liabilities:				
Due within one year	-	38,000	38,000	3,699
Due in more than one year	-	1,422,000	1,422,000	2,926
Total Liabilities	<u>1,903</u>	<u>1,629,648</u>	<u>1,631,551</u>	<u>6,637</u>
NET ASSETS				
Invested in capital assets, net of related debt	542,593	1,730,332	2,272,925	109,068
Restricted for:				
Debt service	-	253,422	253,422	-
Economic development	-	-	-	82,947
Unrestricted	<u>248,566</u>	<u>214,161</u>	<u>462,727</u>	<u>-</u>
Total Net Assets	<u>\$ 791,159</u>	<u>\$ 2,197,915</u>	<u>\$ 2,989,074</u>	<u>\$ 192,015</u>

The accompanying notes are an integral part of this statement.

**CITY OF REDWATER, TEXAS
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2012**

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets							Component Unit
	Program Revenues			Primary Government				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General and administrative	\$ 108,276	\$ 32,433	\$ -	\$ -	\$ (75,843)	\$ -	\$ (75,843)	\$ -
Parks	29,808	-	-	-	(29,808)	-	(29,808)	-
Public Safety	6,000	6,000	-	-	-	-	-	-
Total governmental activities	144,084	38,433	-	-	(105,651)	-	(105,651)	-
Business-type activities:								
Water and sewer	842,774	702,611	-	-	-	(140,163)	(140,163)	-
Total business-type activities	842,774	702,611	-	-	-	(140,163)	(140,163)	-
Total primary government	\$ 986,858	\$ 741,044	\$ -	\$ -	\$ (105,651)	\$ (140,163)	\$ (245,814)	\$ -
Component Unit:								
RIDC	2,946	-	-	-	-	-	-	(2,946)
Total component unit	\$ 2,946	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(2,946)
General revenues:								
Property taxes and related revenues					47,620	-	47,620	-
Franchise fees					24,605	-	24,605	-
Sales taxes					33,870	-	33,870	16,935
Interest income					314	528	842	98
Other income					5,033	4,099	9,132	-
Total general revenues					111,442	4,627	116,069	17,033
Change in net assets					5,791	(135,536)	(129,745)	14,087
Net assets at beginning of year					1,079,994	2,333,451	3,413,445	177,928
Prior period adjustment					(294,626)	-	(294,626)	-
Net assets at end of year					\$ 791,159	\$ 2,197,915	\$ 2,989,074	\$ 192,015

The accompanying notes are an integral part of this statement

CITY OF REDWATER, TEXAS
GOVERNMENTAL FUND TYPES
BALANCE SHEET
SEPTEMBER 30, 2012

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 237,539	\$ 237,539
Certificates of deposit	23,143	23,143
Receivables, net allowances	30,808	30,808
Due from RIDC	12	12
Total Assets	<u>\$ 291,502</u>	<u>\$ 291,502</u>
 LIABILITIES AND FUND BALANCES		
Accounts payable	\$ 489	\$ 489
Accrued expenses and other liabilities	1,414	1,414
Due to Proprietary Fund	41,033	41,033
Total Liabilities	<u>42,936</u>	<u>42,936</u>
Unassigned Fund Balance	<u>248,566</u>	<u>248,566</u>
Total Fund Balances	<u>248,566</u>	<u>248,566</u>
Total Liabilities and Fund Balances	<u>\$ 291,502</u>	<u>\$ 291,502</u>

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

Total Fund Balance - Governmental Funds \$ 248,566

Amounts reported for governmental activities in the statements of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. At the beginning of the year, cost of these assets was \$871,412 and the accumulated depreciation was \$294,626. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets. 576,786

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements but they should be shown as increases in capital assets and reductions in long-term debt in the government wide financial statements. The net effect of including the 2012 capital outlays of \$0 plus debt principal payments of \$0 is to increase net assets. -

The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net assets. (34,193)

