

CITY OF TEXARKANA, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**For the Fiscal Year Ended
September 30, 2010**

Prepared by:

*Department of Finance
Charles L. Bassett, Jr., CPA
Chief Financial Officer*

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Introductory Section



CITY OF TEXARKANA, TEXAS

FINANCE DEPARTMENT

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Honorable Mayor and City Council,
City Manager and Citizens of the
City of Texarkana, Texas

The Comprehensive Annual Financial Report (CAFR) of the City of Texarkana, Texas (the City) for the fiscal year ended September 30, 2010, is submitted in accordance with State statutes. These statutes require that every general-purpose local government publish at the close of each fiscal year a complete set of audited financial statements,

The report is published to provide the City Council, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Holliday, Lemons, & Cox, P. C. Certified Public Accountants, have issued an unqualified opinion on the City of Texarkana, Texas financial statements for the year ended September 30, 2010. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Texarkana, Texas (the City), incorporated in 1874, is located on the Texas –Arkansas state line in the northeast corner of the State of Texas. The City is 28 miles south of Oklahoma and 25 miles north of the Louisiana boundary line. The City currently occupies a land area of 29.5 square miles and serves a population estimated at 36,500. The City is empowered to levy a property tax on real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.



The City has operated under the council-manager form of government since 1960. Policy-making and legislative authority are vested in a governing council (Council) comprised of the mayor and six members, all elected on a non-partisan basis. Council members serve two-year staggered terms, with three members elected by ward every two years. The mayor is elected at large, and serves a two-year term. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager, City Attorney, and Municipal Judge. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments.

The City provides a full range of services, including police, fire, streets and infrastructure, traffic engineering, parks, recreation, library, community development (planning and zoning), public improvements, tourism activities, and general administrative services. Water and sewer distribution and collection activities are provided by Texarkana, Texas water department in conjunction with the Texarkana, Arkansas water department, dba as Texarkana Water Utilities (TWU). The Texas activity of TWU functions as a department of the City, and therefore has been included as an integral part of the City's financial statements. The City also participates in joint ventures with Texarkana, Arkansas to operate the Texarkana Regional Airport and the Bi-State Justice Center.

The financial reporting entity (the government) includes all funds of the primary government (i.e., the City of Texarkana as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. Discretely presented component units are legally separate entities and not part of the primary government's operations. The Texarkana-Bowie County Family Health Center and the Texarkana Public Library are included in the financial statements as discretely presented component units.

Local Economy

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

The City and surrounding region are home to a number of industrial and manufacturing operations, including tire manufacturing, small arms ammunition, paper production, railroad tank car repair, cup and carton manufacturing, pipeline fittings, truck bodies, furniture, valves and couplings, military equipment repair and refurbishing, trucking, and petroleum marketing. Texarkana is also a regional medical center, with two (2) acute care hospitals, offering 675 beds, two (2) rehabilitation hospitals with 140 beds, a 15 bed geriatric psychiatric inpatient facility, and a number of mental health centers, ambulatory surgical centers, home health care organizations, nursing home centers, assisted living centers, and retirement communities. The City has also been designated as a "Texas Certified Retirement Community".

The City's strategic location with the prospect of three (3) interstate highways in the area, a favorable climate, plentiful water supplies, and a good mix of manufacturing, agriculture,

government, tourism, education, medical, retail trade and service centers should contribute to future growth and development for the foreseeable future.

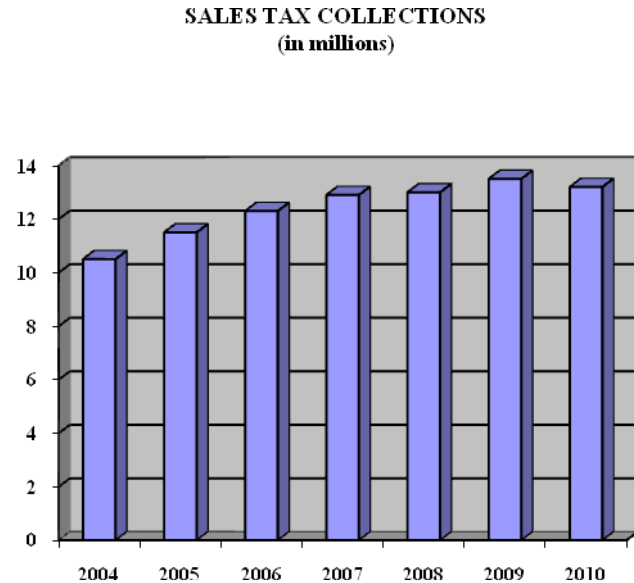
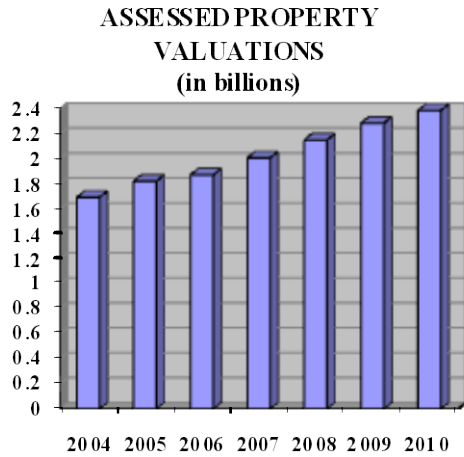
The City's primary and secondary education needs are served by three (3) public school districts, and four (4) other public school districts that border the City, as well as several area private schools. Four (4) institutions of higher education provide services to the City. Texarkana College has more than 5,000 students enrolled; Texas A&M University-Texarkana serves approximately 2,000 students, expanded with the first freshman class in Fall, 2010, has just completed a \$75 million student services building and is currently completing the first student housing at their Bringle Lake campus; the University of Arkansas for Medical Sciences Area Health Education Center which provides higher education services in the area; and Southern Arkansas Tech, which provides airframe and power plant training for 150 students at the airport.

The City has a number of worthwhile attractions, including the only U.S. Post Office located in two states, which provides a unique photo opportunity at Photographer's Island, the Scott Joplin Mural, the historic Perot Theatre, the Regional Arts Center, Ace of Clubs House, Discovery Place Children's Museum and Texarkana Museum of Regional History, the Texarkana Symphony Orchestra, a municipal golf course designed by Jim Fazzio, Jr. and managed by Hank Haney, and City parks that have hosted a number of district and state athletic tournaments. Additionally, there are a multitude of outdoor activities available on one of many lakes and rivers in the region.

The City's economy has been steady over the past twelve months as reflected in reported building statistics. Permits for new non-residential construction increased from last year's value of over \$6,000,000 to around \$19,200,000 this year. Permits for non-residential additions, alterations and conversions also increased from over \$14,000,000 last year to \$15,200,000 this year. Residential permits decreased from \$16,000,000 to \$10,600,000. Residential additions, alterations and conversions ended the year at \$4,100,000, a decline from last year's number of \$10,045,927. Commercial projects for the new year include the following:

- Longhorn Steakhouse
- Academy Sports
- Country Inn and Suites
- Amigo Juan's
- Guaranty Bond Bank – 2 new branches
- Texana Bank – new branch
- Texarkana Convention Center and Hilton Garden Inn
- Arista Apartments
- Encore Apartments
- Red River Credit Union Headquarters

Sales tax and property tax revenues are responsible for a substantial portion of the City's operating budget. Sales tax collections reflected a flat local economy, as collections declined by just under two percent (1.82%) from the prior year. This decline resulted in a loss of almost two hundred fifty thousand dollars (\$243,383) in the City's general fund revenues for the year. Property tax values for the current year were \$2,386,866,367, an increase of slightly over four percent (4.26%) over last year. Property tax collections offset most of the loss in sales tax revenues, increasing by just over two hundred thirty-eight thousand dollars (\$238,012), or just under two percent (1.78%) during the current year. Historical perspectives of these revenues are illustrated in the following graphs:



T-Line, the City’s public transportation network, reported a decrease of over two and one-half percent (2.5%) in passenger trips along its regular routes in 2010, while service on the T-Line’s fixed route ADA Para Transit service increased by sixteen percent (16%) over last year.

Unemployment in the City remained unchanged from last year at 7.2%, which compares favorably to the state rate of 8.2% and the national rate of 9.2%.

Long-Term Financial Planning

Unreserved, undesignated fund balance in the general fund (11.6% of general fund expenditures) is slightly below the reserve goal set by the City Manager of twelve percent (12%). The City has adjusted the minimum to ten percent (10%) reserve in the general fund, and may choose to increase this reserve goal in the future as long-range strategic planning processes are completed and continually updated.

Development along the I-30 Corridor is again projected to be the major commercial growth area in the City. Work continues on the Texas Department of Transportation’s estimated \$153,000,000 project along I-30 through the City, with a projected completion date of July 2011. Texas A&M Texarkana is continuing its downward expansion. It is anticipated that the University Corridor from I-30 to the university will see extensive commercial, multi-family residential and retail development in the future. The future completion of these major projects should continue to strengthen growth in the City’s property tax base and sales tax collections, which comprise around sixty-six percent (66%) of the City’s operating budget.

Several years ago, the City Council increased electric and gas franchise rates, as well as the hotel occupancy tax rate, with specific objectives in mind. The franchise fee increase was reserved for the establishment of an economic development fund to be used for future economic development projects and activities and to provide incentives for potential projects that would bring jobs and

revenue growth to the area. The City is aggressively pursuing economic development projects, and two (2) incentive arrangements are currently in place.

An increase was also granted to the hotel occupancy tax rate, set aside for future development of a convention center facility for the City. Plans continue for a City-owned convention center to be built adjacent to a full-service hotel facility, with construction expected to begin during the current fiscal year. Debt service for this project is expected to be provided by additional hotel occupancy tax revenues to be received in the future.

The City has established two (2) Tax Increment Reinvestment Zones (TIRZ) within its boundaries. The first will operate in an area that begins on the south side of I-30 and extends north along the University Avenue Corridor to include the proposed University overlay district. The second will run from Texas Boulevard at State Line Avenue through the downtown area. Future incremental tax increases to existing properties and new properties in these districts are projected to provide funding for needed infrastructure projects within these areas without an additional tax burden to our citizens. Funding of both districts began on October 1, 2010, and the first project to be constructed in the district will be presented for approval in the current fiscal year.

In 2009 Texarkana Water Utilities received two engineering reports from HDR Engineering, Inc. of Dallas, Texas regarding improvements/replacements to the Wright Patman Water Treatment Plant located on New Boston Road and the South Regional Wastewater Treatment Plant located on South Stateline. The estimated cost to replace the existing Wright Patman Water Treatment Plant with a new 20 million gallon per day membrane filtration plant located at the same site totaled about \$28,000,000. A three phase improvement plan for the South Regional Wastewater Plant was recommended at a total cost of about \$14,000,000. No decisions have been made to move forward with either recommendation at this time.

Relevant Financial Policies

The City's financial policies set forth the basic framework for the fiscal management of the City. These include policies for accounting, budgeting, capital improvements, asset management, revenue management, risk management, and fund balance/reserve levels. These policies were developed within the parameters established by applicable provisions of the Texas Local Government Code and the City of Texarkana, Texas City Charter. The policies are to be reviewed on an annual basis and modified to accommodate changing circumstances or conditions.

The City's accounting records for general governmental activities are maintained on a modified accrual basis, with revenues being recorded when available and measurable, and expenditures being recorded when the services of goods are received and the liabilities are incurred. Accounting records for the City's water and sewer utility and other proprietary activities are maintained on the accrual basis.

The annual budget serves as the foundation for the City's financial planning and control. All agencies of the City are required to submit requests for appropriation to the City Manager in April of each year. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the Council for review prior to August 1. The Council is required to hold a public hearing on the proposed budget and to adopt a final budget on or before September 1, thirty (30) days before the end of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). The City Manager may make transfers of funds between general classifications of

expenditures within an office, department or agency. Any transfers of funds from one office, department or agency to another require Council approval. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

Major Initiatives

For fiscal year 2010-2011, the City will begin funding its two (2) TIRZ districts. The first infrastructure project is an extension of Gibson Lane to accommodate a new commercial project in that district. Approval of this project is expected in the current fiscal year. In addition, the first phase of Morris Lane has been completed, and will serve as an additional east-west collector street on the north side of the City. Phase 2 is in the design process, with a late summer 2011 bid expected. Additional work is proceeding on infrastructure projects in the area of Texas A&M University's new campus. Construction will begin shortly on the City's convention center to be built with a full-service Hilton Garden Inn, using a public/private ownership arrangement. Grand opening is expected by summer, 2012. The City is also in the study phase for eventual implementation of a Stormwater Utility District, that is expected to be operational by January, 2012 and it has implemented a highly successful City-wide trash recycling project which has diverted an estimated 30 tons per week of items deposited in the landfill and extended its life by at least 7 years.

Awards and Acknowledgements

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Texarkana, Texas for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2009. This was the twentieth (20th) consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments. The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance/Accounting Department and our independent auditors. I would like to express my appreciation to those persons who made possible the publication of this report. Credit must also be given to the City Manager, Mayor and City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Texarkana, Texas finances.

Respectfully submitted,



Charles L. Bassett, Jr., CPA
Chief Financial Officer

March 25, 2011

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Texarkana
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY COUNCIL

STEPHEN A. MAYO
Mayor

DERRICK MCGARY
Councilmember, Ward 1

WILLIE RAY
Councilmember, Ward 2

TINA VEAL-GOOCH
Councilmember, Ward 3

BOB BRUGGEMAN
Councilmember, Ward 4

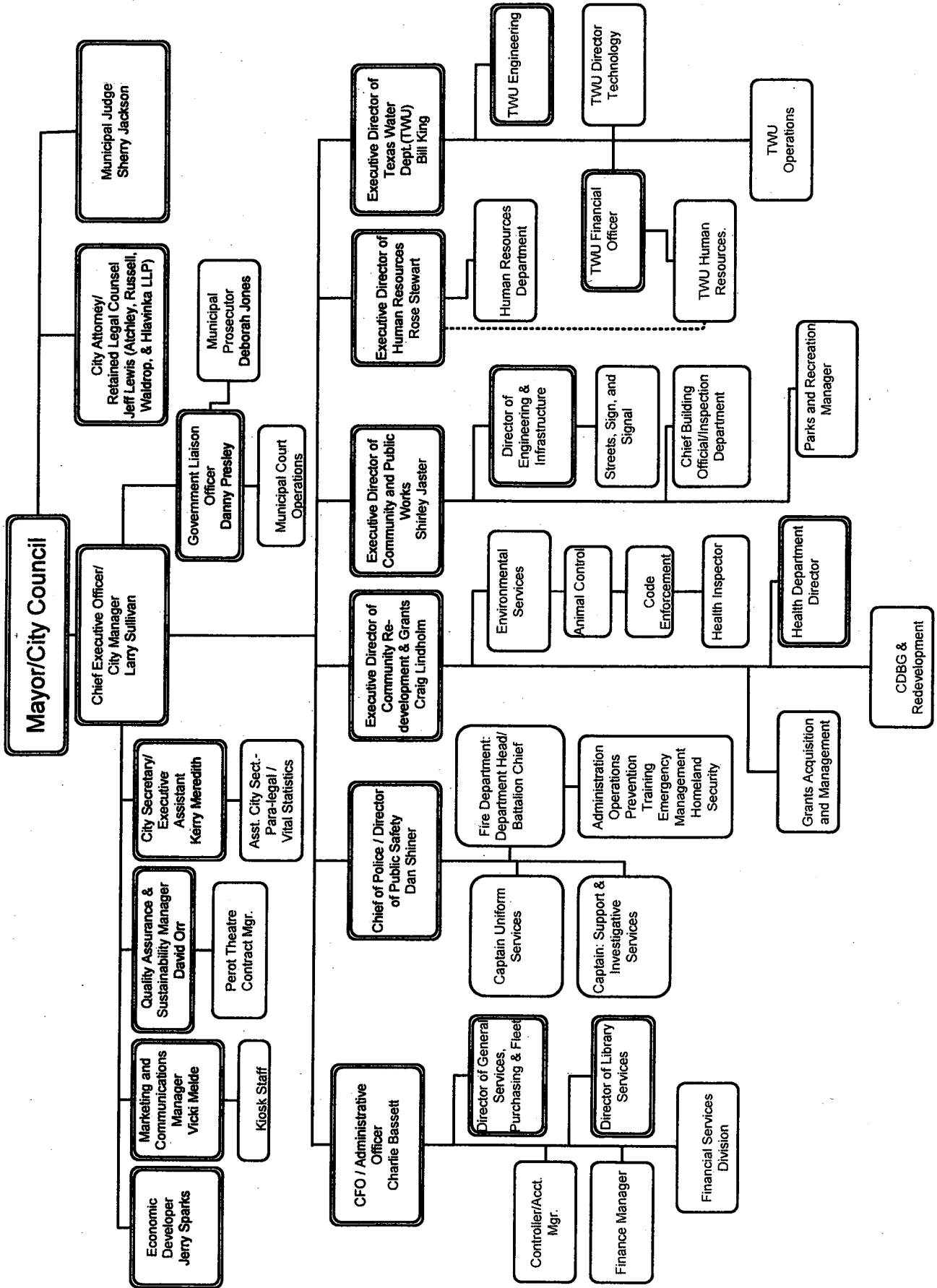
SCOTT NORTON
Councilmember, Ward 5

JOSH DAVIS
Councilmember, Ward 6

F. LARRY SULLIVAN, ED. D.
CEO/City Manager

CHARLES L. BASSETT, JR., CPA
Chief Financial Officer

KERRY MEREDITH
City Secretary



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Financial Section

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HOLLIDAY, LEMONS, & COX, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Members of the City Council
and Honorable Stephen A. Mayo, Mayor
City of Texarkana, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Texarkana, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Texarkana, Texas' management. Our responsibility is to express opinions on these financial statements and schedules 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 *Governmental 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 financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Texarkana, Texas as of September 30, 2010 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 March 25, 2011, on our consideration of the City's internal control over financial reporting and on our test 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 conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension plan trend information on pages 7 through 20 and pages 91 through 92, respectively, be presented to supplement the basic financial statements. Such information, although

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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 methods of preparing 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 Texarkana, Texas' basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, including the budgetary comparison schedules for the nonmajor funds with budgets, the capital assets schedules and statistical section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Texarkana, Texas. The combining and individual nonmajor fund financial statements, including the budgetary comparison schedules for the nonmajor funds with budgets, the capital assets schedules and the schedule of expenditures of federal awards 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 basic financial statements taken as a whole. The introductory and statistical sections 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 it.



March 25, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Texarkana, Texas (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages vii - xii of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$167,217,845 (net assets). Of this amount, \$21,425,363 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$807,120 during this fiscal year. All of the increase was due to current operations.
- As of the close of the current fiscal year, the City's governmental funds reported ending fund balances of \$35,315,294. Approximately 22% of this total amount, \$7,749,154 is available for spending at the City's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$3,371,709, or 11.6% of total general fund expenditures.
- The City has approximately 67 days of expenditures in the fund balance of the general fund at year end.
- The City's total long-term liabilities increased by \$22,806,240 (42.32% during the current fiscal year. The majority of the increase was due to two new bond issues in 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, parks and recreation, and health and welfare. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate health center and public library for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 22 - 25 of this report.

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 legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twenty (20) governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the 2009 Bond Capital Projects Fund, and the Debt Service Fund, all of which are considered to be major funds. Data from the other seventeen (17) funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The City adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental funds financial statements can be found on pages 26 - 31 of this report.

Proprietary Funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs

internally among the City's various functions. The City uses internal service funds to account for its employee insurance programs and fleet services. Because each of these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Texarkana, Texas Water Utilities (TWU), which is considered to be a major fund of the City. Data from the other two (2) enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major enterprise funds is presented in the form of combining statements elsewhere in this report. These internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 32 - 37 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Texarkana, Texas' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 38 - 39 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 40 - 88 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

This required supplementary information regarding pension benefits may be found on pages 91 - 92 of this report.

The combining statements referred to earlier in connection with non-major governmental funds, nonmajor enterprise funds and internal service funds are presented following the required supplementary information on pensions.

Combining and individual statements and schedules can be found on pages 93 - 122 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Texarkana, Texas, assets exceeded liabilities by \$167,217,845 as of September 30, 2010. The largest portion of the City's net assets (\$132,899,226 or 79.48%), reflects its investment in capital assets (e.g., land, buildings, equipment, improvements, infrastructure, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these

outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF TEXARKANA, TEXAS NET ASSETS

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Current and other assets	\$ 51,122,601	30,512,922	19,011,445	16,567,831	70,134,048	47,080,753
Capital assets	113,567,716	111,791,284	67,032,386	68,220,986	180,600,102	180,012,270
Total assets	<u>164,690,317</u>	<u>142,304,206</u>	<u>86,043,831</u>	<u>84,788,817</u>	<u>250,734,150</u>	<u>227,093,023</u>
Long-term liabilities outstanding	65,744,540	42,723,592	10,956,796	11,171,504	75,830,845	53,895,096
Other liabilities	2,723,443	3,176,009	4,091,524	3,611,193	7,685,460	6,787,202
Total liabilities	<u>68,467,983</u>	<u>45,899,601</u>	<u>15,048,320</u>	<u>14,782,697</u>	<u>83,516,305</u>	<u>60,682,298</u>
Net assets:						
Invested in capital assets, net of related debt	75,989,018	75,187,833	56,910,208	57,582,403	132,910,749	132,770,236
Restricted	3,527,351	4,597,610	9,365,905	7,646,353	12,893,256	12,243,963
Unrestricted	16,705,965	16,619,162	4,719,398	4,777,364	21,413,840	21,396,526
Total net assets	<u>\$ 96,222,334</u>	<u>96,404,605</u>	<u>70,995,511</u>	<u>70,006,120</u>	<u>167,217,845</u>	<u>166,410,725</u>

An additional portion of the City's net assets (7.7%) represents resources that are subject to external restrictions on their usage. All restricted assets of the City relating to both governmental activities and business-type activities are being held for purposes established by state and local laws, future construction, and debt service reserve requirements on the City's outstanding debt. The remaining balance of unrestricted net assets in the amount of \$21,425,363 (12.80%) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental Activities

Total assets and total liabilities increased by \$22,386,111 and \$22,568,382, respectively. The majority of this increase was due to bond issuance of \$24,420,000 in 2010:

2009 Capital Projects	\$ 17,420,000
2010 Convention Center Bonds	<u>7,000,000</u>
2010 Total Bond Proceeds	<u>\$ 24,420,000</u>

Business Type Activities

Total business type activities' assets and total liabilities increased by \$1,255,014 and \$265,623, respectively. The amounts related to TWU activity were increases of \$1,361,529 and \$318,542 for assets and liabilities, respectively. The other business type activities had small decreases.

The changes in TWU assets consisted of the following:

Cash and investments	\$2,907,610
Receivables	(269,190)
Investories	(24,015)
Other Noncurrent assets	(80,442)
Other Noncurrent assets	16,166
Capital asset additions	1,518,618
Asset depreciation	(2,706,099)
Asset retirements	(1,119)
	<u>\$1,361,529</u>

Major increases in TWU liabilities consisted of a \$568,274 increase in Capital Improvement Deposits and a \$241,971 increase in Net Pension and Other Postemployment Obligations. All other liabilities had a total net decrease of \$491,703.

The net result of the City's activity in net assets is an increase in total net assets of \$807,120 during the current fiscal year. Net assets related to business-type activities increased by \$989,391, while net assets from governmental activities decreased by \$182,271. Additional related information may be found in the governmental activities section on pages 22 - 25 of this report.

CITY OF TEXARKANA, TEXAS' CHANGES IN NET ASSETS

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
<u>Revenues:</u>						
Program revenues:						
Charges for services	\$ 3,471,535	3,700,144	15,259,196	15,184,072	18,730,731	18,884,216
Operating grants and contributions	1,552,787	2,513,783			1,552,787	2,513,783
Capital grants and contributions	293,158	-	199,074	-	492,232	-
General revenues:						
Property taxes	13,584,920	13,346,908			13,584,920	13,346,908
Other taxes	16,725,753	16,772,162			16,725,753	16,772,162
Other revenue	1,695,611	1,684,732	1,704,147	1,038,174	3,399,758	2,722,906
Total revenues	<u>37,323,764</u>	<u>38,017,729</u>	<u>17,162,417</u>	<u>16,222,246</u>	<u>54,486,181</u>	<u>54,239,975</u>

CITY OF TEXARKANA, TEXAS' CHANGES IN NET ASSETS

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>	<i>Activities</i>	<i>Activities</i>	<i>Activities</i>	<i>Activities</i>	<i>Activities</i>
	2010	2009	2010	2009	2010	2009
<u>Expenses:</u>						
General government	6,009,327	6,731,365			6,009,327	6,731,365
Public safety	17,460,252	16,351,563			17,460,252	16,351,563
Public works	7,271,760	6,823,394			7,271,760	6,823,394
Parks and recreation	2,906,975	2,758,188			2,906,975	2,758,188
Health and welfare	1,630,227	1,744,313			1,630,227	1,744,313
Interest on long-term debt	2,246,394	1,868,860			2,246,394	1,868,860
Water and sewer			16,154,126	16,166,206	16,154,126	16,166,206
Total expenses	<u>37,524,935</u>	<u>36,277,683</u>	<u>16,154,126</u>	<u>16,166,206</u>	<u>53,679,061</u>	<u>52,443,889</u>
Change in Net Assets						
Before Transfers	(201,171)	1,740,046	1,008,291	56,040	807,120	1,796,086
Transfers	18,900	18,900	(18,900)	(18,900)	-	-
Change in Net Assets	<u>(182,271)</u>	<u>1,758,946</u>	<u>989,391</u>	<u>37,140</u>	<u>807,120</u>	<u>1,796,086</u>
Beginning Fund Balance	96,404,605	94,645,659	70,006,120	69,968,980	166,410,725	164,614,639
Ending Fund Balance	<u>\$ 96,222,334</u>	<u>96,404,605</u>	<u>70,995,511</u>	<u>70,006,120</u>	<u>167,217,845</u>	<u>166,410,725</u>

Governmental Activities

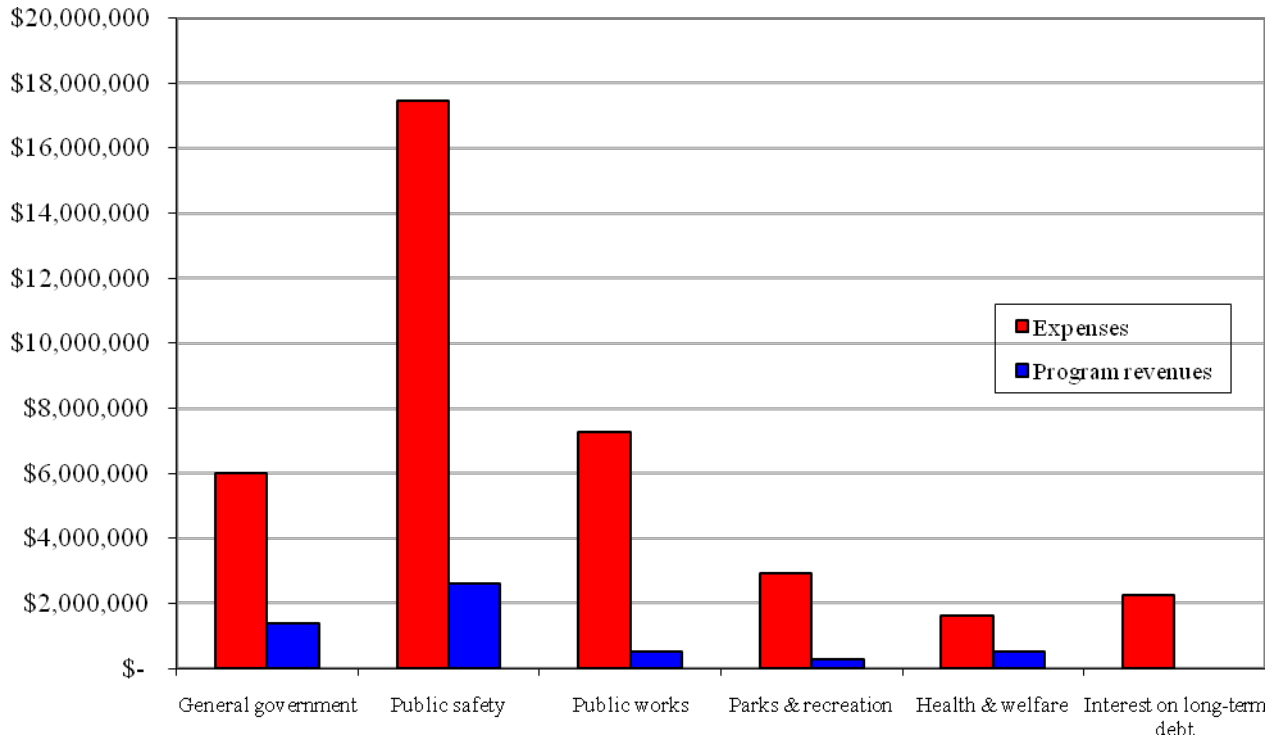
Governmental activities showed a net decrease in net assets by \$182,271. Key elements of this change are summarized as follows:

- Decrease in operating grants of \$960,996 which includes the following:
 - HCD Grants \$250,000
 - Home Grants \$250,000
 - Insurance Proceeds \$300,000

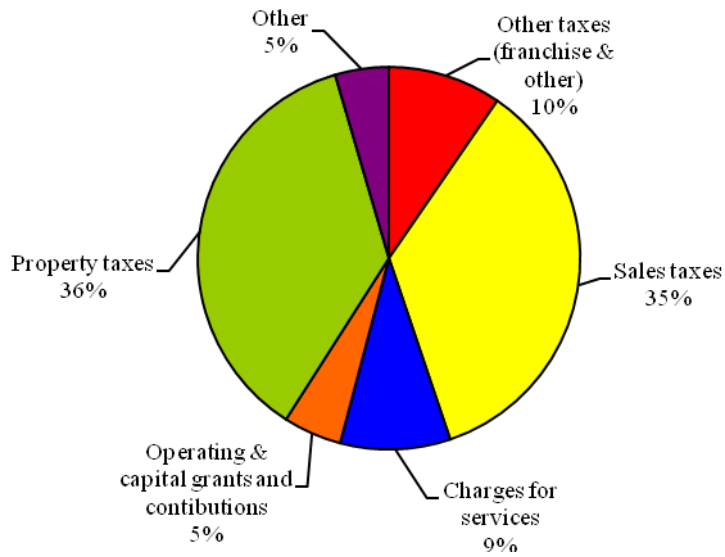
- Increase in public safety expenditures of \$1,108,689 which includes the following:
 - Bi-State Justice Center rental increase of \$228,000
 - Firemen's pension rate increase of 4% (\$178,000)
 - New capital leases for computers, licensing agreements and electrical switches (\$179,000)
 - Additional vehicle purchase in 2010 of \$97,000
 - JAG Grant expenditures increase of \$324,000

The total changes above were funded by the 2009 increase in net assets of \$1,758,946.

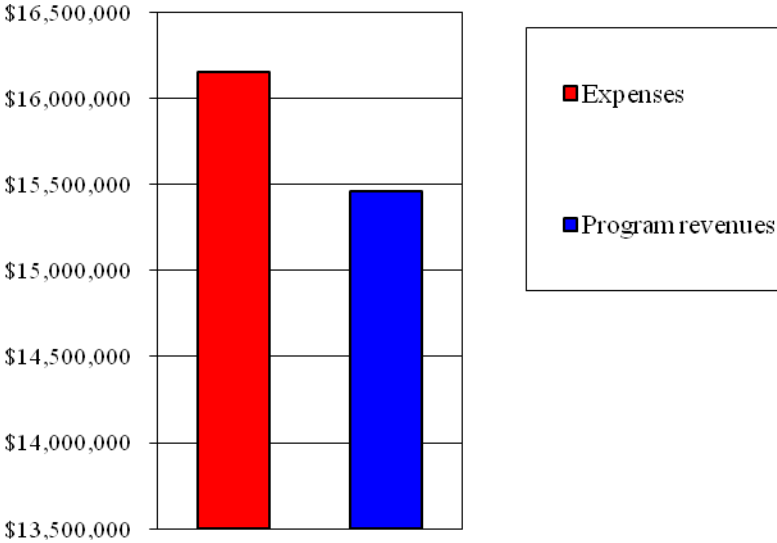
EXPENSES AND PROGRAM REVENUES –GOVERNMENTAL ACTIVITIES



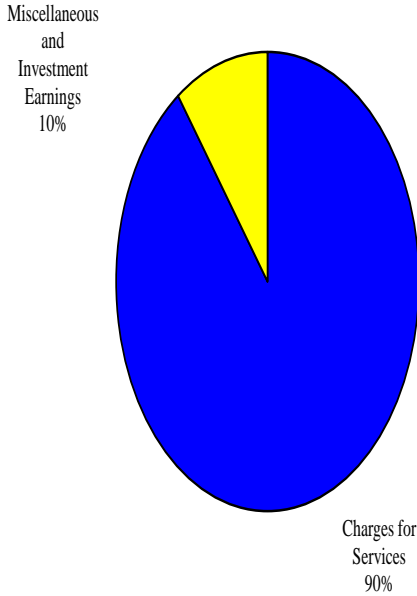
REVENUES BY SOURCE – GOVERNMENTAL



EXPENSES AND PROGRAM REVENUES – BUSINESS-TYPE ACTIVITIES



REVENUES BY SOURCE – BUSINESS-TYPE ACTIVITIES



Business Type Activities

Business type activities had a net increase in net assets of \$989,391. TWU had a net increase of \$1,145,709 while the other business type activities had a combined net decrease of \$156,318. TWU's revenues increased by \$794,069 which was almost entirely attributable to the Utility's share of insurance proceeds in the amount of \$641,678 for a 2008 incident at the South Regional Wastewater Treatment Plant where a critical backup power line was destroyed by a power surge. The Texas Utility share of a \$70,109 FEMA grant for a backup generator for the administrative offices amounted to \$44,870. TWU operating expenses decreased by \$351,643, over those of FY 2009, which was due primarily to a reduction in the cost of chemicals. There were no water and sewer rate increases in FY 2010 and water consumption was down by .12% over the 2009 volume.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – the focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$35,315,294, an increase of \$19,874,669 in comparison with the prior year. This increase is due mostly due to the following:

- Proceeds of the 2009 Certificates of Obligation issued were \$17,420,000
- Proceeds of the 2010 Convention Center bonds issued were \$7,000,000
- Bond fund balances declined by \$3,700,000, due to the completion of a number of capital projects, including Waco/Kilgore Street, Downtown Enhancement Project and Scott Wright Road.

The general fund is the chief operating fund of the City of Texarkana, Texas. At the end of the current fiscal year, the unreserved-undesignated fund balance was \$3,371,709, while the total fund balance was \$5,301,590. As a measure of the general funds liquidity, it may be useful to compare both unreserved and total fund balances to total fund expenditures. Unreserved fund balances represents 11.6% of the total general fund expenditures, while total fund balance represents 18.24% of that same amount.

The fund balance of the City's general fund increased by \$131,972 during the 2010 fiscal year compared to an increase of \$878,120 in 2009. Key factors in this growth are as follows;

- The City general fund's beginning fund balance was \$878,120 more than last year. This excess fund balance helped offset a decrease in revenues of \$384,206 or 1.3%. The largest decrease in revenue was from a \$403,143 decrease in Municipal Court. Although this was a significant decrease from 2009, the 2010 revenue is more in line with 2008 revenue.

- Total expenditures increased by \$691,347 with major increases as follows:
 - Firemen's pension increased by \$178,625. This is due to an increased City contribution to the Firemen's Pension Fund of 4.5%.
 - Police Department rentals by \$228,601 which included a monthly increase in the Bi-State Justice Center rent.
 - Computer supplies by \$332,847. This included new licensing agreements, computers and switches. The expenditures were offset by funding from capital leases under other financing sources.

The 2009 Capital Projects Fund is a \$17,420,000 certificate of obligation bond issue approved to fund several street improvement projects, parks and recreational facilities, water and sewer projects and fleet services projects, including Texas A&M East Approach and Morris Lane Reconstruction Project. It had a fund balance at the end of this year of \$16,028,432. The fund expended \$1,541,274 this year on capital projects, and the remaining fund balance is reserved for additional projects.

The Debt Service Fund is considered a major governmental fund of the City this year, and, accordingly is presented separately in this year's report. This Fund ended the fiscal year with a fund balance of \$1,538,656, a decrease of \$169,326 (10%) from last year. The Debt Service Fund accounts for the accumulation of resources for, and the payment of long-term debt principal, interest and related costs of all of the City's long-term general obligation debt. The fund expended \$4,316,876 in debt payments during this fiscal year, an increase of \$260,280 from last year.

The other governmental funds of the City include special revenue funds and capital project funds. At the end of the 2010 fiscal year, the City had combined ending fund balances in its special revenue funds of \$3,898,252 a decrease from last year of \$779,805. The decrease was mostly to the following:

- The Hotel/Motel fund decreased by \$941,775 which included expenses for planning and land costs for the construction of the future convention center.
- The fund balance increased \$181,527 due to franchise fee revenues designated for future economic development projects and incentives.

At the end of fiscal year 2010, the City had a total of five (5) capital project funds included in other governmental funds, with total fund balances of \$8,548,364, an increase of \$6,570,832 from last year. These funds are all reserved for street maintenance projects, parks improvements, and other miscellaneous capital projects. Expenditures in the other non-major bond funds totaled \$2,344,640 for the fiscal year, and involved several different projects, including 2010 Street Reconstruction Projects (\$296,000), Old Boston Road Reconstruction Project (\$254,000), upgrades to park lighting (\$257,600), convention center land purchase and preconstruction work (\$982,000).

Proprietary funds - the City's proprietary funds, primarily the Texarkana Water Utilities system, provide the same type of information found in the governmental-wide financial statements, but in more detail.

Unrestricted net assets for business-type activities at the end of the fiscal year amounted to \$4,719,398. The decrease in unrestricted net assets for the year was \$57,966, \$4,370 of the decrease was attributable to Texarkana Water Utilities activity. This included a \$1,719,553 decrease in unrestricted net assets due to increases in construction, depreciation and debt service reserves, a 672,196 increase due to a reduction in net assets invested in capital assets and a \$1,042,987 increase due to the net income for fiscal year end 2010.

Internal service funds - The City uses three (3) internal service funds. The Employee Benefit Fund accounts for contributions received from other City funds and employees to pay medical benefits and life insurance premiums. The unrestricted net assets in this fund at the end of the fiscal year were \$1,956,853, an increase from last year of \$15,773 (.8%). The Fleet Services Fund accounts for repair and maintenance on all City vehicles, excluding TWU. Net assets in the fund decreased by \$14,305 due to an excess of operating costs over revenue collected for the year.

Fiduciary funds - The City also maintains four (4) Fiduciary Funds. The Firemen's Relief Pension Trust Fund accounts for the retirement contributions made by the City's firefighters, and the contributions made on their behalf by the City. The fund's net assets increased by \$2,200,364 during this fiscal year, and net assets totaled \$24,145,914 at the end of the year. The increase is due to implementation of higher City and employee contribution rates to the fund which resulted in larger total contributions in excess of benefit payments and administration expenses. The three remaining fiduciary funds are agency funds. The Drug Enforcement Fund accounts for evidence money seized by the Police Department, and holds these funds until final disposition is directed by the courts. This fund had a cash balance of \$60,279 at the end of the fiscal year. The Police Evidence Fund accounts for all funds seized by the Police Department during its apprehension of suspects and subsequent case investigations. The cash balance in the fund at the end of the year was \$9,908. The Federal Asset Forfeiture Fund is used to receive and hold funds from federal asset forfeiture cases based on a sharing agreement. It is separate from other forfeitures because it requires electronic deposit rights from Washington. The balance in the fund at the end of the year was \$0.

General Fund Budgetary Highlights

The differences between the original budget and final amended budget totaled \$593,620. The increase can be summarized as follows:

- Initial revenue estimates were monitored and adjusted throughout the year. Total revenue decrease was \$1,393,535 which included decreases in sales tax revenue and municipal court.
- Overall expenditures as originally approved by the Council were reduced to reflect the decrease in revenue by reducing total expenditures by \$1,750,421.

Even though the City saw a slight decrease in revenue as originally anticipated, the ending fund balance of \$5,304,590 exceeded the Council's original estimate by \$706,421.

Capital Assets and Debt Administration

Capital assets – the City’s investment in total capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$180,600,102 (net of accumulated depreciation), compared to \$180,012,270 in 2009. Investment in capital assets related to governmental activities (\$113,567,716) includes land, buildings, improvements, machinery and equipment, licensed vehicles, infrastructure and construction in progress. Investment in capital assets related to business-type activities amounted to \$67,032,386 and includes land, buildings, improvements, machinery and equipment, licensed vehicles, property under capital leases, water rights, construction in progress, raw water transmission lines and pumping facilities, water purification plant and distribution system, wastewater treatment plants and collection system. Investments in business-type capital assets decreased by \$1,188,600 during this year reflecting the net of additions and disposals of various capital assets and charges for depreciation expense.

Major capital asset events during the current fiscal year included the following:

- Downtown Enhancement Project - \$467,185
- Scott Wright Road - \$351,170
- Waco and Kilgore Street Reconstruction - \$1,791,379
- Extensive work is underway on various street and drainage projects that were not completed at year end. These include street improvement projects including Morris Lane – Phase I, Lake Drive Overpass, and the Texas A&M East Approach, as well as construction of the Convention Center

CITY OF TEXARKANA, TEXAS' CAPITAL ASSETS (Net of depreciation)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Land	\$ 46,036,843	44,002,429	1,314,209	1,314,209	47,351,052	45,316,638
Buildings	12,109,898	12,574,964	1,323,909	1,401,809	13,433,807	13,976,773
Improvements other than buildings	2,191,129	2,160,551	51,829,054	52,342,624	54,020,183	54,503,175
Machinery and equipment	1,024,176	861,602	1,266,576	1,414,729	2,290,752	2,276,331
Licensed vehicles	1,968,631	1,794,934			1,968,631	1,794,934
Infrastructure	47,266,071	46,654,522			47,266,071	46,654,522
Construction in progress	2,970,968	3,742,282	979,889	1,013,014	3,950,857	4,755,296
Water rights			11,523	23,046	11,523	23,046
Property under capital lease			10,307,226	10,711,555	10,307,226	10,711,555
	<u>\$ 113,567,716</u>	<u>111,791,284</u>	<u>67,032,386</u>	<u>68,220,986</u>	<u>180,600,102</u>	<u>180,012,270</u>

Additional information on the City’s capital assets can be found in Note 6 in this report on pages 58– 60.

Debt Administration

At the end of the current fiscal year the City of Texarkana, Texas had total debt outstanding of \$76,701,336. Of this amount, \$60,073,552 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt is secured by specified revenue sources. At the end of fiscal year 2010, this amount was \$16,627,784.

CITY OF TEXARKANA, TEXAS OUTSTANDING DEBT AT YEAR END

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
General obligation bonds	\$ 16,509,387	17,867,429			16,509,387	17,867,429
Revenue bonds			4,478,878	4,961,046	4,478,878	4,961,046
Certificates of obligation	43,564,165	19,857,720			43,564,165	19,857,720
Capital Leases	254,195	82,959	5,685,765	5,674,537	5,939,960	5,757,496
Tax Notes	1,160,000	1,200,000			1,160,000	1,200,000
Accrued compensated absences	2,943,389	3,086,490	383,164	368,903	3,326,553	3,455,393
Net Pension and Other						
Postemployment Obligations	1,313,404	628,994	408,989	167,018	1,722,393	796,012
	<u>\$ 65,744,540</u>	<u>42,723,592</u>	<u>10,956,796</u>	<u>11,171,504</u>	<u>76,701,336</u>	<u>53,895,096</u>

The City's total debt increased by \$22,806,240 (42.3%) during the current fiscal year. The City retired \$2,920,000 in outstanding debt, and recorded \$285,267 accretion on Capital Appreciation Bonds, issued \$332,847 in new capital leases, decreased accrued compensated absences by \$128,840, and increased net pension and other post employment obligations by \$926,381 this year. The City issued two bond obligations in 2010 which totaled \$24,420,000.