Net Assets of Governmental Activities \$ 791,159

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
GOVERNMENTAL FUND TYPES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund	Total Governmental Funds
Revenues		
Property taxes	\$ 47,620	\$ 47,620
Franchise taxes	24,605	24,605
Sales taxes	33,870	33,870
Intergovernmental	6,000	6,000
Refuse income	21,493	21,493
Rental income	9,000	9,000
Interest	314	314
Miscellaneous	6,973	6,973
Total revenues	<u>149,875</u>	<u>149,875</u>
Expenditures		
Accounting and audit fees	1,865	1,865
Appraisal district fees	1,925	1,925
Beautification	1,801	1,801
Insurance	8,741	8,741
Legal and filing fees	154	154
Mileage, travel and training	2,874	2,874
Office supplies/postage	1,133	1,133
Repairs and maintenance	4,681	4,681
Retirement	890	890
Salaries & taxes-administration	35,149	35,149
Street repairs	31,407	31,407
Utilities	7,208	7,208
Miscellaneous	5,180	5,180
Public safety	6,000	6,000
Public works	883	883
Total expenditures	<u>109,891</u>	<u>109,891</u>
Excess (deficiency) of revenues over expenditures	39,984	39,984
Fund balance at beginning of year	<u>208,582</u>	<u>208,582</u>
Fund balance at end of year	<u>\$ 248,566</u>	<u>\$ 248,566</u>

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2012

Net changes in Fund Balances - Governmental Funds	\$ 39,984
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements but they should be shown as increases in capital assets and reductions in long-term debt in the government wide financial statements. The net effect of including the 2012 capital outlays of \$0 plus debt principal payments of \$0 is to increase net assets.</p>	
	-
<p>The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net assets.</p>	
	(34,193)

Change in Net Assets in Governmental Activities	\$ 5,791

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Water and Sewer	Totals
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 100,384	\$ 100,384
Certificates of deposit	5,786	5,786
Accounts receivable (net)	77,461	77,461
Unbilled receivables (net)	21,513	21,513
Due from General Fund	41,033	41,033
Total Current Assets	246,177	246,177
Restricted Assets:		
Cash and cash equivalents	356,694	356,694
Capital Assets:		
Land	25,331	25,331
Buildings	37,858	37,858
Furniture and equipment	22,423	22,423
Equipment and tools	258,728	258,728
Pumps and treatment equipment	322,806	322,806
Lines and storage	2,318,199	2,318,199
Water meters	149,091	149,091
Sewer system	2,472,718	2,472,718
Less accumulated depreciation	(2,416,822)	(2,416,822)
Total Capital Assets, net of accumulated depreciation	3,190,332	3,190,332
Other Assets:		
Deferred issuance costs, net of accumulated amortization	34,360	34,360
Total Assets	\$ 3,827,563	\$ 3,827,563
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 40,424	\$ 40,424
Refuse contract payable	18,091	18,091
Accrued expenses and other liabilities	7,861	7,861
Customer meter deposits	83,149	83,149
Accrued interest payable	20,123	20,123
Bonds and notes payable, current portion	38,000	38,000
Total Current Liabilities	207,648	207,648
Noncurrent Liabilities:		
Bonds and notes payable, long-term, net	1,422,000	1,422,000
Total Noncurrent Liabilities	1,422,000	1,422,000
Total Liabilities	1,629,648	1,629,648
NET ASSETS		
Invested in capital assets, net of related debt	1,730,332	1,730,332
Restricted	253,422	253,422
Unrestricted	214,161	214,161
Total Net Assets	\$ 2,197,915	\$ 2,197,915

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Water and Sewer	Totals
Operating Revenues:		
Charges for services	\$ 702,611	\$ 702,611
Other income	4,099	4,099
Total operating revenues	706,710	706,710
Operating Expenses:		
Accounting and audit	10,680	10,680
Amortization	1,890	1,890
Bad debt expense	3,632	3,632
Chemicals	13,886	13,886
Contract labor	3,932	3,932
Depreciation	225,570	225,570
Equipment repairs and maintenance	13,290	13,290
Equipment supplies	8,077	8,077
Fees and permits	4,544	4,544
Insurance - group health insurance	28,515	28,515
Insurance - other	5,481	5,481
Lab services and testing	10,151	10,151
Legal and advertising	234	234
Maintenance contracts	1,980	1,980
Miscellaneous	8,400	8,400
Office supplies and expense	2,632	2,632
Postage	5,096	5,096
Refuse charges	2,773	2,773
Rent-building and equipment	10,104	10,104
Repairs and maintenance - water and sewer system	10,155	10,155
Retirement	4,215	4,215
Salaries and wages	155,575	155,575
Supplies-operating	26,060	26,060
Taxes-payroll	13,658	13,658
Telephone and radio	6,096	6,096
Utilities	41,709	41,709
Vehicle repairs and maintenance	4,457	4,457
Vehicle supplies	15,137	15,137
Water contract	143,155	143,155
Total operating expenses	781,084	781,084
Operating income (loss)	(74,374)	(74,374)
Non-Operating Revenues (Expenses)		
Interest income	528	528
Interest expense and fees	(61,690)	(61,690)
Total nonoperating revenues (expenses)	(61,162)	(61,162)
Change in net assets	(135,536)	(135,536)
Net assets at beginning of year	2,333,451	2,333,451
Net assets at end of year	\$ 2,197,915	\$ 2,197,915

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Water and Sewer	Totals
Cash Flows from Operating Activities		
Receipts from customers	\$ 703,566	\$ 703,566
Payments to suppliers	(407,490)	(407,490)
Payments to employees	(155,575)	(155,575)
	140,501	140,501
Cash Flows from Capital and Related Financing Activities		
Capital assets purchased	(19,692)	(19,692)
Bonds and notes principal retirement	(37,553)	(37,553)
Bonds and notes interest and fees expense paid	(62,095)	(62,095)
	(119,340)	(119,340)
Cash Flows from Investing Activities		
Interest received on investments	528	528
Liquidation of investments	8,503	8,503
	9,031	9,031
Net increase (decrease) in cash and cash equivalents	30,192	30,192
Cash and cash equivalents at beginning of year	426,886	426,886
Cash and cash equivalents at end of year	\$ 457,078	\$ 457,078
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (74,374)	\$ (74,374)
Depreciation expense	225,570	225,570
Amortization expense	1,890	1,890
Change in assets and liabilities:		
(Increase) decrease in receivables	(3,144)	(3,144)
Increase (decrease) in accounts payable	(26,980)	(26,980)
Increase (decrease) in accrued expenses and other liabilities	11,163	11,163
Increase (decrease) in customer meter deposits	6,376	6,376
Net cash provided by operating activities	\$ 140,501	\$ 140,501

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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 provision of the State of Texas. The City operates under a Council-Mayor form of government and provides the following services as authorized by its state statutes: public safety and general administrative services. The city owns and operates a water and sewer system.

The accounting and reporting policies of the City relating to the amounts included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the Publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

Reporting Entity

The City's basic financial statement included the accounts of all City operations. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Redwater, Texas.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in United States generally accepted accounting principles (GAAP). The basic, but not only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

The component unit of the City is the 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.

Overview of Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that restricted to meeting the operational or capital requirements of a particular program.

The financial statements include a "Management Discussion and Analysis" (MD&A) section providing an analysis of the City's overall financial position and results of operations, financial statements prepared using full accrual accounting for all the City's activities, and a change in the fund financial statements to focus on the major funds.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental Funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund - The General Fund is the main operating fund of the City. The fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

Water and Sewer Fund - 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 fee 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 services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

Basis of Accounting and Measurement Focus

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources management focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liabilities is incurred. However, debt service expenditures, excepts for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences and arbitrage are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise taxes, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

Budget and Budgetary Accounting

The City Council adopts a budget each year by ordinances. As the year progresses, resolutions are adopted by the City Council for changes to the original budgeted amounts. The resolutions are incorporated into an ordinance at year-end to legalize any approved changes to the original budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

Cash and Investments

For purposes of the statement of cash flows, the City considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash includes demand deposit accounts and cash on hand. Investments consist of certificates of deposit, which are stated at cost, the approximated market value of the investments.

Restricted Assets

Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as they are needed.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The restricted assets at September 30, 2012 are as follow:

<u>Type of Restricted Asset</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Meter Deposits	\$ 83,149	\$ -
Maintenance Fund	83,232	-
Bond Reserve Fund	52,062	-
2003 Debt Service Fund	22,895	-
2005 Debt Service Fund	81,618	-
Maintenance Fund-Investments	33,738	-
Economic Development	-	82,959
Total Restricted Assets	\$ 356,694	\$ 82,959

Accounts Receivable

The accounts receivable at September 30, 2012 are as follow:

<u>Accounts Receivable</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Franchise tax	\$ 6,967	-	\$ 6,967
Property tax	11,593	-	11,593
Interest	24	6	30
Grant	23,030	-	23,030
Customer billed	-	82,305	82,305
Allowance for doubtful accounts	(10,806)	(4,850)	(15,656)
Total Accounts Receivable, Net	\$ 30,808	\$ 77,461	\$ 108,269