The City's General Obligation, Certificates of Obligation, and Revenue bond ratings are listed below:

	<i>Moody's Investor Service</i>	<i>Standard & Poors</i>
General Obligation Bonds	Aa3	AA-
Certificates of Obligation	Aa3	AA-
Revenue Bonds	A1	A

State statutes limit the total property tax rate to \$2.50 per \$100 assessed valuation. The City's local property tax rate for this fiscal year was \$.5831 per \$100 assessed valuation of which \$.1753 per \$100 was for annual debt service.

Additional information on the City's long-term debt can be found in Notes 16-17 on pages 69 – 74 of this report.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the City as of the fiscal year end was 7.2, which remains unchanged from last year. This rate is significantly lower than the State rate (8.2), and National rate (9.6).

Sales tax collections are projected to comprise about forty percent (39%) of the City's proposed budget for the 2011 fiscal year. Collections are budgeted to decrease at a rate of four percent (4%) over the final budgeted revenue for 2010 due to the current economic conditions of the City.

Total assessed value of property within the City for the 2011 budget year (based on the 2010 certified valuation) decreased by \$1,422,605 (.06%) from last year. Tax revenues allocated to the Debt Service Fund next year will increase from the prior year to thirty-two percent (32%) of collections. The City Council has elected to keep the property tax rate the same as last year, at .5831 per \$100 valuation for the 2011 fiscal year. Total property tax collections are expected to remain flat for 2011.

Due to flat revenue projections for 2011, the following actions have been anticipated:

- One time transfers from several other City funds, including employee benefits and workers' compensation funds will produce additional revenues of \$820,000.
- Several positions in public safety and public works have been frozen and will result in projected savings of \$376,000.
- Department heads were originally charged to bring in a "no increase" budget, based on last year's adopted budget. Each department was asked to make additional budget cuts. These additional cuts are projected to save around \$81,500.

All of the above factors were considered in preparing the City's budget for the 2010 - 2011 fiscal year. The 2011 budget projects the use of \$1,550,244 of available General Fund balances, due to ongoing operating and personnel costs. The ending General Fund balance is projected to be approximately ten percent (10%) of budgeted expenditures.

The Texas Revenue Fund of TWU is projected to end the 2010-2011 budget year with a balance of \$2,318,000, or approximately 21.4% of budgeted expenditures. TWU's budget proposes to gain approximately \$406,319 of available fund balance by the end of the 2010-2011 budget year.

Requests for Information

This financial report is designed to provide a general overview of the City of Texarkana, Texas' finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Texarkana, Texas, Finance Department, Attn: Chief Financial Officer, P.O. Box 1967, Texarkana, Texas 75504.

Basic Financial Statements

CITY OF TEXARKANA, TEXAS

STATEMENT OF NET ASSETS September 30, 2010

	<i>Primary Government</i>			<i>Component Units</i>	
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	<i>Health</i>	<i>Library</i>
ASSETS					
Cash	\$ 35,426,360	1,790,850	37,217,210	260,947	527,202
Investments	1,000	1,025,000	1,026,000		443,956
Receivables (net of allowance for uncollectibles):					
Property taxes	973,413		973,413		
Other taxes	501,506		501,506		
Accounts	496,370	2,277,212	2,773,582	10,035	
Other government agencies	2,989,214	8,305	2,997,519	191,395	86,814
Accrued interest	9,600	1,178	10,778		
Loans	581,026		581,026		
Internal balances	(519,793)	519,793	-		
Due from fiduciary funds	3,800		3,800		
Due from component units	4,843		4,843		
Inventory	24,993	734,834	759,827		
Land held for resale	295,000		295,000		
Prepaid items		19,014	19,014		8,005
Restricted assets:					
Cash		5,515,200	5,515,200		
Investments		5,406,624	5,406,624		
Receivables:					
Accounts		363,759	363,759		
Accrued interest		5,326	5,326		
Deferred charges		1,254,771	1,254,771		
Net investment in direct financing lease:					
Due within one year		29,317	29,317		
Due in more than one year		60,262	60,262		
Investments in joint venture	10,335,269		10,335,269		
Capital assets (net of accumulated depreciation):					
Land	46,036,843	1,314,209	47,351,052		
Buildings	12,109,898	1,323,909	13,433,807	440,351	
Improvements other than buildings	2,191,129	51,829,054	54,020,183		
Infrastructure	47,266,071		47,266,071		
Machinery and equipment	1,024,176	1,266,576	2,290,752	2,299	111,479
Licensed vehicles	1,968,631		1,968,631		
Property under capital leases		10,307,226	10,307,226		
Water rights		11,523	11,523		
Construction in progress	2,970,968	979,889	3,950,857		
TOTAL ASSETS	\$ 164,690,317	86,043,831	250,734,148	905,027	1,177,456

The notes to the financial statements are an integral part of this statement.

	<i>Primary Government</i>			<i>Component Units</i>	
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	<i>Health</i>	<i>Library</i>
LIABILITIES					
Accounts payable	1,258,760	781,869	2,040,629	100,491	8,563
Contracts payable	187,490	16,788	204,278		
Accrued liabilities	1,099,446	96,566	1,196,012	46,361	23,992
Due to other governments	36,297	98,369	134,666		30,543
Due to primary government			-		4,843
Unearned revenue	127,973		127,973		
Accrued interest payable from restricted assets		30,339	30,339		
Customer deposits		608,186	608,186		
Capital improvement deposits		2,420,916	2,420,916		
Other liabilities and escrow deposits	13,477	38,491	51,968		
Long-term liabilities					
Due within one year:					
Bonds payable	1,490,873	525,000	2,015,873		
Certificates of obligation	1,545,000		1,545,000		
Tax notes	120,000		120,000		
Obligations under capital leases	105,658	316,763	422,421		
Accrued compensated absences	182,614	28,728	211,342		
Due in more than one year:					
Net pension and other postemployment obligations	1,313,404	408,989	1,722,393		22,231
Bonds payable	15,018,514	3,953,878	18,972,392		
Certificates of obligation	42,019,165		42,019,165		
Tax notes	1,040,000		1,040,000		
Obligations under capital leases	148,537	5,369,002	5,517,539		
Accrued compensated absences	2,760,775	354,436	3,115,211		21,565
TOTAL LIABILITIES	<u>68,467,983</u>	<u>15,048,320</u>	<u>83,516,303</u>	<u>146,852</u>	<u>111,737</u>
NET ASSETS					
Invested in capital assets, net of related debt	75,989,018	56,910,208	132,899,226	442,650	111,479
Restricted for:					
Public safety	17,253		17,253		
Parks and recreation	1,343,887		1,343,887		
Health and welfare	335,454		335,454		
Construction		7,073,890	7,073,890		183,610
Capital maintenance		1,565,180	1,565,180		
Debt service	1,830,757	726,835	2,557,592		
Library operations:					
Expendable					135,855
Nonexpendable					10,000
Unrestricted	16,705,965	4,719,398	21,425,363	315,525	624,775
TOTAL NET ASSETS	<u>\$ 96,222,334</u>	<u>70,995,511</u>	<u>167,217,845</u>	<u>758,175</u>	<u>1,065,719</u>

CITY OF TEXARKANA, TEXAS

STATEMENT OF ACTIVITIES For the Year Ended September 30, 2010

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	
			<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities:				
General government	\$ 6,009,327	1,057,194	328,468	
Public safety	17,460,252	1,735,896	575,582	293,158
Public works	7,271,760	214,821	295,021	
Parks and recreation	2,906,975	227,101	68,943	
Health and welfare	1,630,227	236,523	284,773	
Interest on long-term debt	2,246,394			
Total governmental activities	<u>37,524,935</u>	<u>3,471,535</u>	<u>1,552,787</u>	<u>293,158</u>
Business-type activities:				
Water and sewer	16,154,126	15,259,196		199,074
Total business-type activities	<u>16,154,126</u>	<u>15,259,196</u>	<u>-</u>	<u>199,074</u>
Total primary government	<u>53,679,061</u>	<u>18,730,731</u>	<u>1,552,787</u>	<u>492,232</u>
Component units				
Component unit - Health	1,366,707	265,301	914,935	
Component unit - Library	885,848	43,424	600,521	41,060
Total component units	<u>\$ 2,252,555</u>	<u>308,725</u>	<u>1,515,456</u>	<u>41,060</u>

General Revenues

Property taxes
 Sales taxes
 Franchise taxes
 Other taxes
 Unrestricted investment earnings
 Miscellaneous
 Transfers
 Total general revenues and transfers
 Change in net assets

Net assets, beginning of year

Net assets end of year

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

<i>Primary Government</i>			<i>Component Units</i>	
<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	<i>Health</i>	<i>Library</i>
(4,623,665)		(4,623,665)		
(14,855,616)		(14,855,616)		
(6,761,918)		(6,761,918)		
(2,610,931)		(2,610,931)		
(1,108,931)		(1,108,931)		
(2,246,394)		(2,246,394)		
<u>(32,207,455)</u>	<u>-</u>	<u>(32,207,455)</u>	<u>-</u>	<u>-</u>
	(695,856)	(695,856)		
<u>-</u>	<u>(695,856)</u>	<u>(695,856)</u>	<u>-</u>	<u>-</u>
<u>(32,207,455)</u>	<u>(695,856)</u>	<u>(32,903,311)</u>	<u>-</u>	<u>-</u>
			(186,471)	
			<u>(186,471)</u>	<u>(200,843)</u>
				<u>(200,843)</u>
13,584,920		13,584,920		291,228
13,148,821		13,148,821		
2,197,528		2,197,528		
1,379,404		1,379,404		
243,935	48,472	292,407	128	33,371
1,451,676	1,655,675	3,107,351		
18,900	(18,900)	-		
<u>32,025,184</u>	<u>1,685,247</u>	<u>33,710,431</u>	<u>128</u>	<u>324,599</u>
(182,271)	989,391	807,120	(186,343)	123,756
<u>96,404,605</u>	<u>70,006,120</u>	<u>166,410,725</u>	<u>944,518</u>	<u>941,963</u>
<u>\$ 96,222,334</u>	<u>70,995,511</u>	<u>167,217,845</u>	<u>758,175</u>	<u>1,065,719</u>

CITY OF TEXARKANA, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2010

	<u>General</u>	<u>2009 Bond Capital Projects</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash	\$ 3,810,565	16,241,604	1,517,623	11,560,556	33,130,348
Investments	1,000				1,000
Receivables (net of allowance for uncollectible):					
Property taxes	44,655		21,033		65,688
Other taxes	197,124			304,382	501,506
Accounts	66,940			3,358	70,298
Other government agencies	2,938,928			33,266	2,972,194
Accrued interest				9,600	9,600
Loans				581,026	581,026
Due from other funds	279,453	2,717			282,170
Inventory	1,750				1,750
Land held for resale				295,000	295,000
Investment in joint venture	92,463				92,463
TOTAL ASSETS	<u>7,432,878</u>	<u>16,244,321</u>	<u>1,538,656</u>	<u>12,787,188</u>	<u>38,003,043</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	838,977	28,399		36,013	903,389
Contracts payable		187,490			187,490
Accrued payroll	1,083,140			2,026	1,085,166
Due to other governments	36,297				36,297
Due to other funds	127,152			92,958	220,110
Deferred revenue	39,699			74,148	113,847
Unearned revenue				127,973	127,973
Other liabilities and escrow deposits	6,023			7,454	13,477
TOTAL LIABILITIES	<u>2,131,288</u>	<u>215,889</u>	<u>-</u>	<u>340,572</u>	<u>2,687,749</u>
Fund Balances:					
Reserved for:					
Inventory	1,750				1,750
Noncurrent receivables				442,388	442,388
Capital improvements		16,028,432		8,079,049	24,107,481
Building maintenance				884,415	884,415
Joint venture	92,463				92,463
Court security	285,424				285,424
Unreserved, designated for, reported in:					
Subsequent expenditures	1,550,244				1,550,244
Convention center				201,975	201,975
Unreserved, reported in:					
General fund	3,371,709				3,371,709
Special revenue fund				2,369,474	2,369,474
Debt service fund			1,538,656		1,538,656
Capital projects fund				469,315	469,315
TOTAL FUND BALANCES	<u>5,301,590</u>	<u>16,028,432</u>	<u>1,538,656</u>	<u>12,446,616</u>	<u>35,315,294</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,432,878</u>	<u>16,244,321</u>	<u>1,538,656</u>	<u>12,787,188</u>	<u>38,003,043</u>

The notes to the financial statements are an integral part of this statement.

CITY OF TEXARKANA, TEXAS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS September 30, 2010

Total governmental funds balances	\$ 35,315,294
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	113,390,545
Receivables reported in the statement of net assets that are not available to provide current financial resources are not reported as receivables in the funds.	1,333,798
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	113,847
Internal service funds are used by management to charge the costs of insurance and fleet services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	1,570,584
Long-term liabilities, including bonds payable, are not due and payable in the current periods and therefore are not reported in the funds.	(65,744,540)
Equity interest in joint ventures are not current financial resources and therefore may not be reported in the funds.	<u>10,242,806</u>
Net assets of governmental activities	<u><u>\$ 96,222,334</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TEXARKANA, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2010

	<i>General</i>	<i>2009 Bond Capital Projects</i>	<i>Debt Service</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
REVENUES					
Property taxes	\$9,513,689		4,092,732		13,606,421
Other taxes	13,250,908			1,203,169	14,454,077
Franchise receipts	1,788,236			409,292	2,197,528
Fees and permits	395,511				395,511
Charges for services	754,359			91,695	846,054
Municipal court	1,648,799				1,648,799
Grants and entitlements	362,822			650,545	1,013,367
Rental	15,790				15,790
Interest and dividends	30,513	110,844	13,644	78,462	233,463
Intergovernmental	651,528			26,186	677,714
Other	412,589			39,148	451,737
Total revenues	<u>28,824,744</u>	<u>110,844</u>	<u>4,106,376</u>	<u>2,498,497</u>	<u>35,540,461</u>
EXPENDITURES					
Current:					
General government	5,229,718			409,160	5,638,878
Public safety	16,055,857			235,860	16,291,717
Public works	4,004,301				4,004,301
Parks and recreation	1,625,215			657,665	2,282,880
Health and welfare	1,187,138			232,236	1,419,374
Miscellaneous	16,448				16,448
Capital outlay	816,529	1,541,274		3,757,889	6,115,692
Debt service:					
Principal retirement	132,290		2,420,000		2,552,290
Interest and fiscal charges	691		1,896,876		1,897,567
Bond issuance costs		274,069		120,461	394,530
Total expenditures	<u>29,068,187</u>	<u>1,815,343</u>	<u>4,316,876</u>	<u>5,413,271</u>	<u>40,613,677</u>
Excess (deficiency) of revenues over expenditures	<u>(243,443)</u>	<u>(1,704,499)</u>	<u>(210,500)</u>	<u>(2,914,774)</u>	<u>(5,073,216)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	242,737		41,174	310,000	593,911
Transfers out	(200,169)	(41,174)		(511,635)	(752,978)
Capital leases	332,847				332,847
Bonds issued		17,420,000		7,000,000	24,420,000
Discount on bonds issued		(92,725)			(92,725)
Bond reoffering premium		446,830			446,830
Total other financing sources (uses)	<u>375,415</u>	<u>17,732,931</u>	<u>41,174</u>	<u>6,798,365</u>	<u>24,947,885</u>
Net change in fund balances	131,972	16,028,432	(169,326)	3,883,591	19,874,669
Fund balances at beginning of year	<u>5,169,618</u>		<u>1,707,982</u>	<u>8,563,025</u>	<u>15,440,625</u>
Fund balances at end of year	<u>\$5,301,590</u>	<u>16,028,432</u>	<u>1,538,656</u>	<u>12,446,616</u>	<u>35,315,294</u>

The notes to the financial statements are an integral part of this statement.

CITY OF TEXARKANA, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended September 30, 2010

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

Net change in fund balances - total governmental funds	\$ 19,874,669
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	1,873,416
The Statement of Activities reports a gain or loss of the sale of the assets based on the proceeds received and the net book value of the assets at the time of disposal. This amount is the net effect of the difference between the cost of assets disposed and the accumulated depreciation of assets disposed.	(100,550)
Revenues for property taxes and charges for services in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	60,274
Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year-end. On the accrual basis, however, those revenues would be recognized, regardless of when they were collected. This is the net amount of the revenue differences as a result of deferrals because of the availability criterion under the modified accrual basis of accounting.	(92,546)
The issuance of long-term debt consumes the current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. These transactions, however, have no effect on net assets. Also governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items.	(23,164,049)
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as an expenditure in the governmental funds.	143,101
Internal service funds are used by management to charge the costs of insurance and fleet services to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	37,863
Increases from the equity interest in joint ventures are not current financial resources and therefore may not be reported in the funds.	<u>1,185,551</u>
Change in net assets of governmental activities	<u>\$ (182,271)</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF TEXARKANA, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND For the Year Ended September 30, 2010

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with</i>
	<i>Original</i>	<i>Final</i>		<i>Final Budget</i>
				<i>Over</i>
				<i>(Under)</i>
REVENUES				
Property taxes	\$9,396,099	9,425,000	\$ 9,513,689	88,689
Other taxes	14,003,000	13,249,587	13,250,908	1,321
Franchise receipts	1,864,360	1,762,961	1,788,236	25,275
Fees and permits	218,632	217,118	395,511	178,393
Charges for services	779,998	766,536	754,359	(12,177)
Municipal court	2,256,650	1,784,580	1,648,799	(135,781)
Grants and entitlements	217,909	201,800	362,822	161,022
Rental	17,100	15,190	15,790	600
Investment earnings	193,220	140,926	30,513	(110,413)
Intergovernmental	411,605	663,168	651,528	(11,640)
Other	853,129	591,301	412,589	(178,712)
Total revenues	<u>30,211,702</u>	<u>28,818,167</u>	<u>28,824,744</u>	<u>6,577</u>
EXPENDITURES				
Current:				
General government	6,258,122	5,669,958	5,229,718	440,240
Public safety	16,294,227	15,649,508	16,055,857	(406,349)
Public works	4,754,182	4,164,609	4,004,301	160,308
Parks and recreation	1,463,037	1,585,718	1,625,215	(39,497)
Health and welfare	1,011,003	961,704	1,187,138	(225,434)
Miscellaneous	11,060	11,060	16,448	(5,388)
Capital outlay	949,595	1,027,276	816,529	210,747
Debt service:				
Principal	118,760	43,675	132,290	(88,615)
Interest	4,565	622	691	(69)
Total expenditures	<u>30,864,551</u>	<u>29,114,130</u>	<u>29,068,187</u>	<u>45,943</u>
Excess (deficiency) of revenue over expenditures	<u>(652,849)</u>	<u>(295,963)</u>	<u>(243,443)</u>	<u>52,520</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	81,400	318,134	242,737	(75,397)
Transfers out			(200,169)	(200,169)
Capital leases			332,847	332,847
Total other financing sources (uses)	<u>81,400</u>	<u>318,134</u>	<u>375,415</u>	<u>57,281</u>
Net change in fund balance	(571,449)	22,171	131,972	109,801
Fund balances at beginning of year	<u>5,169,618</u>	<u>5,169,618</u>	<u>5,169,618</u>	-
Fund balance at end of year	<u>\$4,598,169</u>	<u>5,191,789</u>	<u>5,301,590</u>	<u>109,801</u>

The notes to the financial statements are an integral part of this statement.

CITY OF TEXARKANA, TEXAS

STATEMENT OF NET ASSETS PROPRIETARY FUNDS September 30, 2010

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Texarkana, Texas Water Utilities	Other Proprietary Funds	Total	
ASSETS				
Current assets:				
Cash	\$ 1,774,538	16,312	1,790,850	2,296,012
Investments	1,025,000		1,025,000	
Receivables (net of allowance for uncollectible):				
Accounts	2,223,381	53,831	2,277,212	
Accrued interest	1,178		1,178	
Other government agencies	8,305		8,305	17,021
Due from other funds	267,726	55	267,781	127,153
Due from component units			-	4,843
Inventory	734,834		734,834	23,243
Prepaid expenses	19,014		19,014	
Net investment in direct financing leases - current	29,317		29,317	
Total current assets	<u>6,083,293</u>	<u>70,198</u>	<u>6,153,491</u>	<u>2,468,272</u>
Noncurrent assets:				
Restricted assets:				
Cash	5,362,448	152,752	5,515,200	
Investments	4,054,566	1,352,058	5,406,624	
Receivables:				
Accounts		363,759	363,759	
Accrued interest	3,903	1,423	5,326	
Total restricted assets	<u>9,420,917</u>	<u>1,869,992</u>	<u>11,290,909</u>	<u>-</u>
Other noncurrent assets:				
Deferred charges	1,254,771		1,254,771	
Net investment in direct financing leases	60,262		60,262	
Total other noncurrent assets	<u>1,315,033</u>	<u>-</u>	<u>1,315,033</u>	<u>-</u>
Capital assets (net of accumulated depreciation):				
Land	1,314,209		1,314,209	
Buildings	1,323,909		1,323,909	110,564
Improvements other than buildings	51,829,054		51,829,054	27,076
Machinery and equipment	1,266,576		1,266,576	39,531
Property under capital leases	10,307,226		10,307,226	
Water rights	11,523		11,523	
Construction in progress	979,889		979,889	
Total capital assets	<u>67,032,386</u>	<u>-</u>	<u>67,032,386</u>	<u>177,171</u>
Total noncurrent assets	<u>77,768,336</u>	<u>1,869,992</u>	<u>79,638,328</u>	<u>177,171</u>
TOTAL ASSETS	<u>\$ 83,851,629</u>	<u>1,940,190</u>	<u>85,791,819</u>	<u>2,645,443</u>

The notes to the financial statements are an integral part of this statement.