Capital Assets

Capital Assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and in the fund financial statements for the proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date of donation. Repairs and maintenance are recorded as expenses. Improvements are capitalized. Interest has not been capitalized during the period of construction of capital assets. 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 BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Depreciation is calculated by using the straight-line method. Estimated useful lives of assets are:

Buildings	5-20 years
Office Furniture and Equipment	5-10 years
Pumps and Treatment Equipment	5-20 years
Equipment and Tools	3-7 years
Line and Storage	10-50 years
Water meters	10 years
Sewer system	7-50 years

Long-Term Debt

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

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.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund-level statements. All interfund transactions between governmental funds are eliminated on the government-wide statements.

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated. Transfers between governmental funds, business-type activities or the component unit have not been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Fund Equity

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories as following:

Nonspendable fund balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the City's highest level of decision-making authority, the Council. Committed resources cannot be used for any other purposes unless the Council removes or changes the specific use by taking the same formal action that imposed the constraint originally.

Assigned fund balance – represents amount the City intends to use for specific purposes as expressed by the Council or an official delegated with the authority.

Unassigned fund balance – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and then unassigned fund balance.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition or construction of those assets.

NOTE B – COLLATERALIZATION OF DEPOSITS

Custodial Credit Risk for Deposit – Statutes authorize the City to invest in bank certificates of deposit, obligations of the U.S. Treasury and U.S. agencies, banker's acceptances repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P- I by Moody's Commercial Paper Record. The City's policy is to invest in instruments or require collateral so as to not expose the City to credit, custodial credit, custodial concentration, interest rate, or foreign currency risks. Since the City complies with this law, it has no custodial credit risk for deposits.

At September 30, 2012, the bank balances, including time deposits, were fully insured by FDIC at all financial institutions.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Public Funds Investment Act (PFIA) governs the City's investment policies and types of investments. The City's management believes that it complied with the requirements of the PFIA and the City's investment policies.

NOTE C – PROPERTY TAXES

Property taxes are levied by October 1 and may be paid without penalty until January 31. Penalty and interest are then added to payments received February 1 through June 30. An enforceable lien is attached when property taxes become delinquent. City property taxes are recognized as revenue in the accounting period when they become susceptible to accrual, i.e., when they become both measurable and available to pay liabilities of the current period. Only property taxes available within 60 days from the end of the fiscal period are subject to accrual. The City accrued \$788 of delinquent property taxes at September 30, 2012.

The Bowie County Appraisal District bills and collects property taxes for the city of Redwater. The State of Texas Constitution limits the City's ad valorem tax rate for all purposes to \$1.50 per one hundred dollars of assessed valuation. Ad valorem tax revenue during the year ended September 30, 2012, was levied using a rate of \$0.188931 per one hundred dollars of assessed valuation. Based on 100% of estimated market value, the City has a tax margin of \$1.311069 per \$100 and could raise an additional \$307,857 per year from the present assessed valuation of \$23,481,395 before the limit is reached. The amount assessed for the 2011 tax roll was \$44,366.

NOTE D – FINANCING AND RELATED INSURANCE ISSUES

In the normal course of business, the City is exposed to risks of loss from a number of sources including fire and casualty losses, errors or omissions by council members and employees, negligent acts by employees, automobile and mobile equipment accidents, and injuries to employees during the course of performing duties for the City.

The City attempts to cover these losses by the purchase of insurance. Currently the City purchases 100% of its risk-related insurance through the Texas Municipal League Intergovernmental Risk Pool. The City purchases insurance from the pool with annual maximum limits and to the extent of these maximum limits the City will incur no additional liability due to excess insurance purchases by the risk pool. The City would be liable for claims in excess of the policy limits. In management's estimation, there are no current loss claims that exceed the insured maximum limits. Significant loss experiences could subject the City to significant premium increases.