Business Type Activities - Enterprise Funds

	<i>Texarkana, Texas Water Utilities</i>	<i>Other Proprietary Funds</i>	<i>Total</i>	<i>Governmental Activities - Internal Service Funds</i>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current liabilities:				
Accounts payable	730,520	51,349	781,869	355,374
Construction contracts payable	16,788		16,788	
Accrued liabilities	95,572	994	96,566	14,280
Accrued interest	30,339		30,339	
Due to other funds	55	267,726	267,781	185,413
Due to other governments	93,109	5,260	98,369	
Other payables	38,491		38,491	
Accrued compensated absences - current	28,728		28,728	
Revenue bonds - current	525,000		525,000	
Obligations under capital leases - current	316,763		316,763	
Total current liabilities	<u>1,875,365</u>	<u>325,329</u>	<u>2,200,694</u>	<u>555,067</u>
Noncurrent liabilities:				
Customer deposits	608,186		608,186	
Capital improvement deposits	806,055	1,614,861	2,420,916	
Accrued compensated absences	354,436		354,436	
Net pension and other postemployment obligations	408,989		408,989	
Revenue bonds	3,953,878		3,953,878	
Obligations under capital leases	5,369,002		5,369,002	
Total noncurrent liabilities	<u>11,500,546</u>	<u>1,614,861</u>	<u>13,115,407</u>	<u>-</u>
TOTAL LIABILITIES	<u>13,375,911</u>	<u>1,940,190</u>	<u>15,316,101</u>	<u>555,067</u>
NET ASSETS				
Invested in capital assets, net of related debt	56,910,208		56,910,208	177,171
Restricted for construction	7,073,890		7,073,890	
Restricted for capital maintenance	1,565,180		1,565,180	
Restricted for debt service	726,835		726,835	
Unrestricted	4,199,605		4,199,605	1,913,205
TOTAL NET ASSETS	<u>\$ 70,475,718</u>	<u>-</u>	<u>70,475,718</u>	<u>2,090,376</u>
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.			<u>519,793</u>	
Net assets of business-type activities			<u>\$ 70,995,511</u>	

CITY OF TEXARKANA, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

For the Year Ended September 30, 2010

	<u>Business Type Activities - Enterprise Funds</u>			<i>Governmental Activities - Internal Service Funds</i>
	<i>Texarkana, Texas Water Utilities</i>	<i>Other Proprietary Funds</i>	<i>Total</i>	
OPERATING REVENUES				
Water sales	\$ 5,507,770	1,004,907	6,512,677	
Wholesale water sales	1,694,917		1,694,917	
Water connection fees	3,907		3,907	
Sewer charges	6,549,023		6,549,023	
Penalties and service charges	498,672		498,672	
Insurance contributions			-	4,594,874
Fleet services			-	1,595,826
Other income	1,655,675		1,655,675	21,986
Total operating revenues	<u>15,909,964</u>	<u>1,004,907</u>	<u>16,914,871</u>	<u>6,212,686</u>
OPERATING EXPENSES				
Administrative	192,034		192,034	
Finance	850,176		850,176	
Customer service	521,061		521,061	
Water production	2,475,142		2,475,142	
Water distribution	811,536		811,536	
Sewer collection	800,672		800,672	
Wastewater treatment	2,542,587		2,542,587	
Environmental service	137,376		137,376	
Engineering design	457,915		457,915	
Geographical information systems	261,459		261,459	
Composting	186,234		186,234	
Operations administration	124,879		124,879	
Service center	210,026		210,026	
Safety	52,644		52,644	
Field service	338,385		338,385	
Water/Sewer construction	454,417		454,417	
Benefit payments			-	4,769,207
Fleet services			-	1,645,108
Depreciation	2,706,099		2,706,099	15,113
Other expenses	1,070,646		1,070,646	
Contract water & sewer expense-International Paper		1,160,145	1,160,145	
Total operating expense	<u>14,193,288</u>	<u>1,160,145</u>	<u>15,353,433</u>	<u>6,429,428</u>
Operating income (loss)	<u>1,716,676</u>	<u>(155,238)</u>	<u>1,561,438</u>	<u>(216,742)</u>

The notes to the financial statements are an integral part of this statement.

Business Type Activities - Enterprise Funds

	<i>Texarkana, Texas Water Utilities</i>	<i>Other Proprietary Funds</i>	<i>Total</i>	<i>Governmental Activities - Internal Service Funds</i>
NONOPERATING REVENUES (EXPENSES)				
Interest revenue - investments	42,756	1,034	43,790	10,473
Interest revenue - capital leases	4,682		4,682	
Interest expense and paying agent fees	(213,743)		(213,743)	
Interest expense - capital leases	(405,111)		(405,111)	
Gain (loss) on disposal of fixed assets	4,006		4,006	12,568
Other revenues (expenses)	<u>(132,249)</u>		<u>(132,249)</u>	
Total nonoperating revenues (expenses)	<u>(699,659)</u>	<u>1,034</u>	<u>(698,625)</u>	<u>23,041</u>
Income before contributions and transfers	1,017,017	(154,204)	862,813	(193,701)
Capital contributions	44,870	154,204	199,074	-
Transfers in			-	195,169
Transfers out	<u>(18,900)</u>		<u>(18,900)</u>	<u>(17,202)</u>
Change in net assets	1,042,987	-	1,042,987	(15,734)
Total net assets, beginning of year	<u>69,432,731</u>	<u>-</u>		<u>2,106,110</u>
Total net assets, end of year	<u>\$ 70,475,718</u>	<u>-</u>		<u>2,090,376</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue of certain internal service funds is reported with business-type activities.			<u>(53,596)</u>	
Change in net assets of business-type activities			<u>\$ 989,391</u>	

CITY OF TEXARKANA, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS For the Year Ended September 30, 2010

	<u>Business Type Activities - Enterprise Funds</u>			<i>Governmental Activities - Internal Service Funds</i>
	<i>Texarkana, Texas Water Utilities</i>	<i>Other Proprietary Funds</i>	<i>Total</i>	
Cash flows from operating activities:				
Cash received from customers	\$16,112,020	727,830	16,839,850	1,539,405
Cash received from interfund services provided and used			-	4,663,262
Cash paid to suppliers	(6,644,672)	(891,482)	(7,536,154)	(6,020,785)
Cash paid to employees	(4,403,150)	(111,198)	(4,514,348)	(309,854)
Net cash provided from operating activities	<u>5,064,198</u>	<u>(274,850)</u>	<u>4,789,348</u>	<u>(127,972)</u>
Cash flows from non-capital financing activities:				
Nonoperating costs- legal fees	(132,249)		(132,249)	
Transfers from other funds			-	195,169
Transfers to other funds	(18,900)		(18,900)	(17,202)
Net cash used from non-capital financing activities	<u>(151,149)</u>	<u>-</u>	<u>(151,149)</u>	<u>177,967</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(1,819,593)	(44,185)	(1,863,778)	(18,679)
Principal paid on bonds	(500,000)		(500,000)	
Interest paid on bonds	(199,078)		(199,078)	
Principal paid on capital leases	(202,195)		(202,195)	
Interest paid on capital leases	(352,493)		(352,493)	
Principal received on direct financing leases	26,059		26,059	
Interest received on direct financing leases	4,681		4,681	
Capital improvement deposits paid	(9,750)		(9,750)	
Capital improvement deposits received	1,001,657	154,334	1,155,991	
Interest received on capital improvement deposits	6,398	6,614	13,012	
Proceeds from disposal of capital assets	5,125		5,125	12,569
Net cash provided (used) from capital and related financing activities	<u>(2,039,189)</u>	<u>116,763</u>	<u>(1,922,426)</u>	<u>(6,110)</u>
Cash flows from investing activities:				
Purchase of investments	(10,762,098)	(3,204,619)	(13,966,717)	
Proceeds from sale and maturities of investments	10,060,889	3,203,833	13,264,722	1,500,000
Interest received on investments	33,751	1,648	35,399	11,544
Net cash provided (used) from investing activities	<u>(667,458)</u>	<u>862</u>	<u>(666,596)</u>	<u>1,511,544</u>
Net increase (decrease) in cash	2,206,402	(157,225)	2,049,177	1,555,429
Cash, beginning of year	<u>4,930,584</u>	<u>326,289</u>	<u>5,256,873</u>	<u>740,583</u>
Cash, end of year	<u>\$ 7,136,986</u>	<u>169,064</u>	<u>7,306,050</u>	<u>2,296,012</u>

The notes to the financial statements are an integral part of this statement.

CITY OF TEXARKANA, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS For the Year Ended September 30, 2010

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Texarkana, Texas Water Utilities	Other Proprietary Funds	Total	
<u>Reconciliation of operating income (loss) to net cash provided by operating activities</u>				
Operating income (loss)	\$ 1,716,676	(155,238)	1,561,438	(216,742)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	2,694,576		2,694,576	15,113
Amortization of bond issuance cost	39,614		39,614	
Millwood expense	94,688		94,688	
(Increase) decrease in assets:				
Accounts receivable	(53,817)	(277,076)	(330,893)	
Allowance for doubtful accounts	57		57	
Due from other government agencies			-	(3,619)
Due from other funds	323,534		323,534	(1,663)
Due from component units			-	(4,737)
Inventory	24,015		24,015	36,304
Prepaid expenses	(12,860)		(12,860)	
Increase (decrease) in liabilities:				
Accounts payable	72,406	(2,830)	69,576	
Accrued liabilities	(199,373)	(3,828)	(203,201)	42,418
Due to other funds	93,109	167,878	260,987	4,954
Accrued compensated absences	14,261		14,261	
Customer deposits	10,721		10,721	
Net pension and other postemployment obligations	241,971		241,971	
Other payables	4,620	(3,756)	864	
Total adjustments	<u>3,347,522</u>	<u>(119,612)</u>	<u>3,227,910</u>	<u>88,770</u>
Net cash provided (used) from operating activities	<u>\$ 5,064,198</u>	<u>(274,850)</u>	<u>4,789,348</u>	<u>(127,972)</u>

Supplementary Schedule of Noncash Transactions Affecting Financial Position

During the fiscal year the following additions to direct financing leases and obligations under capital leases were recorded.

	Texas Utilities
Financing lease	(94,688)
Capital lease	57,575
Net additions	<u>(37,113)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF TEXARKANA, TEXAS

STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS September 30, 2010

	<i>Firemen's Relief Pension Trust Fund</i>	<i>Agency Funds</i>
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 376,363	70,187
Investments, at fair value		
Common trust funds	16,259,158	
U.S. Government securities	2,748,579	
Nongovernment obligations	1,406,058	
Foreign obligations	901,262	
Exchange traded funds	1,036,138	
Corporate stock	1,376,398	
Common stocks	33,905	
Accrued interest receivable	23,361	
TOTAL ASSETS	<u>24,161,222</u>	<u>70,187</u>
 LIABILITIES		
Accounts payable	11,508	
Due to other funds	3,800	
Escrow deposits		70,187
TOTAL LIABILITIES	<u>15,308</u>	<u>70,187</u>
 NET ASSETS		
Held in trust for pension benefits and other purposes	24,145,914	
TOTAL NET ASSETS	<u><u>\$24,145,914</u></u>	<u><u>-</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TEXARKANA, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUND For the Year Ended September 30, 2010

	<i>Firemen's Relief Pension Trust Fund</i>
ADDITIONS	
Contributions:	
Employer	\$ 781,461
Employee	543,963
Investment earnings:	
Interest	651,846
Net increase in the fair value of investments	1,922,178
TOTAL ADDITIONS	<u>3,899,448</u>
DEDUCTIONS	
Benefit payments	1,492,445
Administrative expenses	206,639
TOTAL DEDUCTIONS	<u>1,699,084</u>
Change in net assets	2,200,364
Net assets at beginning of year	<u>21,945,550</u>
Net assets at end of year	<u><u>\$24,145,914</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TEXARKANA, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Texarkana, Texas was incorporated on April 5, 1960 under the provisions of Vernon's Civil Statutes Article 1175 (1) as amended (Home Rule Enabling Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

As required by generally accepted accounting principles, these financial statements present the City of Texarkana, Texas (the primary government) and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column of the financial statements to emphasize it is legally separate from the government.

B. INDIVIDUAL COMPONENT UNIT DISCLOSURES- Discretely Presented Component Unit

The **Texarkana -Bowie County Family Health Center**, a public health district as established under Texas Civil Statutes, was organized by a cooperative agreement between the City and Bowie County, Texas. Because 7 of the 12 members of the governing body serve by virtue of the position each holds with the primary government, management has concluded that the primary government effectively appoints a voting majority of the governing body. Management believes that failure to include the Health Center would render the City's financial statement incomplete or misleading. The remaining 5 members of the Health Center governing body are the Bowie County Commissioners Court members. The City provides the facilities, a majority of the operating funds, and fiscal management of the Center. The City contributed \$114,891 towards the Health Center's operations during the year ended September 30, 2010. The Health Center does not have separately issued financial statements.

The **Texarkana Public Library** is a joint venture between the Cities of Texarkana, Texas and Texarkana, Arkansas. The library is governed by the Texarkana Public Library Commission Trustees, appointed by the Cities of Texarkana, Texas and Texarkana, Arkansas. Each City appoints five members to the Library Commission. Each City subsidizes the Library which is located within the geographic boundaries of the City of Texarkana, Texas. Currently, the ratio of subsidies provided from the Cities is approximately two-thirds from Texarkana, Texas and one-third from Texarkana, Arkansas. The Library is fiscally dependent on its subsidy from the City of Texarkana, Texas since its subsidy is over fifty percent of the Library's revenue. The City of Texarkana, Texas processes the Library's payroll. Library employees are covered under the City of Texarkana, Texas retirement system. The City provides the facility from which the Library operates. The City contributed \$446,834 toward the Library's operations during the year ended September 30, 2010. Complete financial statements for the Library may be obtained at the Library's administrative office at 600 West Third Street, Texarkana, Texas.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

C. RELATED ORGANIZATIONS

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City Council or specific committees of the City Council appoint members of the following organizations: Board of Adjustment, Ark-Tex Council of Governments, Building Code Revision Committee, Building and Standards Commission, Civil Service Commission, CDBG Citizens Advisory Committee, Electrical Examining Board, Health Facilities Development Corporation, Historic Landmark Preservation Commission, Hospital Authority Board of Directors, Texarkana Housing Authority, Housing Review Board, Housing Finance Corporation, Industrial Development Corporation, Intergovernmental Advisory Committee, Library Commission, Northeast Texas Mental Health/Mental Retardation (MHMR) Board of Trustees, Permit and License Appeal Board, Planning and Zoning Commission, Plumbing Appeals and Advisory Board, Public Responsibility Committee (MHMR), Commercial Loan Committee and Texarkana Housing Coordinating Board. Positions on these boards are appointed in certain instances in entirety, partially, or with City Board members.

D. JOINT VENTURES

Texarkana Airport Authority

The City is a participant with Texarkana, Arkansas in a joint venture to operate Texarkana Regional Airport. The Texarkana Airport Authority was created in 1956 by ordinance enacted by the two cities. The governing body of Texarkana Airport Authority consists of eight members, four of whom are residents of Texarkana, Texas and four of whom are residents of Texarkana, Arkansas. These board members are appointed by the mayors of the respective Cities. The Airport Authority Board has governance responsibilities over all activities relating to operating and maintaining the Texarkana Regional Airport. The Board receives funding from airport operations and from various local, state, and federal agencies and must comply with any requirements of these funding sources.

In previous years, the cities have made contributions of assets to the Airport Authority of \$647,253 by Texarkana, Texas and \$859,474 by Texarkana, Arkansas. During the Airport Authority's fiscal year ended December 31, 2009, the City of Texarkana, Texas contributed \$106,724 and the City of Texarkana, Arkansas contributed \$90,048. The City of Texarkana, Texas' net investment in the Airport Authority is reported in the City's financial statements with governmental activities capital assets. The City's equity interest in the Airport Authority was \$8,910,087 at December 31, 2009. Complete financial statements for the Authority can be obtained from the Texarkana Airport Authority's administrative office.

Bi-State Justice Center

The City is also a participant in a joint venture in the Bi-State Justice Center with the City of Texarkana, Arkansas and Bowie County, Texas. The Bi-State Justice Center is jointly occupied by law enforcement and criminal justice agencies of the City of Texarkana, Texas; the City of Texarkana, Arkansas; and Bowie County, Texas. The facility is located on the state line, half in Texarkana, Texas and half in Texarkana, Arkansas. The Intergovernmental Advisory Committee is responsible for the operations of the Center. This seven member committee is comprised of two members from the City of Texarkana, Texas City Council, two members from the Texarkana, Arkansas Board of Directors, the Bowie County Judge, one

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Bowie County Commissioner, and one independent member. The Center accounts only for the operations of its own law enforcement and criminal justice agencies. The annual budget is underwritten by the participating entities based on a formula which uses floor space occupied, number of records processed by the Building Information Center and the number of prisoners in the detention facility for each entity. Each year's revenues and expenditures are equal; therefore, there is never a net income or loss and no fund balance.

The City of Texarkana, Texas' net investment, which consists of capital outlay in the Bi-State Justice Center, is reported in the City's financial statements with governmental activities capital assets. The City's equity interest at September 30, 2010 was \$91,957 based on the Bi-State Justice Center's audited financial statements at December 31, 2009 (the latest available). As described in Note 18, the City has outstanding debt totaling \$2,175,000 at September 30, 2010, which is considered to be conduit debt in accordance with governmental accounting standards. The debt was issued or obtained by the City on behalf of the Bi-State Justice Center. Complete financial statements for the Bi-State Justice Center can be obtained from the City of Texarkana, Arkansas Finance Department.

Bowie Central Appraisal District

The City is a participant with the other taxing jurisdictions of Bowie County in the Bowie Central Appraisal District. The Appraisal District is responsible for appraising property for ad valorem purposes for each taxing unit that imposes ad valorem taxes on property in the County. In July 1986, the Appraisal District began collecting taxes for some of the jurisdictions. The Bowie Central Appraisal District is governed by a board of directors chosen by vote of the governing bodies of the taxing jurisdictions. Board members serve two-year terms. The taxing jurisdictions of Bowie County have both an ongoing financial responsibility and financial interest in the Appraisal District.

The City of Texarkana, Texas' net investment in this joint venture is reported in the City's financial statements in the General Fund since the joint venture does not represent equity primarily in capital assets. The City's equity interest at September 30, 2010 was \$92,463 based on the Appraisal District's audited financial statements at December 31, 2009 (the latest available). Complete financial statements for the Appraisal District can be obtained from the Bowie Central Appraisal District in New Boston, Texas.

Texarkana Urban Transportation Study (TUTS)

The City of Texarkana, Texas is a participant with seven other entities in the Texarkana Urban Transportation Study (TUTS) Policy Committee, which is the designated metropolitan planning organization (MPO) for the Texarkana urbanized area. The MPO develops transportation plans and programs in cooperation with the participating entities and transit agencies. The governing body of the TUTS consists of fourteen members, three of whom are representatives of the City of Texarkana, Texas; three of whom are representatives of the City of Texarkana, Arkansas; the Bowie County Judge, the Miller County Judge, the Mayor of the City of Wake Village, Texas; the Mayor of the City of Nash, Texas; two representatives for the Arkansas State Highways and Transportation Department; and two representatives for the Texas Department of Transportation. The TUTS may receive federal, state, and local funding for metropolitan transportation planning for the integrated network of federal, state, and local roads and highways. The City has an ongoing financial responsibility of the TUTS since its continued existence depends on continued funding by the City.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

The City of Texarkana, Texas' net investment in the joint venture is reported in the City's financial statements in the General Fund since the joint venture does not represent equity primarily in capital assets. The City's interest at September 30, 2010 was \$0 based on the Texarkana Urban Transportation Study Policy Committee's audited financial statements at September 30, 2010. The TUTS does not have separately issued financial statements for the year ended September 30, 2010.

Texarkana Urban Transit District

The City of Texarkana, Texas is a participant with three other cities in the Texarkana Urban Transit District (TUTD). The purpose of the TUTD will be to provide public transportation services within the Texarkana urban area. The TUTD is a political subdivision district under the laws of the State of Texas as defined by Chapter 458 of the Texas Transportation Code and Chapter 791 of the Texas Government Code. Composition of the Transit District Board is as follows: the City of Texarkana, Texas - three members, one of whom is an elected official; the City of Texarkana, Arkansas - three members, one of whom is an elected official; the City of Wake Village, Texas - two members, one of whom is an elected official; and the City of Nash, Texas - two members, one of whom is an elected official. The TUTD receives federal, state, and local funding, as well as user charges generated by the public transportation system. The City has an ongoing financial responsibility of the TUTD since its continued existence depends on continued funding by the City.

The City of Texarkana, Texas' net investment in the joint venture is reported in the City's financial statements with governmental activities capital assets since the joint venture represents equity primarily in capital assets. The City's interest at September 30, 2010 was \$1,240,762 based on the Texarkana Urban Transit District's audited financial statements at September 30, 2010. The TUTD does not have separately issued financial statements for the year ended September 30, 2010.

E. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements consist of the statement of net assets and the statement of activities. The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges for services. Similarly, the primary government is reported separately from legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds as well as fiduciary funds even though they are excluded from the government-wide financial statements. Major

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

individual governmental funds and individual enterprise funds are reported as separate columns in the fund financial statements.

F. BASIS OF ACCOUNTING

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements, with the exception of agency funds. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded when payment is due.

Revenue sources such as property taxes, sales tax, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - This fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Debt Service - This fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs of all of the City's long-term general obligation debt of governmental funds.

2009 Bond Capital Projects Fund - This fund was established to account for bond proceeds used for (i) constructing and improving streets, including related traffic signalization, signage, sidewalks, landscaping and drainage improvement, and the acquisition of land and right-of-way, (ii) acquiring, constructing, improving and equipping park and recreational facilities, including the purchase of land, (iii) improving and extending the City's combined waterworks and sewer system, including the purchase of land, right of way and equipment, (iv) constructing and improving facilities and acquiring equipment and vehicles for various City departments, (v) constructing, improving, renovating and equipping City hall and related professional services.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

The City reports the following major proprietary funds:

Texarkana, Texas Water Utilities- This fund is used to account for water and sewer services provided to the citizens of Texarkana, Texas and other incorporated and unincorporated areas adjacent to the City.

Additionally, the City reports the following types of funds:

Internal Service Funds - These funds are established to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City has three internal service funds. The Employee Benefit fund is used to account for employee medical benefits and life insurance premiums for covered City employees. The Fleet Services fund is used to account for the repair and maintenance of all vehicles and equipment owned by the City except for the Water Utilities. The Capital Replacement fund is used to account for the replacement of capital assets for all City funds.

Pension Trust Fund - This fund is established to account for the accumulation of resources to provide pension benefits to the City's firemen. The principal revenue sources for this fund are employer and employee contributions and investment earnings.

Agency Funds - These funds are used to account for evidence money seized by the police department and held in escrow until the court directs its disposition.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting and reporting its government-wide and proprietary operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided, operating grants and contributions, and capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. All taxes are included as general revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Texarkana, Texas Water Utilities, as well as the City's internal service funds are charges to customers for sales and services. Texarkana, Texas Water Utilities also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and service,

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

G. ASSETS, LIABILITIES, AND NETS ASSETS OR EQUITY

1. Deposits and investments

The City's cash and cash equivalents include amounts in demand and time deposit accounts. The City classifies all certificates of deposit as investments. State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record.

The Firemen's Relief and Pension Trust Fund is authorized to invest in bonds or other interest-bearing obligations and securities of the United States, the State of Texas, or any county, city or other political subdivision of the State of Texas; in insured shares or share accounts of savings and loan associations; in insured first lien real estate mortgage securities and in selected corporation bonds, preferred stocks, and common stocks.

Investments for the City and its component units are reported at fair value. Short-term investments, such as certificates of deposit and debt securities with a maturity date of less than one year, are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals.

For purposes of the statement of cash flows, the proprietary funds consider cash in bank, money market and savings accounts as cash and cash equivalents. All certificates of deposit and investments in other securities and instruments are considered to be investments.

2. Receivables and payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year is referred to as either "due to/from other funds (i.e. the current portion of interfund loans) or "advances to/from other funds (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the City's governmental activities and business type activities are reported in the government-wide financial statements as "internal balances".

All trade and property taxes receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 94 percent of outstanding property taxes as of September 30, 2010.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Property taxes are levied each October 1 and may be paid without penalty until January 31. A penalty is added to payments received February 1 through June 30. Optionally, taxes may be paid in two installments, one-half due November 30 and one-half due June 30. A 15% penalty is added to taxes remaining delinquent on July 1 and an enforceable lien attaches July 1. As of July 6, 1986, the Bowie Central Appraisal District assumed the billing and collection function for property taxes for the City of Texarkana and other cities and schools, and Bowie County under an intergovernmental agreement.

The Texas Constitution limits the City's ad valorem tax rate for all purposes to \$2.50 per one hundred dollars of assessed valuation. Ad valorem tax revenue during the year ended September 30, 2010 was levied using a rate of \$.5831 per hundred dollars of assessed valuation, based on 100% of estimated market value, which means that the City has a tax margin of \$1.9169 per \$100 and could raise taxes up to an additional \$45,764,679 a year from the present assessed valuation of \$2,387,431,746 before the limit is reached.

3. Inventories and prepaid items

Inventories of the governmental funds are valued at cost using the average cost method. Inventory in the general fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed.

Inventories of the enterprise funds are valued at average cost or market whichever is lower. The first-in, first-out method of valuation is utilized. Inventories consist of repair materials and spare parts for water and wastewater treatment and distribution.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

4. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Each of the enterprise funds report such proceeds of revenue bond issuances that are restricted for use in construction, debt service, and capital maintenance. Restricted assets also include interest accrued on unexpended bond proceeds.

5. Capital assets

Capital assets which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns of the government-wide financial statements.

Governmental activities and health component unit:

Capital assets are defined by governmental activities and the health component unit as assets with a normal service life greater than one year and an initial individual cost of more than the following amounts:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Land	\$ -
Buildings and structures	5,000
Machinery and equipment	5,000
Major infrastructure	5,000

Such assets are stated at cost. Where cost could not be determined from the available records, estimated historical cost was used to record the estimated value of the assets. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer. Major infrastructure includes those items acquired after June 30, 1980. An infrastructure asset is considered "major" if the cost or estimated cost of a network of infrastructure assets is expected to be at least 10 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999. An infrastructure asset is also considered "major" if the cost or estimated cost of a subsystem of infrastructure assets is expected to be at least 5 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government as well as the component unit is depreciated using the straight line method over the following estimated useful lives:

Land improvements	20 years
Furniture and fixtures	20 years
Licensed vehicles	8 years
Machinery and equipment	5 to 20 years
Communication equipment	10 years
Building	25 to 50 years
Infrastructure	10 to 60 years

Business-type activities:

Capital assets are defined by business type activities as assets with an initial, individual cost of more than the following amounts and an estimated life in excess of one year.

Furniture and fixtures	\$ 100
Licensed vehicles	1,000
Mobile equipment	1,000
Machinery and equipment	500
Communication equipment	500
Pumps and purification equipment	1,000
Building and facilities	1,000
New improvements	1,000

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest during construction is capitalized to the extent that interest costs exceed interest income on

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

externally restricted bond proceeds. Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

Licensed vehicles	5 years
Mobile equipment	5 years
Machinery and equipment	5 to 10 years
Communication equipment	5 years
Pumps and purification equipment	10 years
Buildings	10 to 50 years
Water and sewer systems	12 to 99 years

Leases are accounted for in accordance with FASB Accounting Standards Codification (ASC) 840. Amortization of the leased assets is recorded in the depreciation accounts.

6. Compensated Absences

The City allows employees to accumulate earned but unused vacation and sick pay benefits. The City's full-time employees are granted 120 hours of vacation and 120 hours of sick leave per year of continuous service. A maximum of 160 hours of accrued vacation leave can be vested and carried forward to succeeding calendar years, with the exception of firemen who can accrue 168 hours. All accrued sick leave credited to an employee can be carried forward to succeeding calendar years without limitation. A maximum of 120 hours accrued vacation is payable to an employee upon termination for any reason. Upon separation from service with the City, whether voluntarily or otherwise, anytime after three years of continuous service, all regular full-time and regular part-time employees can receive pay for any unused sick leave accumulated up to ninety working days. This provision applies to all employees hired prior to April 26, 1977. All employees appointed on or after April 26, 1977, but prior to October 1, 1987 can receive payment for unused sick leave if such employees give adequate notice prior to termination and leave in good standing. Employees hired on or after April 26, 1977, but before October 1, 1987, will receive pay for up to 720 hours of unused sick leave, based on the rate of pay at the time of termination. Employees hired after October 1, 1987 will receive payment for up to 720 hours of unused sick leave based on the rate of pay at the time of termination after ten years of continuous service.

Non-civil service, Bi-City, and such other Bi-City employees governed by the City of Texarkana, Texas personnel policy who are hired on or after October 1, 1987 upon termination of employment, forfeit any unused sick leave. Such employees may, upon vested termination, convert unused sick leave to health and/or dental insurance coverage, subject to limitations set for employees appointed on or after April 26, 1977.

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Governmental Accounting Standards Board Statement No.16, “*Accounting for Compensated Absences*,” no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

The City is funding part of its liability through annual allocations and transfers to separate accounts. Allocations, set annually by the City Council, are for employee termination payments.

7. Long-term obligations

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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt proceeds received, as reported as debt service expenditures.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

10. Encumbrances

Encumbrance accounting is employed in the governmental fund types in the fund financial statements. Purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. Any purchase order open at the end of the fiscal year are closed out and new purchase orders are issued in the subsequent fiscal year, if needed.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains the “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds”. The details of this (\$65,744,540) difference are as follows:

Net pension and other postemployment obligations	\$ 1,313,404
General obligation bonds payable	16,509,388
Certificates of obligation	43,564,164
Tax notes	1,160,000
Capital leases	254,195
Compensated absences	<u>2,943,389</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 65,744,540</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund financial statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense”. The details of this \$1,873,416 difference are as follows:

Capital outlay	\$ 6,115,692
Amounts in capital outlay below the capitalization threshold	(224,572)
Depreciation expense	<u>(4,017,704)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 1,873,416</u>

Another element of that reconciliation states “the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. These transactions, however, have no effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities”. The details of this \$(23,164,049) difference are as follows:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Issuance of debt:	
Certificates of obligation	\$ (24,420,000)
Capital leases	(332,847)
Increase in net pension and other postemployment obligation	(684,410)
Accretion on capital appreciation bonds	(285,267)
Principal repayments:	
General obligation bonds	1,710,000
Certificates of obligation	670,000
Tax notes	40,000
Capital leases	161,611
Premiums/discounts on new bonds	40,425
Amortization of bond issuance costs and premiums	<u>(63,561)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (23,164,049)</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND RESPONSIBILITY

A. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the General fund and the following special revenue funds: Teen Court, Theatre, Hotel/Motel Tax, Economic Development, Law Enforcement Block Grant, and Law Enforcement Programs. Debt service funds do not have legally adopted budgets because effective budgetary control is alternately achieved through general obligation bond indenture provisions. In addition to the above mentioned funds, the Housing and Community Development Special Revenue Fund and the capital projects funds have legally adopted project-length budgets. All budget annual appropriations lapse at year-end and are re-established in the succeeding year.

By June of each year, all agencies of the City submit requests for appropriation to the City Manager so that a budget may be prepared. Prior to August 1, the City Manager submits a proposed operating budget for the fiscal year commencing the following October 1 to the City Council. After official journal notification, the City Council conducts public hearings to obtain taxpayer comments. A final budget must be prepared and legally adopted through the passage of an ordinance no later than September 1.

The appropriated budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The City Council may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City Manager or the revenue estimates must be changed by an affirmative vote of a majority of the City Council. The City Charter prohibits budgeting total proposed expenditures in excess of total anticipated revenues and any unencumbered funds from prior years; therefore, expenditures may not legally exceed revenues and unencumbered fund balances from prior years. The legal level of budgetary control (i.e., the lowest level at which expenditures may not legally exceed appropriation) is the fund level. The Council made several supplemental budgetary appropriations throughout the year. Individual amendments were not material in relation to the original appropriations.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Comparison of budgeted and actual amounts as shown in the accompanying financial report includes the General Fund and those Special Revenue Funds which are included in the annual operating budget (Teen Court, Theatre, Hotel/Motel Tax, Economic Development, Law Enforcement Block Grant, and Law Enforcement Programs). The capital budget ordinances which encompass the Housing and Community Development and Capital Projects Funds present cumulative (by project) as opposed to annual budget amounts and thus budget and actual comparisons are not reported in the accompanying financial report for these funds. A reconciliation of special revenue funds with budgets and total special revenue funds is as follows:

	<u>Revenue</u>	<u>Expendi- tures</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balance at Beginning of Year</u>	<u>Fund Balance at End of Year</u>
Special Revenue Funds with Budgets:					
Teen Court	\$ 68,589	117,762	5,000	56,636	12,463
Theatre	92,887	324,596	305,000	581,110	654,401
Hotel/Motel Tax	1,208,744	1,661,539	(488,980)	1,631,261	689,486
Economic Development	425,087	243,560		1,564,912	1,746,439
Law Enforcement Block Grant	71,312	88,486		17,009	(165)
Law Enforcement Programs	10,568	7,127	(2,974)	16,786	17,253
Total Special Revenue Funds with budgets	<u>1,877,187</u>	<u>2,443,070</u>	<u>(181,954)</u>	<u>3,867,714</u>	<u>3,119,877</u>
Special Revenue Funds without Budgets:					
Police Dog	22			1,006	1,028
Housing and Community Development	266,598	266,598			-
Home Program		45,598		381,052	335,454
Housing	33,815	19,728		428,285	442,372
JAG Recovery Act Grant	293,158	293,096			62
Brownfield Grant		541			(541)
Total Special Revenue Funds without budgets	<u>593,593</u>	<u>625,561</u>	<u>-</u>	<u>810,343</u>	<u>778,375</u>
Total Special Revenue Funds	<u>2,470,780</u>	<u>3,068,631</u>	<u>(181,954)</u>	<u>4,678,057</u>	<u>3,898,252</u>

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The expenditures in the Hotel/Motel Tax Fund exceeded appropriations of \$1,150,323. The expenditures in the Law Enforcement Programs Fund exceeded appropriations by \$36.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

C. RESTRICTED BY ENABLING LEGISLATION

The government-wide Statement of Net Assets reports restricted net assets, of which \$1,343,887 is restricted by enabling legislation. This amount consists of unspent hotel/motel taxes.

D. DEFICIT FUND EQUITY

The Law Enforcement Block Grant fund had a deficit fund balance of \$165. The Brownfield Grant fund had a deficit fund balance of \$541.

NOTE 4 - DEPOSITS AND INVESTMENTS

Interest Rate Risk

As of September 30, 2010, the City did not have any debt security investments.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the investment portfolio as follows:

<i>Investment Type</i>	<i>Not to exceed</i>
U.S. Government agencies	80%
Fully insured or collateralized CD's	100%
Banker's acceptances	15%
Commercial paper	15%
Maximum per commercial paper issuer	5%
Repurchase agreements	50%
Money market funds:	
Operating funds	100%
Bond funds	100%
Local government investment pools	80%
Maximum percent ownership of pool	10%
Maximum percent investment in any one pool	50%

The City's investment policy covers all funds except for the Firemen's Relief and Pension fund. The City's investment policy requires that the average maturity of the City's operating fund not exceed one year. The maximum final stated maturity of any investment shall not exceed five years. Investments in all funds shall be managed in such a way that the market price losses resulting from interest rate volatility would be offset by coupon income and current income received from the volume of the portfolio during a twelve-month period.

Firemen's Relief and Pension Fund

As of September 30, 2010, the City's Firemen's Relief and Pension fund had the following debt security investments and maturities:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

<i>Investment Type</i>	<i>Fair Value</i>	<i>Investment Maturities (in Years)</i>			
		<i>Less Than 1</i>	<i>1-5</i>	<i>6-10</i>	<i>More Than 10</i>
Fire Pension Fund:					
U.S. Treasuries	\$ 1,180,304	312,837	39,477		827,990
Corporate Bonds	579,345		353,624	225,721	
Foreign Obligations	872,562	51,940	553,248	209,684	57,690
Private Expt FDG Corp	555,458		254,755	300,703	
TNVA Pool	148,917			148,917	
GNMA Pool	735,017				735,017
FNMA Pool	332,262				332,262
FNHLMC	97,202				97,202
New VY Generation I	566,258			566,258	
	<u>5,067,325</u>	<u>364,777</u>	<u>1,201,104</u>	<u>1,451,283</u>	<u>2,050,161</u>

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's Firemen's Relief and Pension fund investment policy limits the investment portfolio as follows:

<i>Portfolio Segment</i>	<i>Range of Portfolio Assets</i>
Equity Securities (*1)	40-70%
Fixed Income Securities	30-60%
Cash Equivalents	0-20%

*1 Foreign equities (ADR's or foreign equity mutual funds) investment cannot exceed 15% of total equity fund at market.

Custodial Credit Risk

For a deposit, custodial credit risk is the risk that, in the event of a failure of a depository institution, the City will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Of the primary government's \$36,514,397 in bank deposits, none were uninsured and uncollateralized. Of the component unit's \$318,883 and the enterprise fund's \$11,442,901, none were uninsured and uncollateralized.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the primary government's total investments of \$23,801,702 none were uninsured and uncollateralized. Of the enterprise fund's total investments of \$2,459,498 none were uninsured and uncollateralized.

The City's policy on custodial credit risk requires that all deposits and investments of City funds other than direct purchases of U.S. Treasuries or Agencies shall be secured by pledged collateral at a level of 102% of the market value of principal and accrued interest on the deposits or investments less an amount insured by the

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

FDIC or FSLIC. The City's policy also requires that collateral pledged to secure the deposits of the City be held by a safekeeping institution, or Trustee, such as the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral.

Credit Risk

The City is authorized to invest in obligations of the U.S. Government or the State of Texas, obligations of states, counties, cities, or other political subdivisions with a quality rating of not less than "A". The City is also authorized to invest in (a) certificates of deposit of banks insured by FDIC, National Credit Union Share Insurance, or secured by mortgage-backed securities rated AAA, (b) fully collateralized direct repurchased agreements with a defined termination date secured by obligations of the U.S. government, (c) investment pools, not to exceed 80% of the City's portfolio, and rated no lower than AAA or AAA-m, with a weighted average maturity of 90 days or less, (d) money market mutual funds that have a rating of AAA and a weighted average maturity of 90 days or less, (e) banker's acceptances with a stated maturity of 270 days or less and rated not less than A-1 or P-1 and is fully secured by an irrevocable letter of credit issued by a bank, (f) guaranteed investment contracts, for bond proceeds only, if such contracts have a defined termination date, and are secured by U.S. Government Obligations.

The City's investments in corporate bonds were rated from A1 to Aaa by Moody's Investors Service and AAA to BBB+ by Standard and Poor's. The City's investment in the high yield mutual bond fund consists primarily of B rated bonds, which carry a high rate of risk. The City's investment in core investment grade bonds is unrated, and the City's investment in Pier Capital Commingled Small Cap Growth Stock is unrated.

Concentrations of credit risk of over 5% by issuer are as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Cash and Certificates of Deposit	Wells Fargo Bank	\$ 47,860,120	64.21%

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The City's Firemen's Relief and Pension fund's investment policy requires that foreign equities investments cannot exceed 15% of total equity fund at market value. At September 30, 2010, the City's Firemen's Relief and Pension fund had \$3,105,023 invested in Westwood Trust International Equity- EB Fund. In order to minimize foreign currency risk, the City invests in a well-diversified fund. The City's Firemen's Relief and Pension fund's investment policy prohibits investment in any security payable in foreign currency. The fund is comprised of the following investments:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Cash and cash equivalents						8.36%
Cash denominated in foreign currencies						3.45%
Securities:						
Argentina	3.73%	Great Britain	19.47%	Russia	0.92%	
Australia	1.41%	Hong Kong	2.67%	South Africa	0.99%	
Brazil	5.17%	Indonesia	1.33%	Spain	3.64%	
China	1.16%	Japan	15.24%	Switzerland	6.54%	
Denmark	1.29%	Netherlands	2.96%	Turkey	1.16%	
France	6.23%	Norway	1.18%	USA	4.67%	
Germany	7.03%	Portugal	1.40%			
Total Securities						88.19%
Foreign exchange futures contract						0.00%
Other						0.00%
Total						<u>100.00%</u>

NOTE 5 - RECEIVABLES

Receivables as of year end for the City's individual major funds and nonmajor funds, internal service funds, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<i>General</i>	<i>2009 Bond</i>	<i>Debt Service</i>	<i>Texarkana, Texas Water Utilities</i>	<i>Nonmajor and Other Funds</i>	<i>Total</i>
Receivables:						
Property taxes	\$ 688,653		324,370			1,013,023
Other taxes					304,382	304,382
Accounts	921,665			2,286,604	57,189	3,265,458
Intergovernmental	2,938,928			8,305	50,341	2,997,574
Interest				1,178	32,961	34,139
Loans					1,408,430	1,408,430
Restricted accounts					363,759	363,759
Restricted interest				3,903	1,423	5,326
Gross receivables	<u>4,549,246</u>	<u>-</u>	<u>324,370</u>	<u>2,299,990</u>	<u>2,218,485</u>	<u>9,392,091</u>
Less: allowance for uncollectibles	<u>1,301,599</u>	<u>-</u>	<u>303,337</u>	<u>63,224</u>	<u>827,404</u>	<u>2,495,564</u>
Net total receivables	<u>\$ 3,247,647</u>	<u>-</u>	<u>21,033</u>	<u>2,236,766</u>	<u>1,391,081</u>	<u>6,896,527</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grant receivable (General fund)	\$ 39,699	
Grant receivable (Hotel/motel Tax fund)	74,148	
Grant drawdowns prior to meeting all eligibility requirements		<u>127,973</u>
Total deferred/unearned revenue for governmental funds	<u>\$113,847</u>	<u>127,973</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010 was as follows:

	<u>Balance October 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance September 30, 2010</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 44,002,429	2,034,414			46,036,843
Construction in progress	3,742,282	2,924,864		(3,696,178)	2,970,968
Total capital assets, not being depreciated	<u>47,744,711</u>	<u>4,959,278</u>	<u>-</u>	<u>(3,696,178)</u>	<u>49,007,811</u>
Capital assets, being depreciated:					
Buildings	25,486,033	39,475			25,525,508
Improvements other than buildings	6,015,359			257,578	6,272,937
Infrastructure	96,478,992		(669,975)	3,438,600	99,247,617
Machinery and equipment	1,579,019	271,000	(63,582)		1,786,437
Licensed vehicles	7,128,184	651,496	(148,869)		7,630,811
Total capital assets, being depreciated	<u>136,687,587</u>	<u>961,971</u>	<u>(882,426)</u>	<u>3,696,178</u>	<u>140,463,310</u>
Less accumulated depreciation for:					
Buildings	(12,911,068)	(504,542)			(13,415,610)
Improvements other than buildings	(3,854,808)	(227,000)			(4,081,808)
Infrastructure	(49,824,470)	(2,738,479)	581,403		(51,981,546)
Machinery and equipment	(717,418)	(108,425)	63,582		(762,261)
Licensed vehicles	(5,333,250)	(465,821)	136,891		(5,662,180)
Total accumulated depreciation	<u>(72,641,014)</u>	<u>(4,044,267)</u>	<u>781,876</u>		<u>(75,903,405)</u>
Total capital assets, being depreciated, net	<u>64,046,573</u>	<u>(3,082,296)</u>	<u>(100,550)</u>	<u>3,696,178</u>	<u>64,559,905</u>
Governmental capital assets, net	<u>111,791,284</u>	<u>1,876,982</u>	<u>(100,550)</u>	<u>-</u>	<u>113,567,716</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