There was no reduction in insurance coverage from the prior year and in management's estimation maximum coverage limits are adequate.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE E – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012, are as follows:

	Balance October 1, 2011	Additions	Deletions	Balance September 30, 2012
<u>Business-type activities - cost</u>				
Land	\$ 25,331	\$ -	\$ -	\$ 25,331
Buildings	37,858	-	-	37,858
Office furniture and equipment	21,881	542	-	22,423
Equipment and tools	245,419	13,309	-	258,728
Pumps and treatment	322,806	-	-	322,806
Lines and storage	2,318,199	-	-	2,318,199
Water meters	147,950	1,141	-	149,091
Sewer system	2,468,018	4,700	-	2,472,718
Total	<u>\$ 5,587,462</u>	<u>\$ 19,692</u>	<u>\$ -</u>	<u>\$ 5,607,154</u>
	Balance October 1, 2011	Additions	Deletions	Balance September 30, 2012
<u>Business-type activities - accumulated depreciation</u>				
Building	\$ 26,608	\$ 1,181	\$ -	\$ 27,789
Office furniture and equipment	18,543	1,638	-	20,181
Equipment and tools	206,508	22,434	-	228,942
Pumps and treatment	120,696	19,102	-	139,798
Lines and storage	809,564	70,366	-	879,930
Water meters	113,248	11,518	-	124,766
Sewer system	896,085	99,331	-	995,416
Total	<u>\$ 2,191,252</u>	<u>\$ 225,570</u>	<u>\$ -</u>	<u>\$ 2,416,822</u>
 <u>Total Business-type activities capital assets, net</u>	 <u>\$ 3,396,210</u>	 <u>(\$205,878)</u>	 <u>\$ -</u>	 <u>3,190,332</u>

Business-type activities - All depreciation expense of \$225,570 recorded in the business-type activities was charged to the Water and Sewer Fund. Business-type activities capital assets additions during the year ended September 30, 2012 totaled \$19,692.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Balance October 1, 2011	Additions	Deletions	Balance September 30, 2012
<u>Governmental activities -cost</u>				
Buildings	\$ 87,700	\$ -	\$ -	\$ 87,700
Office furniture and equipment	17,965	-	-	17,965
Equipment and tools	23,269	-	-	23,269
Park facilities	596,156	-	-	596,156
Land	13,322	-	-	13,322
Park land	133,000	-	-	133,000
Total	<u>\$ 871,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 871,412</u>
	Balance October 1, 2011	Additions	Deletions	Balance September 30, 2012
<u>Governmental activities -accumulated depreciation</u>				
Buildings	\$ 74,545	\$ 4,385	\$ -	\$ 78,930
Office furniture and equipment	17,965	-	-	17,965
Equipment and tools	23,269	-	-	23,269
Park facilities	178,847	29,808	-	208,655
Total	<u>\$ 294,626</u>	<u>\$ 34,193</u>	<u>\$ -</u>	<u>\$ 328,819</u>
<u>Total Governmental activities capital assets, net</u>	<u>\$ 576,786</u>	<u>\$ (34,193)</u>	<u>\$ -</u>	<u>\$ 542,593</u>

Governmental activities depreciation expense charged to program activities was:

General and administration	\$ 4,385
Parks	29,808
	<u>\$ 34,193</u>

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE F – LONG-TERM DEBT

Business-type activities long-term debt at September 30, 2012 is comprised of the following:

Water and Sewer Fund:

\$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 4.25%.	\$ 540,000
\$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 4.25%	545,000
\$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 interest rates of 3.40% to 4.10%	<u>375,000</u>
Total Water and Sewer Fund - Business-Type Activities	<u><u>\$ 1,460,000</u></u>

Business-type transactions long term debts for the year ended September 30, 2012 are summarized as follows:

Type of Debt	September 30, 2011	Additions	Retirements	September 30, 2012	Due within one year
Business-type Activities					
Revenue Bonds	\$ 1,101,000	\$ -	\$ 16,000	\$ 1,085,000	\$ 18,000
Certificates of Obligations	<u>396,553</u>		<u>21,553</u>	<u>375,000</u>	<u>20,000</u>
	<u><u>\$ 1,497,553</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 37,553</u></u>	<u><u>\$ 1,460,000</u></u>	<u><u>\$ 38,000</u></u>

The annual requirements to retire long-term debt as of September 30, 2012 follow:

Year Ending September 30,	2003 Series		2005 Series		Total
	Principal	Interest	Principal	Interest	
2013	\$ 18,000	\$ 46,113	\$ 20,000	\$ 14,255	\$ 98,368
2014	18,000	45,348	25,000	13,575	101,923
2015	19,000	44,583	25,000	12,700	101,283
2016	20,000	43,775	25,000	11,813	100,588
2017	20,000	42,925	25,000	10,900	98,825
2018-2022	118,000	199,870	145,000	39,225	502,095
2023-2027	144,000	173,570	110,000	9,202	436,772
2028-2032	177,000	140,293	-	-	317,293
2033-2037	220,000	99,238	-	-	319,238
2038-2042	270,000	48,238	-	-	318,238
2043	61,000	2,593	-	-	63,593
Totals	<u><u>\$ 1,085,000</u></u>	<u><u>\$ 886,546</u></u>	<u><u>\$ 375,000</u></u>	<u><u>\$ 111,670</u></u>	<u><u>\$ 2,458,216</u></u>

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE G – EMPLOYEE RETIREMENT SYSTEMS

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2011	Plan Year 2012
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI Repeating	0% of CPI Repeating

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credit and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that services as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost is \$5,105 and the net pension obligation is \$0.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ Asset
2010	\$ 7,291	\$ 7,291	100%	\$ -
2011	\$ 8,139	\$ 8,139	100%	\$ -
2012	\$ 5,105	\$ 5,105	100%	\$ -

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations.

Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single			
Amortization Period	22.9 yrs; closed period	21.8 yrs; closed period	20.8 yrs; closed period
Amortization Period for new			
Gain / Losses	25 years	12 years	11 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.50%	7.00%	7.00%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.00%	0.00%	0.00%

Funded Status and Funding Progress

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2011	\$87,739	\$105,360	83.3%	\$17,621	\$186,242	9.5%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to the continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**CITY OF REDWATER, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Supplemental Death Benefits Fund

The City also participates in the cost-sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Your city offers supplemental death to:	<u>Plan Year 2011</u>	<u>Plan Year 2012</u>
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2012, 2011 and 2010 were \$267, \$186 and \$176.

NOTE H – CONTRACTS AND PARTICIPATION AGREEMENT

The City executed a water supply contract with the City of Texarkana, Texas on March 7, 1978. The contract has been amended to change the terms and provisions of the original contract. The amendment also recognizes the establishment of the Riverbend Water Resources District which was created by the 81st Texas Legislature, codified in Title 6, Special District Local Laws Code, Subtitle L, Chapter 9601, effective June 19, 2009, to which, the City became a member in December 2011.

The City incurred \$139,683 of expenditures for water under the water supply contract for the year ending September 30, 2012. The amount incurred is based on actual water consumption. Membership fees paid to Riverbend totaled \$3,472 for the year ending September 30, 2012.

NOTE I – DISCLOSURES OF REDWATER INDUSTRIAL DEVELOPMENT CORPORATION

The Redwater Industrial Development Corporation (RIDC) is a discrete component unit of the City of Redwater, Texas. The board of RIDC is appointed by the City Council. Its mission is to improve economic growth in the City of Redwater, Texas. A special sales tax was passed by the citizens of the City to support the RIDC. The sales tax is to be used for future economic development of the City, which are legally restricted to expenditures for certain purposes.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Cash and Deposits

Custodial Credit Risk for Deposit – Statutes authorize the City to invest in bank certificates of deposit, obligations of the U.S. Treasury and U.S. agencies, banker’s acceptances repurchase agreements and commercial paper rated A-1 by Standard & Poor’s Corporation or P- I by Moody’s Commercial Paper Record. The City’s policy is to invest in instruments or require collateral so as to not expose the City to credit, custodial credit, custodial concentration, interest rate, or foreign currency risks. Since the City complies with this law, it has no custodial credit risk for deposits.

At September 30, 2012, the bank balances, including time deposits, were fully insured by FDIC at all financial institutions.

Long-Term Debt

On July 30, 1984, Redwater Industrial Development Corporation borrowed money from BancorpSouth for purchase of real estate in the amount of \$30,000. The note is payable in 120 monthly installments of \$293 at an interest rate of 2.95%.

Long-term debt transactions for the year ended September 30, 2012 are summarized as follows:

	Balance October 1, 2011	Additions	Retirements	Balance September 30, 2012	Due within one year
Note payable	\$ 9,626	\$ -	\$ 3,001	\$ 6,625	\$ 3,699
	<u>\$ 9,626</u>	<u>\$ -</u>	<u>\$ 3,001</u>	<u>\$ 6,625</u>	<u>\$ 3,699</u>

The annual requirements to retire long-term debt as of September 30, 2012 follow:

For the Years Ending:	Principal	Interest	Total
September 30, 2013	3,699	157	3,856
September 30, 2014	2,926	40	2,966
	<u>\$ 6,625</u>	<u>\$ 197</u>	<u>\$ 6,822</u>

NOTE J – PRIOR PERIOD ADJUSTMENT

The City’s governmental capital assets have reported at cost in previous years. The depreciable assets were not properly recorded net of accumulated depreciation. The prior period adjustment results in a decrease in governmental activities net assets on the government-wide financial statements of \$294,626, which represents accumulated depreciation of the assets as of September 30, 2011.