	<i>Balance October 1, 2009</i>	<i>Additions</i>	<i>Deletions</i>	<i>Transfers</i>	<i>Balance September 30, 2010</i>
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 1,314,209				1,314,209
Construction in progress	1,013,014	1,471,709		(1,504,834)	979,889
Total capital assets, not being depreciated	<u>2,327,223</u>	<u>1,471,709</u>	<u>-</u>	<u>(1,504,834)</u>	<u>2,294,098</u>
Capital assets, being depreciated:					
Buildings	3,414,242				3,414,242
Improvements other than buildings	80,432,300			1,316,644	81,748,944
Machinery and equipment	8,677,616	46,909	(263,311)	188,190	8,649,404
Property under capital lease	20,539,401		(8,193)		20,531,208
Water rights	276,550				276,550
Total capital assets, being depreciated	<u>113,340,109</u>	<u>46,909</u>	<u>(271,504)</u>	<u>1,504,834</u>	<u>114,620,348</u>
Less accumulated depreciation for:					
Buildings	(2,012,433)	(77,900)			(2,090,333)
Improvements other than buildings	(28,089,676)	(1,830,214)			(29,919,890)
Machinery and equipment	(7,262,887)	(382,133)	262,192		(7,382,828)
Property under capital lease	(9,827,846)	(404,329)	8,193		(10,223,982)
Water rights	(253,504)	(11,523)			(265,027)
Total accumulated depreciation	<u>(47,446,346)</u>	<u>(2,706,099)</u>	<u>270,385</u>	<u>-</u>	<u>(49,882,060)</u>
Total capital assets, being depreciated, net	<u>65,893,763</u>	<u>(2,659,190)</u>	<u>(1,119)</u>	<u>1,504,834</u>	<u>64,738,288</u>
Business-type capital assets, net	<u>\$ 68,220,986</u>	<u>(1,187,481)</u>	<u>(1,119)</u>	<u>-</u>	<u>67,032,386</u>

Depreciation was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 33,093
Public safety	664,554
Public works	2,887,165
Parks and recreation	432,892
Health and welfare	
Capital assets held by the City's internal service funds	
charged to the various functions based on their usage of the assets	26,563
Total depreciation expense - governmental activities	<u>\$ 4,044,267</u>
Business-type activities:	
Water and sewer	\$ 2,706,099
Total depreciation expense - business-type activities	<u>\$ 2,706,099</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Discretely Presented Component Unit

Activity for the Health Center for the year ended September 30, 2010 was as follows:

	<i>Balance October 1, 2009</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance Sept. 30, 2010</i>
Capital assets, being depreciated:				
Buildings	\$1,246,445			1,246,445
Improvements other than buildings	42,841			42,841
Machinery and equipment	18,444		(5,617)	12,827
Licensed vehicles	-			-
Total capital assets, being depreciated	<u>1,307,730</u>	<u>-</u>	<u>(5,617)</u>	<u>1,302,113</u>
Less accumulated depreciation for:				
Buildings	(778,366)	(27,728)		(806,094)
Improvements other than buildings	(42,841)			(42,841)
Machinery and equipment	(14,863)	(1,283)	5,617	(10,529)
Licensed vehicles	-			-
Total accumulated depreciation	<u>(836,070)</u>	<u>(29,011)</u>	<u>5,617</u>	<u>(859,464)</u>
Total capital assets, being depreciated, net	<u>\$ 471,660</u>	<u>(29,011)</u>	<u>-</u>	<u>442,649</u>

Activity for the Library for the year ended September 30, 2010 was as follows:

	<i>Balance October 1, 2009</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance Sept. 30, 2010</i>
Capital assets, being depreciated:				
Machinery and equipment	\$ 644,325	32,312	(29,588)	647,049
Total capital assets, being depreciated	<u>644,325</u>	<u>32,312</u>	<u>(29,588)</u>	<u>647,049</u>
Less accumulated depreciation for:				
Machinery and equipment	(526,944)	(38,214)	29,588	(535,570)
Total accumulated depreciation	<u>(526,944)</u>	<u>(38,214)</u>	<u>29,588</u>	<u>(535,570)</u>
Total capital assets, being depreciated, net	<u>\$ 117,381</u>	<u>(5,902)</u>	<u>-</u>	<u>111,479</u>

NOTE 7 - CONSTRUCTION PROJECTS

As of September 30, 2010, the City had the following commitments with respect to an unfinished capital project. These projects are being financed with capital project funds from proceeds of bond issues.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

	<i>Project Authorization</i>	<i>Expended Through 9/30/2010</i>	<i>Required Future Financing</i>
Morris Lane - Phase 1	1,615,540	1,210,854	404,686
Texas A&M East Approach	235,500	129,192	106,308
Lake Drive Overpass	974,533	974,533	-
Storm Water Utility	254,600	87,279	167,321
Morris Lane - Phase 2	4,700,000	101,717	4,598,283
Farmers Market	107,606	107,606	-
Cowhorn Drain Restudy	165,000	153,009	11,991
City-wide Master Drain	456,000	5,000	451,000
Storm Water Design Manual	75,000	46,000	29,000
Convention Center Construction	6,180,000	155,778	6,024,222
Total	<u>\$14,763,779</u>	<u>2,970,968</u>	<u>11,792,811</u>

Business-type activities construction projects

The Texarkana Water Utilities completed numerous short water and sewer line extension and other improvements during fiscal year 2010 using Utility materials, personnel and equipment, which were funded by various capital improvement funds and bond proceeds. In addition, several major projects were completed and several others continued during the fiscal year both in Texarkana, Texas and Texarkana, Arkansas utilizing outside contractors and various capital improvement funds.

Various water, sanitary sewer line and lift station improvements totaling \$1,031,573 were financed by the Texas Capital Improvement funds during fiscal year 2010. One of the major projects completed was the Old Boston Road Utility Relocation Project totaling \$173,957. An additional \$122,091 was spent on the 2008 Annexation Water Project in fiscal 2010. An advance was made in the amount of \$153,970 to the I.P. Water funds for the relocation of our treated water line from the I.P. Water Treatment Plant along FM 3129 due to the new overpass over the rail road tracks. This amount will be reimbursed by Texas Department of Transportation. The relocation of sewer lines near the KCS Railroad and 13th Street, requiring a new bore under the railroad tracks, cost \$133,672. An additional \$16,858 was spent this year on the Lake Drive Overpass Water Main Relocation Project started last year bringing the total cost of the project to \$115,613. This project was completed by Stone Construction. A total of \$124,867 was spent this year on the continuation of the Bowie County Parcel Mapping Project. This project is a joint effort with the Bowie Central Appraisal District (BCAD) and will continue into future years. BCAD reimburses for the cost of the project and other services through Contract Services Charges. Numerous other small water and sewer line extensions and relocations, tank cleans and paintings, and manhole rehab projects totaling \$306,157 were also funded by the Texas Capital Improvement funds including the following: The Lionel Street Sewer Main Extension; the Highpoint Water Main Extension, Phase III; the Overcreek Road Water Main Extension; the Dogwood Lane Water Main Extension; and the Stonecreek Road Water Main Extension.

A total of \$43,400 was spent from Texas Infrastructure funds, 98% of which was to replace a 2" water line along New Boston Road. Only \$6,500 was spent from the Arkansas Infrastructure funds in FY 2010 to complete part of our commitment to the Cooper Tire incentive package.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

A total of \$785,674 was spent from the South Regional Wastewater Depreciation funds during FY 2010. This is a joint Arkansas/Texas fund. Texas share of these expenditures was \$502,831, or 64%. The remaining \$282,843 was funded by Arkansas. \$568,200 of the total expenditures was for a new generator at the 200 Site Lift Station to replace the underground electrical lines destroyed by a lightning strike in 2008. The cost of the generator was reimbursed by insurance.

A total of \$379,104 was spent from the Technology funds during FY 2010. This is a joint Arkansas/Texas fund. Texas share of these expenditures was \$234,846. These costs included the new Microsoft Lease, \$52,501; CISCO Lease, \$107,263; Aerial Digital Imagery

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of September 30, 2010 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental fund	\$ 90,240
General	Fleet internal service	185,413
General	Fire Pension	3,800
2009 Bond	Nonmajor governmental fund	2,717
Fleet internal service	General	127,153
Texarkana, Texas Water Utilities	Nonmajor enterprise fund	267,726
Nonmajor enterprise fund	Texarkana, Texas Water Utilities	55
Total		<u>\$ 677,104</u>

Purpose:

\$23,234	To reimburse the General fund for expenses made for the Housing and Community Development fund (nonmajor governmental fund).
\$57,110	To reimburse the General fund for September expenditures made on behalf of Housing fund (nonmajor governmental fund).
\$496	To reimburse the General fund for expenditures made for the JAG Recovery Act Grant fund (nonmajor governmental fund).
\$8	To reimburse the General fund for expenditures made for the 2008 Tax Note fund (nonmajor governmental fund).
\$1,686	To reimburse the General fund for Teen Court fund (nonmajor governmental fund) expenditures for computer lease payments.
\$7,706	To reimburse the General fund for Theatre fund (nonmajor governmental fund) expenditures for computer lease payments.
\$185,413	To reimburse the General Fund for 2010 expenses paid by the Fleet Services (internal service fund).

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

- \$3,800 The balance due to the General fund from the Fire Pension fund.
- \$515 To reimburse the 2009 Bond fund for 2003 Bond fund expenditures.
- \$2,202 To reimburse the 2009 Bond fund for 2005 Bond fund expenditures.
- \$127,153 To reimburse the Fleet Services (internal service fund) for fuel and maintenance expense by the General fund.
- \$256,057 International Paper Company (IP) reimburses the Texas Utility Fund for all operating expenses incurred in the IP Water Fund. The Due to Texas balance of \$102,087 at September 30, 2010, represents operating capital advances by the Texas Fund pending receipt of funds from IP. The remaining \$153,970 is owed to the Texas Fund for money advanced on a line relation project to be reimbursed by the Texas Department of Transportation.
- \$11,669 Lake Texarkana Water Supply owes the Texas funds for overpayment of capital contributions.
- \$55 The balance due to the IP fund results mainly from the time lag between the dates that payments between funds are made.

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary government - Employee Benefit	Component unit - Library	\$4,803
Primary government - Fleet Services	Component unit - Library	40
Total		<u>\$4,843</u>

Purpose:

- \$4,803 To reimburse the Employee Benefit fund (internal services) for Library insurance expenses.
- \$40 To reimburse the Fleet Services (internal service fund) for Library (component unit) expenses.

Interfund transfers:

<i>Transfer in:</i>	<i>Transfer Out:</i>					<i>Total</i>
	<i>General Fund</i>	<i>2009 Bond</i>	<i>Nonmajor Governmental</i>	<i>Capital Replacement Internal Service</i>	<i>Texarkana, Texas Water Utilities</i>	
General fund	\$ -		206,635	17,202	18,900	242,737
Debt service		41,174				41,174
Nonmajor governmental funds	5,000		305,000			310,000
Employee benefit (internal service)	180,000					180,000
Fleet services (internal service)	15,169					15,169
Total transfers in	<u>\$200,169</u>	<u>41,174</u>	<u>511,635</u>	<u>17,202</u>	<u>18,900</u>	<u>789,080</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Purpose:

\$183,980	Transfers to the General Fund from the Hotel/Motel fund (nonmajor governmental fund) were made to cover expenses.
\$2,974	Funds were transferred to the General Fund from the Law Enforcement Programs fund (nonmajor governmental fund).
\$19,681	Funds were also transferred to the General Fund from the 2008 Tax Note fund (nonmajor governmental fund).
\$17,202	A transfer was made to close the Capital Replacement fund (internal service fund) to the General fund.
\$18,900	Transfer of the City's administrative fees due under contracts between the City and International Paper Company water service contracts.
\$41,174	Funds were transferred from the 2009 Bond fund to the Debt Service fund in connection with new bonds issued.
\$5,000	A contribution was made from the General Fund to the Teen Court fund (nonmajor governmental fund).
\$305,000	Transfers to the Theatre fund (nonmajor governmental fund) from the Hotel/Motel fund (nonmajor governmental fund) for the quarterly budget amount for the Perot Theatre.
\$180,000	Funds were also transferred from the General fund to the Employee Benefit (internal service fund) as a contribution for expenses.
\$15,169	Funds were also transferred from the General fund to the Fleet Services (internal service fund) as a contribution for expenses.

NOTE 9 - ENTERPRISE FUNDS - Merger of Texarkana Water Supply Corporation Into Lake Texarkana Water Supply Corporation

In June 1969, Texarkana Water Supply Corporation was merged into Lake Texarkana Water Supply Corporation, the latter being the surviving corporation. Lake Texarkana Water Supply Corporation is a non-profit corporation which was organized under the provisions of the Texas Non-Profit Corporation Act for the purpose of furnishing a water supply to towns, cities, private corporations, individuals and military camps and bases in the area of Bowie, Morris, Cass and Red River Counties, Texas. Seven cities in the area are participants in the corporation as "Member Cities." Wholesale water supply contracts have been entered into with eight other cities as of September 30, 2010.

To finance the construction of this area-wide supply and distribution system, Lake Texarkana Water Supply Corporation received a grant of \$3,000,000 from the Department of Housing and Urban Development and sold

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

\$8,400,000 of its bonds designated as Lake Texarkana Water Supply Corporation Bonds, Series 1969. These bonds are dated June 1, 1969 and matured in varying amounts from June 1, 1972 to June 1, 2001.

NOTE 10 - ENTERPRISE FUNDS - Water Supply System Sale/Purchase Financing Agreement

On July 24, 1969 the City of Texarkana, Texas entered into a contract with Lake Texarkana Water Supply Corporation (hereinafter referred to as the Corporation) which provided that the Corporation, acting as general contractor for the City, would construct extensions and improvements to its existing system for the treatment and transporting of water to such of the area cities as may make contractual arrangements with the City. The City in turn agreed to purchase from the Corporation all of its water system properties, facilities, and improvements, including those to be constructed, with money derived from revenues of the water system pledged for this purpose or from the levy of City taxes in such amounts as are required to meet principal and interest on the outstanding bonds of the Corporation as they shall mature plus paying agents' fees and all other charges which may accrue in connection with paying the "Lake Texarkana Water Supply Corporation Bonds, Series 1969". The contract provided that the purchase price is to be paid in semiannual installments beginning November 15, 1971. In prior years, the City made monthly transfers to the Lake Texarkana Water Supply debt service fund.

NOTE 11 - ENTERPRISE FUNDS - Contracts with City of Texarkana, Arkansas

Under a contract dated August 5, 1948 as subsequently amended, the City supplies water to the City of Texarkana, Arkansas and disposes of sewage collected by that City. Charges to Texarkana, Arkansas for these services are computed by prorating certain expenses of the System, plus a set monthly fee. A new agreement was executed between the Cities of Texarkana, Texas and Texarkana, Arkansas on May 20, 1969. This new agreement relates to the matter of supplying treated water only and does not amend the prior agreement relating to sewer service. The terms of the new contract, provide that Texarkana, Arkansas will pay the same amount per one thousand gallons of water supplied to it as shall be computed to be the cost to Texarkana, Texas under its contractual arrangements with other area cities (See Note 12). The Texarkana, Arkansas Water Utilities made total transfers to the Texarkana, Texas Water Utilities for water purchases of \$694,304 and \$858,999 for 2010 and 2009, respectively.

The agreement further provides that, when the indebtedness of the Lake Texarkana Water Supply Corporation incurred in connection with the acquisition and construction of the system facilities has been discharged, the City of Texarkana, Texas will convey to the City of Texarkana, Arkansas an undivided interest in the system facilities used to serve Arkansas. Texarkana, Arkansas' undivided interest in the facilities shall be a pro rata portion of the total capital payments made on the system by both Texarkana, Texas and Texarkana, Arkansas. Capital payments are defined as payments made or to be made on the principal for the bond obligations of Texarkana Water Supply Corporation and Lake Texarkana Water Supply Corporation. The Texarkana, Arkansas Water Utilities has made no transfers to the Texarkana, Texas Water Utilities for debt service since 2001 when the capital lease debt was retired.

A water system agreement entered into on December 1, 1982 and amended on October 15, 1985, with the City of Texarkana, Arkansas provides for the sale of water taken from the Millwood Reservoir and processed in the Millwood Water Treatment Facilities. The agreement further provides that the City of Texarkana, Arkansas will sell treated water to Texarkana, Texas, at the cost per one thousand gallons of water supplied to it as shall be computed to be the cost to Texarkana, Arkansas. The Texarkana, Texas Water Utilities made total transfers

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

to the Texarkana, Arkansas Water Utilities for water purchases of \$486,883 and \$572,752 for 2010 and 2009, respectively.

Additionally, when the indebtedness the City of Texarkana, Arkansas incurred in connection with the acquisition and construction of the water treatment and transmission facilities has been discharged, the City of Texarkana, Arkansas will convey to the City of Texarkana, Texas an undivided interest in the facilities used to serve Texas. Texarkana, Texas' undivided interest in the facilities shall be a pro rata portion of the total capital payments made on the system by both Texarkana, Arkansas and Texarkana, Texas. Texarkana, Texas' share is currently estimated to be approximately 62 percent of the total. Capital payments are defined as payments made or to be made on the principal of the bond obligation of Texarkana, Arkansas. The Texarkana, Texas Water Utilities made total transfers to the Texarkana, Arkansas Water Utilities for debt service of \$436,271 and \$402,255 for 2010 and 2009, respectively. The effective transfer of assets pursuant to this agreement has been recorded as a capital lease.

South Regional Wastewater Facilities

A wastewater agreement dated March 1, 1983 was entered into between the City of Texarkana, Arkansas and the City of Texarkana, Texas. The agreement is a supplement to the previous agreement and provides that the City of Texarkana, Texas will process the wastewater from the City of Texarkana, Arkansas and charge the City of Texarkana, Arkansas the same amount per one thousand gallons as the computed cost to the City of Texarkana, Texas for wastewater treatment. The calculation of cost for retail customers billed on the City Rate Ordinance is based on the metered retail water sales of each City to the total retail water sales for both Cities. The cost for contract customers is based on metered wastewater treated in combination with the retail customers for each City to the total for both Cities.

The agreement further provides that, when the indebtedness of the City of Texarkana, Texas incurred in connection with the acquisition and construction of the wastewater treatment facility has been discharged, the City of Texarkana, Texas will convey to the City of Texarkana, Arkansas an undivided interest in the system facilities used to serve Arkansas. Texarkana, Arkansas' undivided interest in the facilities shall be a pro rata portion of the total payments on bond obligations made on the system by both Texarkana, Texas and Texarkana, Arkansas. The Texarkana, Arkansas Water Utilities made total transfers to the Texarkana, Texas Water Utilities for debt service of \$30,741 and \$210,189 for 2010 and 2009, respectively. The effective transfer of assets pursuant to this agreement has been recorded as a direct financing lease.

McKinney Bayou Wastewater Facilities

A wastewater agreement dated December 15, 1997 was entered into between the City of Texarkana, Arkansas and the City of Texarkana, Texas. The agreement relates to the operation and maintenance of a wastewater treatment facility, known as the McKinney Bayou Wastewater Facilities (the facilities), and related transmission lines located within the City of Texarkana, Arkansas to be used for the collection and treatment of a portion of the two cities' wastewater. The agreement provides that the City of Texarkana, Arkansas will process a portion of the wastewater from the City of Texarkana, Texas. The City of Texarkana, Texas will pay the City of Texarkana, Arkansas the same amount per one thousand gallons as computed to be the cost to the City of Texarkana, Arkansas for wastewater treatment. The calculation of cost for retail customers billed is based on the metered retail water sales of each City, whose wastewater is treated in the facilities, to the total retail water sales for both Cities, whose wastewater is being treated in the facilities.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

The agreement further provides that, when the indebtedness of the City of Texarkana, Arkansas incurred in connection with the acquisition and construction of the wastewater treatment facilities has been discharged, the City of Texarkana, Arkansas will convey to the City of Texarkana, Texas an undivided interest in the system facilities used to serve Texas. Texarkana, Texas' undivided interest in the facilities shall be a pro rata portion of the total payments on bond obligations made on the system by both Texarkana, Arkansas and Texarkana, Texas. In 2010 and 2009, the Texarkana, Texas Water Utilities made transfers to the Texarkana, Arkansas Water Utilities for debt service in the amounts of \$109,640 and \$109,383, respectively. The effective transfer of assets pursuant to this agreement has been recorded as a capital lease between the Utilities and all transactions between them are eliminated in combination.

NOTE 12 - ENTERPRISE FUNDS - Water Supply Contracts Between City of Texarkana, Texas and "Member Cities"

A water supply contract has been entered into between the City of Texarkana, Texas and seven cities in the area which are described as "Member Cities". Texarkana, Texas has agreed to supply each of these cities with a maximum amount of treated water per year. Each Member City agrees to make minimum monthly payments to the City of Texarkana, Texas, which shall be adequate to discharge its pro rata part of debt service, maintenance and operating, and administrative expenses to Lake Texarkana Water Supply Corporation. The proceeds of these contracts with the various Member Cities are pledged by the City for the payment of the bonds issued by Lake Texarkana Water Supply Corporation described in Note 9.

The contracts also provide that at such time as all bonds or other indebtedness incurred by Lake Texarkana Water Supply Corporation in connection with the acquisition and construction of system facilities have been fully paid, the City of Texarkana, will upon request by the Member City, convey to the Member City, an undivided interest in such facilities equal to that percentage of the amount which was paid by the Member City (under this contract) on bond principal to the amount paid by all other contracting municipalities. The effective transfer of assets pursuant to this agreement has been recorded as a direct financing lease. The Member Cities have made no debt service payments to Lake Texarkana Water Supply Corporation since 2001 when the direct financing lease debt was retired.

NOTE 13 - WATER SUPPLY CONTRACT WITH INTERNATIONAL PAPER COMPANY

On October 11, 1971, the City of Texarkana, Texas and International Paper Company (the Company) entered into an agreement under which the City agrees to furnish the raw water and treated water requirements to the Company in connection with its paper mill facility and subsequently issued \$8,060,000 Water Contract Revenue Bonds. The primary term of the contract extended to December 1, 2002 and can be extended for three (3) additional terms of ten (10) years each. The Company agreed to make a monthly payment to the City in the amount required to reimburse for the debt service payments on the bonds. In addition, the Company agreed to pay the City an administrative charge of \$40,300 per year, which is 1/2 of 1% of the par amount of the bonds. Subsequent to September 30, 2002, the contract was extended for a ten year term and shall remain in effect until December 1, 2011.

On August 1, 1977, the City issued an additional \$2,600,000 Water Facilities Expansion Contract Revenue Bonds under a new contract dated October 26, 1976 which extends through August 1, 2007, with substantially the same provisions as the October 11, 1971 contract. Under the expansion contract the Company agreed to reimburse the City for the debt service paid on the bonds and to pay \$18,900 per year for administrative charges. The bonds were paid off in fiscal year 2005.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

NOTE 14 - ENTERPRISE FUNDS - Water Supply

TEXARKANA RESERVOIR

In 1953, the Cities of Texarkana, Texas and Arkansas entered into a contract with the U.S. Government for the right to withdraw up to 13 million gallons of water per day from Texarkana Reservoir. The term of the agreement is for fifty years from the effective date. Annual payments of \$7,000 are required. The U. S. Government has extended the contract pending execution of a new agreement expected to be completed in the near future.

In 1968, the City of Texarkana, Texas entered into two agreements with the U.S. Government for water rights in the Texarkana Reservoir. The first agreement dated April 16, 1968, provides for the reallocation of an additional 120,000 acre-feet of water storage in Texarkana Reservoir to the City of Texarkana after the completion of Cooper Reservoir. This space will become available to Texarkana effective with the latter of 1) the date Cooper Reservoir becomes operative for storage of water for flood control or 2) the date of completion of modification to Texarkana Reservoir which is required to affect the conversion of storage space therein from flood control use to municipal and industrial water supply use. The term of contract is for as long as the Government continues to operate Texarkana Reservoir. Payments of \$269,308 per year for 50 years are estimated beginning upon the effective date of water withdrawal.

The second contract is for the purpose of providing the City of Texarkana, Texas an additional water supply until Cooper Reservoir is completed and modifications are made to Texarkana Reservoir to convert additional storage to municipal and industrial use. This contract dated September 16, 1968, provides for 84 million gallons per day in addition to the 13 million gallons provided in the 1953 contract. The term of this contract is fifty years and the annual payment is \$55,300.

MILLWOOD RESERVOIR

The City of Texarkana, Arkansas has entered into a contract with the Southwest Arkansas Water District to reserve storage space sufficient to provide 50 million gallons of water per day (MGD) from the Millwood Reservoir. The reservation of storage space insures that Texarkana will have the contracted quantity of water available when needed. Payments to the Water District of \$639,048 prior to September 30, 1985 have been capitalized as deferred charges. The deferred charges are allocated 55% to Arkansas and 45% to Texas pursuant to an agreement between the two cities. Total deferred charges at September 30, 2010 and 2009 were \$25,562 and \$51,124, respectively. Deferred charges for Millwood Water Rights at September 30, 2010 were \$14,039 and \$11,523 for Arkansas and Texas, respectively.

Amortization of the deferred charges, which began in fiscal year ending September 30, 1987, the first full year of operations, is being made over the 25 years remaining life of the bonds issued to construct the reservoir facilities. Payments were made to the water district for water used from the reservoir totaling \$187,835 and \$194,339 for fiscal year 2010 and 2009, respectively. These amounts are included in Water Production Costs of the Texarkana, Arkansas Water Utilities and the Texarkana, Texas Water Utilities based on the contract percentages of 55% and 45%, respectively.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

NOTE 15 - LEASE COMMITMENTS - Direct Financing Leases

The following lists the components of the net investment in direct financing leases as reported in the enterprise fund as of September 30, 2010:

	<i>Texas Utility System</i>
Total minimum lease payments	\$ 95,895
Less: Unearned income	(6,316)
Net investment in direct financing leases	<u>\$ 89,579</u>

As of September 30, 2010, the minimum lease payments by years are as follows:

<i>Year Ended September 30</i>	<i>Texarkana, Texas Utility System</i>
2011	\$ 32,758
2012	31,448
2013	31,689
	<u>\$ 95,895</u>

A pro rata portion of all unexpended funds including bond proceeds is credited against the minimum lease payment receivable.

In prior years, the gross amount of assets acquired under the capital lease were as follows:

<u><i>Asset Class</i></u>	<u><i>Amount</i></u>
Land	\$ 32,066
Building	861,398
Improvements other than buildings	18,304,073
Machinery and equipment	154,163
Total	<u>\$ 19,351,700</u>

NOTE 16 - LEASE COMMITMENTS - Capital Leases

The government has entered into a lease agreement as lessee for financing the acquisition of various equipment, including police cars, service trucks, maintenance equipment and safety equipment. The government also has financed undivided interests in the acquisition of the Millwood Water Treatment Facilities and the McKinney Bayou Wastewater Facilities. The following is a schedule by years of future minimum lease payments under capital lease obligations as of September 30, 2010:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

<u>Ending September 30:</u>	<u>Governmental Activities</u>	<u>Enterprise Funds</u>
2011	\$110,817	584,703
2012	99,276	582,933
2013	37,503	582,381
2014	20,657	579,883
2015		572,970
2016-2020		3,157,142
2021-2025		<u>2,652,518</u>
Total minimum lease payments	268,253	8,712,530
Less:		
Unexpended funds		(777,120)
Amounts representing interest	<u>(14,058)</u>	<u>(2,249,645)</u>
Present value of minimum lease payments	<u>\$254,195</u>	<u>\$5,685,765</u>

NOTE 17 - LONG-TERM OBLIGATIONS

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City has dedicated 30% of the ad valorem taxes received for the year for the payment of principal and interest on general obligation bonds. General obligation bonds at September 30, 2010 are as follows:

	<u>Rate of interest</u>	<u>Original Issue</u>	<u>Outstanding September 30, 2010</u>
General obligation bonds:			
General Obligation Refunding Bonds, Series 2003 used to refund certain bonds which were issued to finance certain capital improvements of the City - due serially in varying amounts from February 15, 2004 through February 15, 2016.	2.60% - 5.00%	\$ 9,430,000	2,440,000
General Obligation Bonds, Series 2003 used to improve streets, drainage, flood control, and the library - due serially in varying amounts from February 15, 2004 through February 15, 2023. Original issue amount includes accretion of capital appreciation bonds at September 30, 2010 of \$1,225,492.	1.40% - 5.00%	13,718,526	11,664,508
General Obligation Refunding Bonds, Series 2006 used to refund certain bonds which were issued to finance certain capital improvements of the City - due serially in varying amounts from February 1, 2007 through February 1, 2022.	3.85% - 4.00%	3,060,000	2,840,000
Total general obligation bonds		<u>\$ 26,208,526</u>	<u>16,944,508</u>

Annual requirements to amortize general obligation bonds outstanding at September 30, 2010 are as follows:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

<i>Requirements Year Ending</i> <u>September 30</u>	<i>General Obligation Bonds</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2011	\$ 1,730,000	701,858	2,431,858
2012	1,780,000	705,070	2,485,070
2013	1,570,000	707,756	2,277,756
2014	1,585,000	731,582	2,316,582
2015	1,330,000	742,201	2,072,201
2016-2020	6,440,000	2,831,368	9,271,368
2021-2023	3,735,000	273,225	4,008,225
Subtotal	18,170,000	6,693,060	24,863,060
Less: Adjustment for future accretion of capital appreciation bonds	(1,225,492)		(1,225,492)
Total	<u>\$ 16,944,508</u>	<u>6,693,060</u>	<u>23,637,568</u>

Certificates of Obligation

The City issues certificates of obligation to fund construction projects and acquire capital assets. Certificates of obligation are direct obligations and pledge the full faith and credit of the City. Certificates of obligation at September 30, 2010 are as follows:

	<i>Rate of interest</i>	<i>Original Issue</i>	<i>Outstanding September 30, 2010</i>
Certificates of obligation:			
Certificates of Obligation, Series 1998 used for street and drainage improvements, purchase of fire equipment, acquisition of right of ways, and park improvements - due serially in varying amounts through February 15, 2018.	4.00% - 7.00%	3,000,000	1,530,000
Certificates of Obligation, Series 2002 used for improving and constructing streets and drainage facilities and the acquisition of right of ways - due serially in varying amounts through March 1, 2021.	3.00% - 5.00%	2,500,000	1,255,000
Certificates of Obligation, Series 2005 used for street and park improvements, constructing and equipping fire-fighting training facilities, purchase of fire trucks - due serially in varying amounts through August 1, 2027.	3.00% - 5.00%	17,750,000	16,330,000
Certificates of Obligation, Series 2009 used for acquiring, constructing, improving and equipping various streets, park and recreational facilities, Waterworks and Sewer System, facilities, equipment and vehicles for various City departments, including City hall - due serially in varying amounts through February 1, 2030.	3.00% - 4.50%	17,420,000	17,420,000
Certificates of Obligation, Series 2010 used for constructing, improving and equipping convention center facilities and the acquisition of sites - due serially in varying amounts through February 1, 2030.	1.02% - 5.728%	7,000,000	7,000,000
Total certificates of obligation		<u>\$ 47,670,000</u>	<u>43,535,000</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Annual requirements to amortize certificates of obligations outstanding at September 30, 2010 are as follows:

<i>Requirements Year Ending September 30</i>	<i>Certificates of Obligation</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2011	\$ 1,545,000	1,913,144	3,458,144
2012	1,680,000	1,827,501	3,507,501
2013	1,785,000	1,769,273	3,554,273
2014	1,905,000	1,699,094	3,604,094
2015	2,005,000	1,618,986	3,623,986
2016-2021	10,955,000	6,726,914	17,681,914
2021-2025	12,505,000	4,138,908	16,643,908
2026-2030	11,155,000	1,147,836	12,302,836
Total	<u>\$ 43,535,000</u>	<u>20,841,656</u>	<u>64,376,656</u>

Tax Notes

The City issues tax anticipation notes to pay contractual obligations to be incurred for the construction of public works or for the purchase of equipment, machinery and vehicles for various City departments. The tax notes will be funded by a continuing direct annual ad valorem tax. Tax notes outstanding as of September 30, 2010 are as follows:

	<i>Rate of interest</i>	<i>Original Issue</i>	<i>Outstanding September 30, 2010</i>
Tax Notes:			
City of Texarkana, Texas Tax Notes Series 2008 used for the purchase of equipment and vehicles for human resources, police, fire, street, park and recreation and fleet departments, construction of improvements to park and recreation facilities and fire-fighting facilities -due serially in varying amounts through February 15, 2015	3.395%	<u>\$ 1,200,000</u>	<u>1,160,000</u>
Total tax notes		<u>\$ 1,200,000</u>	<u>1,160,000</u>

<i>Requirements Year Ending September 30</i>	<i>Tax Notes</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2011	\$ 120,000	37,345	157,345
2012	180,000	32,252	212,252
2013	335,000	23,510	358,510
2014	260,000	13,411	273,411
2015	265,000	4,498	269,498
Total	<u>\$ 1,160,000</u>	<u>111,016</u>	<u>1,271,016</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Revenue Bonds

The City issues bonds pledged with income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at September 30, 2010 are as follows:

Annual requirements to amortize revenue bonds outstanding at September 30, 2010 are as follows:

<i>Requirements Year Ending September 30</i>	<i>Revenue Bonds</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2011	\$ 507,168	178,252	685,420
2012	532,168	157,813	689,981
2013	554,927	135,948	690,875
2014	483,807	115,333	599,140
2015	503,807	95,789	599,596
2016-2020	1,350,083	228,737	1,578,820
2021-2023	546,918	35,382	582,300
Total	<u>\$ 4,478,878</u>	<u>947,254</u>	<u>5,426,132</u>

Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended September 30, 2010:

	<i>Balance October 1, 2009</i>	<i>Additions</i>	<i>Retirements/ Deductions</i>	<i>Balance September 30, 2010</i>	<i>Long-term Balance</i>	<i>Due Within One Year</i>
Governmental activities:						
General obligation bonds	\$ 18,369,241	285,267	(1,710,000)	16,944,508	15,453,635	1,490,873
Less deferred charges:						
On refunding	(501,812)		66,691	(435,121)	(435,121)	
Total general obligation bonds	<u>17,867,429</u>	<u>285,267</u>	<u>(1,643,309)</u>	<u>16,509,387</u>	<u>15,018,514</u>	<u>1,490,873</u>
Certificates of obligation	19,785,000	24,420,000	(670,000)	43,535,000	41,990,000	1,545,000
Less deferred charges:						
For issuance premiums	258,462	(40,425)	(14,164)	203,873	203,873	
On refunding	(185,742)		11,034	(174,708)	(174,708)	
Total certificates of obligation	<u>19,857,720</u>	<u>24,379,575</u>	<u>(673,130)</u>	<u>43,564,165</u>	<u>42,019,165</u>	<u>1,545,000</u>
Tax Notes	1,200,000		(40,000)	1,160,000	1,040,000	120,000
Capital leases	82,959	332,847	(161,611)	254,195	148,537	105,658
Net pension and other postemploy- ment obligations	628,994	2,952,297	(2,267,887)	1,313,404	1,313,404	
Accrued compensated absences	3,086,490	1,210,023	(1,353,124)	2,943,389	2,760,775	182,614
Governmental activity Long-term liabilities	<u>\$ 42,723,592</u>	<u>29,160,009</u>	<u>(6,139,061)</u>	<u>65,744,540</u>	<u>62,300,395</u>	<u>3,444,145</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

	<i>Balance</i> <i>October 1,</i> <i>2009</i>	<i>Additions</i>	<i>Retirements/ Deductions</i>	<i>Total Balance</i> <i>September 30,</i> <i>2010</i>	<i>Long-term Balance</i>	<i>Due Within One Year</i>
Business-type activities:						
Revenue bonds	\$ 5,045,000		(500,000)	4,545,000	4,020,000	525,000
Less deferred charges:						
For issuance premiums (discounts)	11,797	-	(1,069)	10,728	10,728	
On refunding	(95,751)		18,901	(76,850)	(76,850)	
Total revenue bonds	4,961,046	-	(482,168)	4,478,878	3,953,878	525,000
Capital leases	5,674,537	130,186	(118,958)	5,685,765	5,369,002	316,763
Net pension and other postemploy- ment obligations	167,018	911,772	(669,801)	408,989	408,989	
Accrued compensated absences	368,903	386,507	(372,246)	383,164	354,436	28,728
Business-type activity						
Long-term liabilities	<u>\$ 11,171,504</u>	<u>1,428,465</u>	<u>(1,643,173)</u>	<u>10,956,796</u>	<u>10,086,305</u>	<u>870,491</u>

The addition to the general obligation bond includes \$285,267 of accretion on capital appreciation bonds during the fiscal year ended September 30, 2010.

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year end, \$34,935 of internal service funds compensated absences is included in the above amounts.

The General Fund is the governmental fund which primarily is responsible for the accrued compensated absences liability for the governmental activities.

NOTE 18 - CONDUIT DEBT

The City issued \$2,430,000 in Combination Tax and Revenue Certificates of Obligation, Series 2008 dated February 1, 2008. The stated maturity date of the debt is February 1, 2023, with an interest rate of 3.660% per annum. The certificates were issued by the City on behalf of the Bi-State Justice Center. The purpose of the debt is to pay contractual obligations for improvements to the Bi-State Criminal Justice Center and professional services rendered in connection therewith. The payments are made by the Bi-State Justice Center directly to the paying agent. The City has no responsibility for the repayment of the debt beyond its participation in the BSJC joint venture. The balance outstanding at September 30, 2010 is \$2,175,000.

NOTE 19 - RISK MANAGEMENT

The City's workers' compensation insurance coverage is obtained through the Texas Municipal League Intergovernmental Risk Pool (TML Pool). The TML Pool was established by the various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. Losses under a stated amount for workers' compensation that are incurred by TML members are paid with TML Pool funds. Claims in excess of this limit are paid under terms of insurance policies obtained by the TML Pool. TML Pool members pay annual contributions to obtain the insurance. Annual contribution rates are determined by the

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

TML Pool Board or by the State Board of Insurance of Texas. Such rates are estimated to include all claims expected to occur during the policy period, including claims incurred but not reported. The TML has established claims reserves for each of the types of insurance offered. Thus, although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contributed rate for subsequent years. Members are also entitled to returns of contributions if actual results are more favorable than estimated. For the year ended September 30, 2010, the City contributed \$150,560 for workers' compensation coverage.

Through an amendment, in 1978, of the Texas Unemployment Compensation Act, the City of Texarkana elected the Reimbursing Employer Option for providing unemployment insurance benefits for eligible former City employees.

The City has outside property insurance coverage totaling \$27,585,442 for major structures, primarily those used by the public and those located in a cluster to provide protection from catastrophic losses.

The City maintains liability insurance coverage of \$1,000,000 for all its vehicles and equipment. It has vehicle damage coverage on the most expensive vehicles and equipment including fire engines and large trucks.

The City has established an Employee Benefit Fund (an internal service fund) to account for a self-insured employee health benefit program. The City accounts for this expense on the accrual method in that as cash is transferred to the Employee Benefit Fund, it is expensed on the transferring fund. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. Under this program, the City is self-insured up to a maximum of \$100,000 specific deductible per claimant in a calendar year, and a \$75,000 aggregating specific deductible per year. Costs in excess of this amount, up to \$1,000,000 per claimant as a lifetime benefit, are insured through Arkansas Blue Cross Blue Shield, which is administered by USABLE Administrators. Each participating fund makes payments to the Employee Benefit Fund based upon the computed monthly amount determined by the administrator of the plan. Employees pay a portion of their costs and an amount for dependents and the City pays for the remainder of employees' coverage. Costs are recognized by the City in the Employee Benefit Fund when they are billed by Arkansas Blue Cross Blue Shield. Estimated costs incurred but not billed at year end are accrued.

Changes in the balance of claims liabilities during the past year are as follows:

	<i>Year Ended</i> <i>September 30, 2010</i>	<i>Year Ended</i> <i>September 30, 2009</i>
Unpaid claims, October 1	\$ 183,186	155,307
Incurred claims	2,321,371	1,897,678
Claim payments	<u>(2,220,453)</u>	<u>(1,869,799)</u>
Unpaid claims, September 30	<u>\$ 284,104</u>	<u>183,186</u>

The amount of settlements has not exceeded the coverage during any of the past three years.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

NOTE 20 - EMPLOYEE RETIREMENT SYSTEMS

The City has elected to participate in the following retirement plans for its employees: A) Texas Municipal Retirement System, and B) Texarkana Firemen's Relief and Retirement Fund.

A. TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)

The City participates in three retirement plans in the Texas Municipal Retirement System (TMRS) which covers all eligible full time employees, excluding firefighters: Plan #1 covers Police Officers, Plan #2 covers Other City employees and Plan #3 covers Texarkana Water Utilities Employees.

Plan Description

The City provides pension benefits for all of its full-time employees, excluding firefighters, through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide 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 statement and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contribution, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS at P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on 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:

	<u>Plan Year 2009</u>	<u>Plan Year 2010</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (City to employee)	2 to 1	2 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	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

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 the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits 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 valuations that serves as the basis of the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/ (asset) are as follows:

	<i>Plan No. 1</i>	<i>Plan No. 2</i>		<i>Plan No. 3</i>
	<i>City</i>	<i>City</i>	<i>Library</i>	<i>Utility</i>
Calculation of Net Pension Obligation:				
Annual required contribution (ARC)	\$ 1,201,375	1,270,905	65,342	812,118
Interest on NPO	14,858	13,451	692	9,540
Adjustment to the NPO	(12,097)	(10,950)	(564)	(7,767)
Annual pension cost (APC)	1,204,136	1,273,406	65,470	813,891
Contributions made	(971,582)	(1,020,953)	(52,460)	(640,967)
Increase (decrease) in NPO	232,554	252,453	13,010	172,924
NPO at the beginning of period	198,114	179,347	9,221	127,849
NPO at the end of period	430,668	431,800	22,231	300,773

THREE YEAR TREND INFORMATION

	<i>Fiscal Year Ending</i>	<i>Annual Pension Cost</i>	<i>Actual Contributions Made</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Obligation</i>
Plan No. 1	9/30/2008	\$ 764,641	\$ 764,641	100%	-
	9/30/2009	1,097,024	898,910	82%	198,114
	9/30/2010	1,204,136	971,582	81%	430,668
Plan No. 2	9/30/2008	889,361	889,361	100%	-
	9/30/2009	1,183,913	995,345	84%	188,568
	9/30/2010	1,338,876	1,073,413	80%	454,031
Plan No. 3	9/30/2008	809,206	809,206	100%	-
	9/30/2009	708,936	581,087	82%	127,849
	9/30/2010	813,891	640,967	79%	300,773

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Valuation Date	12/31/2007	12/31/2008	12/31/2009
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	30 years; closed period	29 years; closed period	28 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	amortized cost	amortized cost	10-year smoothed market
Actuarial assumptions:			
Investment rate of return*	7.00%	7.50%	7.50%
Projected salary increases*	varies by age and service	varies by age and service	varies by age and service
*includes inflation at cost of living adjustments	3.00%	3.00%	3.00%
	2.1%	2.1%	2.1%

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

	<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability(AAL)</i>	<i>Funded Ratio</i>	<i>Unfunded AAL (UAAL)</i>	<i>Covered Payroll</i>	<i>UAAL as a Percentage of Covered Payroll</i>
Plan No. 1	12/31/2009	\$ 13,842,840	\$ 23,875,638	58.0%	\$ 10,032,798	\$ 5,411,235	185.4%
Plan No. 2	12/31/2009	18,309,284	27,512,820	66.5%	9,203,536	8,041,002	114.5%
Plan No. 3	12/31/2009	8,123,308	13,949,863	58.2%	5,826,555	4,214,181	138.3%

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 TEXARKANA, TEXAS

Notes to the financial statements continued.