NOTE K – SUBSEQUENT EVENTS

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through June 7, 2013, which is the date the financial statements were available to be issued.

***CITY OF REDWATER, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION***

CITY OF REDWATER, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		GAAP	Variance with
	Original	Final	Basis	Final Budget
			Actual	Favorable
			Amount	(Unfavorable)
Revenues				
Property taxes	\$ 44,000	\$ 44,000	\$ 47,620	\$ 3,620
Franchise taxes	20,000	20,000	24,605	4,605
Sales taxes	45,000	45,000	33,870	(11,130)
Intergovernmental	6,000	6,000	6,000	-
Refuse income	19,000	19,000	21,493	2,493
Rental income	9,000	9,000	9,000	-
Interest	120	120	314	194
Miscellaneous	1,990	1,990	6,973	4,983
Total revenues	145,110	145,110	149,875	4,765
Expenditures				
Accounting and audit fees	2,000	2,000	1,865	135
Appraisal district fees	1,800	1,800	1,925	(125)
Beautification	1,000	1,000	1,801	(801)
Insurance	8,500	8,500	8,741	(241)
Legal and filing fees	1,500	1,500	154	1,346
Mileage, travel and training	4,500	4,500	2,874	1,626
Office supplies/postage	2,500	2,500	1,133	1,367
Repairs and maintenance	6,200	6,200	4,681	1,519
Retirement	3,000	3,000	890	2,110
Salaries & taxes-admin	33,000	33,000	35,149	(2,149)
Street repairs	35,000	35,000	31,407	3,593
Utilities	5,500	5,500	7,208	(1,708)
Miscellaneous	7,260	7,260	5,180	2,080
Public safety	6,000	6,000	6,000	-
Public works	3,800	3,800	883	2,917
Animal control	1,000	1,000	-	1,000
Emergency management	3,000	3,000	-	3,000
Election	700	700	-	700
Remodeling city hall	3,000	3,000	-	3,000
RIDC	15,000	15,000	-	15,000
Service charges	850	850	-	850
Total expenditures	145,110	145,110	109,891	35,219
Excess (deficiency) of revenues over expenditures	-	-	39,984	39,984
Fund balance at beginning of year	208,582	208,582	208,582	-
Fund balance at end of year	\$ 208,582	\$ 208,582	\$ 208,582	\$ -

* The City budgets gross sales tax revenue and expenses the one-third portion paid to the RIDC. The books net the expenditures against the revenue.

CITY OF REDWATER, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(UNAUDITED)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
	(1)	(2)	(3) (1) / (2)	(4) (2) - (1)	(5)	(6) (4) / (5)
12/31/2009	53,830	80,943	66.5%	27,113	194,554	13.9%
12/31/2010	71,273	101,826	70.0%	30,553	175,698	17.4%
12/31/2011	87,739	105,360	83.3%	17,621	186,242	9.5%

***CITY OF REDWATER, TEXAS
REPORT ON COMPLIANCE AND INTERNAL CONTROLS***

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS***

Independent Auditor's Report

Honorable Mayor and
Members of the City Council
City of Redwater, Texas

Members of the Council:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of city of Redwater, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 7, 2013. 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 city of Redwater, Texas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered city of Redwater, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the city of Redwater, Texas' internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the city of Redwater, Texas' internal control over financial reporting.

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

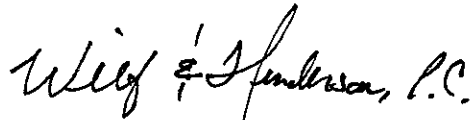
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses. We did not identify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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether city of Redwater, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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*.

We noted certain matters that we reported to management of city of Redwater, Texas, in a separate letter dated June 7, 2013.

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.

A handwritten signature in cursive script that reads "Wilf & Henderson, P.C.".

WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

June 7, 2013