B. TEXARKANA FIREMEN'S RELIEF AND RETIREMENT FUND (FRRF)

Plan Description

The Board of Trustees of the Texarkana Firefighter's Relief and Retirement Fund is the administrator of a single-employer defined benefit pension plan. The Texarkana Firefighter's Relief and Retirement Fund is considered part of the City of Texarkana, Texas financial reporting entity and is included in the City's financial reports as a pension trust fund.

Firefighters in the Texarkana Fire Department are covered by the Texarkana Firefighter's Relief and Retirement Fund. The table below summarizes the membership of the fund as of December 31, 2009.

<u>Group</u>	<u>Number</u>
Retiree and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	50
Current employees	
Vested	20
Nonvested	61

The Texarkana Firefighter's Relief and Retirement Fund provides service retirement, death, disability and withdrawal benefits. These benefits fully vest after 20 years of credited service. Employees may retire at age 50 with 20 years of service, or with 30 years of service regardless of age. As of the December 31, 2009 actuarial valuation date, the plan effective July 31, 2009 provided a monthly normal service retirement benefit, payable in a joint and two-thirds to spouse form of annuity, equal to 2.98% of highest 36-month average salary for each whole year of service.

There is no provision for automatic post-retirement benefit increases. The fund has the authority to provide, and has periodically in the past provided for, ad hoc post-retirement benefit increases. The benefit provisions of this plan are authorized by the Texas Local Fire Fighters' Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions.

The City does not issue a stand-alone financial report for this pension plan. The plan is not included in the financial report of any other entity.

Summary of Significant Accounting Policies

Basis of Accounting

The Texarkana Firemen's Relief and Retirement Fund's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Contributions Required and Contributions Made

The contribution provisions of this plan are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the City.

While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted by the fund must be approved by an eligible actuary. The actuary certifies that the contribution commitment by the firefighters and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the plan's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the plan's unfunded actuarial accrued liability. The number of years needed to amortize the plan's unfunded actuarial accrued liability (UAAL) is determined using an open, level percentage of payroll method.

The costs of administering the plan are financed from the fund.

The funding policy of the Texarkana Firefighter's Relief and Retirement Fund requires contributions equal to 13.5% of pay by the firefighters effective October 2009 and contributions by the City of 19.50% effective October 2009.

Annual Pension Cost

For the fiscal year ending September 30, 2010, the City of Texarkana's annual pension cost (APC) was equal to the annual required contributions and was \$781,461. Based on the results of the December 31, 2009 actuarial valuation of the plan effective July 31, 2009, the Board's actuary found that the fund has an adequate contribution arrangement based on the current level of the firefighter and City of Texarkana contribution rates. The funding policy of the fund requires the firefighters to contribute 13.5% of pay and the City to contribute 19.5% of pay.

The annual required contributions (ARC) by the City for the fiscal year ending September 30, 2010 were based on the results of the actuarial valuation as of December 31, 2007 and as of December 31, 2009 using the entry age actuarial cost method and were determined in compliance with the GASB Statement No. 27 parameters. The actuarial methods and assumptions used for these two biennial actuarial valuations are shown below:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Valuation date	12/31/2007	12/31/2009
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent of payroll, open	Level percent of payroll, open
Amortization period for ARC	15 years	10 years
Asset valuation method	5-year adjusted market value	5-year adjusted market value
Actuarial assumptions		
Investment return	7.75%	7.75%
Inflation	3.75%	3.50%
Projected salary increases		
General	4.00%	3.50%
Promotion and longevity	0% to 5%	0% to 5%
Total	4.00% to 9.20%	3.50% to 8.67%
Cost-of-living increases	0.00%	0.00%
Payroll increases	4.00%	3.50%
ARC as a percentage of payroll	budgeted rates	budgeted rates

Trend Information

Six-year trend information may be found in the Required Supplementary Information Section of this report which follows the Notes to Combined Financial Statements.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Contribution as a Percentage of Payroll</u>	<u>Net Pension Obligation</u>
9/30/2008	\$567,608	100%	14.33/ 14.66%	\$0
9/30/2009	593,552	100%	14.66/ 15.00%	0
9/30/2010	781,461	100%	19.50%	0

The funded status as of December 31, 2009, 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>
12/31/2009	\$ 24,692,627	\$ 28,818,073	85.7%	\$ 4,125,446	\$ 3,920,128	105.2%

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

NOTE 21 - POSTEMPLOYMENT HEALTH CARE BENEFITS

In addition to the retirement benefits described in Note 20, eligible employees hired before January 1, 2010 receive upon retirement 1) a lump sum payment of their sick leave balance at retirement which is equal to their sick leave hours (limited to 720 for non-Civil Service) valued at their hourly pay rate, and 2) an additional amount equal to their sick leave balance used to pay future monthly healthcare contributions. Since the sick leave a balance in item 2 can only be used for healthcare it is required to be included as another post-employment benefit (OPEB).

The City and Texas Water Utility both provide the above described post employment benefits. Each plan has a separate actuarial valuation and are reported separately in the following disclosures.

Funding Policy

The Annual Required Contribution (ARC) is the periodic required contribution to fund the post employment healthcare benefits of both active and inactive participants. The ARC includes both the value of benefits earned during the year (normal costs) and an amortization of the Unfunded Actuarial Accrued Liability (UAAL). Although there is no requirement to contribute the ARC, it serves as the starting point for the Annual OPEB Cost.

The annual OPEB Cost is the amount the employer charges as the cost of the post employment healthcare benefits on its income statement each fiscal year. If there is no Net OPEB Obligation on the financial statements then the Annual OPEB Cost is equal to the ARC. However, if there is a Net OPEB Obligation, then the Annual OPEB Cost reflects adjustments for the Net OPEB Obligation previously recognized and interest.

The Annual Expected Pay-As-You-Go Cost is the expected claims and administration costs less deductibles, coinsurance and contributions for inactive participants during the fiscal year.

The City's Annual Required Contribution and Annual OPEB costs are as follows:

	<i>City</i>	<i>TWU</i>
Normal costs	\$ 212,200	41,394
Amortization of unfunded actuarial accrued liability	149,320	43,858
Interest adjustment	14,461	
Annual required contribution	<u>375,981</u>	<u>85,252</u>
Interest on BOY net OPEB obligation	9,692	1,694
Annual required contribution adjustment	<u>(9,629)</u>	<u>(2,449)</u>
Annual OPEB cost	376,044	84,497
Contributions made	<u>(167,420)</u>	<u>(18,634)</u>
Increase (decrease) in OPEB obligation	208,624	65,863
OPEB at the beginning of period	<u>242,312</u>	<u>42,353</u>
OPEB at the end of period	<u>\$ 450,936</u>	<u>108,216</u>

The City's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the fiscal year ended September 30, 2010 and the two preceding years were as follows:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

<i>Plan</i>	<i>Year Ended</i>	<i>Annual OPEB Cost</i>	<i>Percentage of OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
City	9/30/2008	N/A	N/A	N/A
	9/30/2009	\$ 362,108	33.08%	\$ 242,312
	9/30/2010	376,044	44.52%	450,936
TWU	9/30/2008	N/A	N/A	N/A
	9/30/2009	\$ 78,148	45.80%	\$ 42,353
	9/30/2010	84,497	34.46%	108,216

Funding Status and Funding Progress

The funded status of the plans as of September 30, 2010 was as follows:

SCHEDULE OF FUNDING PROGRESS

<i>Plan</i>	<i>Fiscal Year Ended</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Unfunded AAL (UAAL)</i>	<i>Funded Ratio</i>	<i>Covered Payroll</i>	<i>UAAL as a Percentage of Covered Payroll</i>
City	9/30/2008	N/A	N/A	N/A	N/A	N/A	N/A
	9/30/2009	\$ -	\$ 3,558,556	\$ 3,558,556	0%	\$ 13,763,367	26%
	9/30/2010	-	3,801,790	3,801,790	0%	14,176,268	27%
TWU	9/30/2008	N/A	N/A	N/A	N/A	N/A	N/A
	9/30/2009	\$ -	\$ 689,560	\$ 689,560	0%	N/A	N/A
	9/30/2010	-	758,392	1,184,988	0%	N/A	N/A

Actuarial Methods and Assumptions

City Plan – The actuarial assumptions used in the actuarial valuations are either based on actual City experience and developed through discussion with the City, or drawn from either the December 31, 2008 Texas Municipal Retirement System City of Texarkana (TMRS-COT) Actuarial Valuation, December 31, 2008 Texas Municipal Retirement System Texarkana Police Department (TMRS-TPD) Actuarial Valuation or December 31, 2007 Texarkana Firemen’s Relief and Retirement Fund (FRRF) Actuarial Valuation. The TMRS actuarial valuation assumptions were developed from an actuarial investigation of TMRS experience during 1993 through 2006. Actuarial assumptions used from the TMRS-COT, TMRS-TPD, and FRRF Actuarial Valuations are assumed to be appropriate because employees and retirees of the City are members of one of these three retirement plans. Significant methods and assumptions were as follows:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Valuation date	10/1/2008
Benefits valued	Medical and prescription drug benefits are valued. Dental benefits were not valued because retirees and their dependents are required to contribute the full group rates which are assumed to cover their full expected costs of dental coverage.
Discount Rate	4.0% (Pay-As-You-Go Funding)
Actuarial cost methods	Projected unit credit. The initial UAAL and subsequent gains and losses are amortized as a percent of payroll over closed 30 year periods.
Actuarial value of assets	The plan is not prefunded.
Payroll growth rate	3.0% (based on 3% for the TMRS-COT plan, 3% for the TMRS-TPD plan and 4% for the FRRF plan)
Individual pay rate increases	4.00%
Sick leave hour accrual	Active employees are assumed to continue accruing sick leave hours until retirement at the same rate they accrued hours in the past.
Medical/Rx Elections	<p>90% of City employees, Police and Firefighters are assumed to elect medical and prescription drug coverage at retirement</p> <p>25% of City employees and Police electing medical and prescription drug coverage at retirement are assumed to be married and elect coverage for their spouse at retirement</p> <p>60% of Firefighters electing medical and prescription drug coverage at retirement are assumed to be married and elect coverage for their spouse</p> <p>50% of retirees are assumed to waive healthcare coverage upon exhaustion of their sick leave balances.</p>
Termination rates	<p>City and Police termination rates are the Mid Withdrawal and Turnover rates from the December 31, 2008 TMRS Actuarial Valuation. These termination rates were based on 5 years of recent City termination experience and long-term expectations of the City. Rates range from 0.00 to .299.</p> <p>Firefighter termination rates are the rates from the December 31, 2007 Texarkana FRRF Actuarial Valuation. These termination rates were based on five years of recent Firefighters termination experience and long-term expectations of the City. Rates range from 0.00 to .060.</p>
Disability rate	None

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Retirement rates The retirement rates for City and Police are based on the rates used in the 12/31/08 TMRS reports and was chosen based on the City and Police experience and long-term expectations. Retirement rates range from .06 to 1.

The retirement rates for Firefighters are based on the rates used in the 12/31/07 FRRF reports and was chosen based on Firefighters experience and long-term expectations. Retirement rates range from .01 to 1.

Mortality Rates Active mortality rates for the City are based on the rates used in the 12/31/08 TMRS report. Retired and survivor mortality rates are based on the rates used in the 12/31/07 TMRS report. These rates range from .0003 to 1 for males and .0002 to 1 for females.

For Firefighter participants who are active, retire or survivor, mortality rates are those used in the FRRF 12/31/07 actuarial valuation. Specifically, the table used in the RP-2000 table, projected to year 2010 using Projection Scale AA.

Healthcare cost trend rates Healthcare cost trend rates are assumed to decrease in future years. Rates for future years range from 10% to 5%.

TWU Plan - Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date of the pattern of sharing benefit costs between the employer and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Discount Rate 4.0% per annum, compounded annually - if unfunded
7.0% per annum, compounded annually - if funded

Mortality rates RP-2000 Combined male/female mortality, projected to 2017 using scale AA

Disabled mortality N/A

Retirement rates Assumed rate of retirement - varies from 3.0% at age 40-44 to 100% at age 70 for male and 2.3% at age 40-44 to 100% at age 70 for female

Disability rates None assumed

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Withdrawal rates	Sarason's T-10 table. Ranges from 17.9% to 1.2%
Salary increases	4.0% per annum
Assumed sick leave balance	Active participants assumed to have the maximum leave balance accrued at time of retirement (720 hours). Retirees use actual sick leave balances.
Marriage assumption	For actives it is assumed that wives are two years younger than husbands. Inactive participants use actual spousal data. 25% of actives retiring and electing medical coverage are assumed to also elect coverage for a spouse.

NOTE 22 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City's plan was amended effective January 1, 1997 to provide that all assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

The City has delegated administrative and investment responsibilities to a third party administrator, ICMA Retirement Corporation, and as such, the plan assets do not meet the requirements for inclusion in the City's financial statements at September 30, 2010.

NOTE 23 - CONTINGENT LIABILITIES

Litigation

The City of Texarkana, Arkansas applied to federal court for an order to compel arbitration with the City of Texarkana, Texas, contending a right to arbitration over Texarkana Water Utilities (TWU) management issues pursuant to the terms of a 1985 water supply contract. The application of the City of Texarkana, Arkansas is pending. The case has been ordered to mediation. The City of Texarkana, Texas responded to the application, providing the federal court with facts, documents, and legal authorities that the application should be denied. There are no allegations or claims for damages asserted by the City of Texarkana, Arkansas, in its application.

A claim has been filed against the City in which the plaintiff is seeking a judicial review pursuant to the Texas Local Government Code to declare void certain orders of the City's Buildings and Standards Commission regarding various properties owned by the plaintiff. The action is pending with the district court; there have been no court rulings on the merits. The City of Texarkana, Texas responded to the action and provided the district court with facts, documents, and legal authorities that the suit should be dismissed. There are no allegations or claims for damages asserted by the plaintiff in his petition.

A claim has been made against the City and an employee of the City. This is a personal injury claim arising from a two vehicle accident where the defendant was driving. The City has coverage for this matter through its association with the Texas Municipal League – Intergovernmental Risk Pool. The plaintiff claims to have a

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

neck and back strain, which prompted the plaintiff to seek care, along with loss of wages. The City's attorney estimates a possible loss in the \$20,000 range with a maximum loss exposure of \$40,000.

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or determinable in amount.

Grant Disallowances

The City participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor agency. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor agency. As of September 30, 2010, significant amounts of grant expenditures have not been audited but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

NOTE 24- SUBSEQUENT PRONOUNCEMENTS

The Governmental Accounting Standards Board recently issued the following statements not yet implemented by the City of Texarkana, Texas. The statements which might impact the City are as follows:

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* issued March 2009 will be effective for the City for the year ending September 30, 2011. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* issued December 2009 will be effective for the City for the year ending September 30, 2012. This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. It also amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual employer OPEB plans or measurements resulting from the use of the alternative measurement method for individual-employer OPEB plan that are eligible.

Statement No. 59, *Financial Statement Omnibus* issued in June 2010 will be effective for the City for the year ending September 30, 2011. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* issued in November 2010 will be effective for the Library for the year ending September 30, 2012. The objective of this

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34 issued in November 2010 will be effective for the City for the year ending September 30, 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, were amended to better meet user needs and to address reporting entity issue that have arisen since the issuance of those Statements.

Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, issued in December 2010 will be effective for the City for the year ending September 30, 2012. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions, (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

NOTE 25 – SUBSEQUENT EVENTS

The City approved the application of different allocation ratios than those used in the fiscal year 2010 audit for shared costs of the Texarkana Water Utilities (business-type activities and enterprise fund) in the fiscal year 2011. The new funding ratio adopted will be 61.86% Texas and 38.14% Arkansas

In preparing these financial statements, management of the City has evaluated events and transactions for potential recognition or disclosure through March 25, 2011, the date the financial statements were available to be issued.

Required Supplementary Information

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CITY OF TEXARKANA, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION - Three Year Historical Trend September 30, 2010

TMRS PLAN #1 - Police Officers

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Unit Credit</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2007	\$ 11,080,432	\$19,893,885	55.7%	\$ 8,813,453	\$4,533,448	194.4%
12/31/2008	12,377,335	21,411,093	57.8%	9,033,758	4,931,618	183.2%
12/31/2009	13,842,840	23,875,638	58.0%	10,032,798	5,411,235	185.4%

TMRS PLAN #2 - Other City Employees

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Unit Credit</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2007	\$ 16,414,877	\$ 24,373,402	67.3%	\$7,958,525	\$7,276,006	109.4%
12/31/2008	17,651,709	26,260,721	67.2%	8,609,012	7,846,154	109.7%
12/31/2009	18,309,284	27,512,820	66.5%	9,203,536	8,041,002	114.5%

TMRS PLAN #3 - Water Utilities

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Unit Credit</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2007	\$9,530,929	\$ 17,461,093	54.6%	\$7,930,164	\$ 5,770,038	137.4%
12/31/2008	10,554,367	18,830,089	56.1%	8,275,722	6,203,946	133.4%
12/31/2009	8,123,308	13,949,863	58.2%	5,826,555	4,214,181	138.3%

CITY OF TEXARKANA, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION - Six Year Historical Trend September 30, 2010

TEXARKANA FIREMEN'S RELIEF AND RETIREMENT

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Entry Age Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll(1)</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/05 (2)(5)	19,377,655	23,356,110	3,978,455	83.0%	3,468,558	114.7%
12/31/07 (3)(5)	23,463,936	26,506,378	3,042,442	88.5%	3,867,848	78.7%
12/31/09 (4)(5)	24,692,627	28,818,073	4,125,446	85.7%	3,920,128	105.2%

- (1) The covered payroll is based on estimated annualized salaries used in the valuation.
- (2) Reflects plan benefit provisions effective January 1, 2005.
- (3) Reflects plan benefit provisions effective November 1, 2006.
- (4) Reflects plan benefit provisions effective July 31, 2009.
- (5) Economic and demographic assumptions were revised.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Plan Year Ended December 31</u>	<u>Contribution As a Fixed Percentage of Payroll</u>	<u>Annual Required Contribution (1)</u>	<u>Percentage Contributed</u>
2005	13.66% (2)	\$ 456,179	100%
2006	14.00% (3)	489,610	100%
2007	14.33% (4)	494,343	100%
2008	14.66% (5)	556,817	100%
2009	15.00%/ 19.50% (6)	620,189	100%
2010	19.50%		

- (1) The annual required contribution is based on actual covered payroll.
- (2) The percentage rate remained 13.66% for all of 2005.
- (3) The percentage rate changed from 13.66% to 14% as of January 1, 2006.
- (4) The percentage rate changed from 14% to 14.33% as of January 1, 2007.
- (5) The percentage rate changed from 14.33% to 14.66% as of January 1, 2008.
- (6) The percentage rate changed from 14.66% to 15.00% as of January 1, 2009 and to 19.50% beginning October 1, 2009.

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Police Dog - This fund was established for contributions to be used towards the purchase of a canine for the police department.

Housing and Community Development Fund - This fund was established to account for the receipts and disbursements of Department of Housing and Urban Development Community Development Block Grant Funds.

HOME Fund - This fund was established to account for the repayment of loans originally funded through the Home Program.

Teen Court - This fund was established for tax-exempt contributions from private individuals and companies and to accept teen court fees for the non-profit organization of the Teen Court of Texarkana and to account for the activity of the Juvenile Accountability Grant.

Theatre Fund - This fund was established to account for the operations of the Perot Theatre.

Hotel/Motel Tax Fund - This fund was established to account for the collection and distribution of hotel/motel taxes.

Housing Fund - This fund was established to account for the repayment of loans which are funded with non-federal, local funds under the Home Ownership Assistance Program guidelines.

Economic Development - This fund was established to account for additional franchise tax revenue restricted for economic development activity.

Law Enforcement Block Grant - This fund was established to account for the activity related to the Law Enforcement Block Grant, Weed and Seed Grant and Asset Forfeiture Program.

Law Enforcement Programs Fund - This fund was established to account for the activity related to the Tobacco Compliance Grant and the Law Enforcement Officer Standards and Education (LEOSE) allocations.

JAG Recovery Act Grant Fund – This fund was established to account for the activity related to the procurement of specialized electronic and communication law enforcement equipment.

Brownfield Grant Fund – This fund was established to account for the activity related to the Environmental Protection Agency Brownfield Hazardous Waste and Petroleum Assessment Grants.

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Capital Project Funds

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

1998 Bond Fund- This fund was established to account for bond proceeds used for street and drainage improvements, the acquisition of land, purchase of a fire truck, acquisition of right of ways and various other improvements.

2003 Bond Fund - This fund was established to account for bond proceeds used for improving streets, drainage, flood control and the library.

2005 Bond Fund - This fund was established to account for bond proceeds used for improving streets and parks, as well as fire-fighting facilities and purchase of three fire trucks.

2008 Tax Notes Fund - This fund was established to account for the anticipation note proceeds used for the purchase of equipment and vehicles, construction of improvements to park and recreation facilities and fire-fighting facilities.

2010 Bond Fund – This fund was established to account for bond proceeds used for constructing, improving and equipping convention center facilities and the acquisition of sites.

CITY OF TEXARKANA, TEXAS

BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS September 30, 2010

	<i>Special Revenue Funds</i>		
	<i>Police Dog</i>	<i>Housing and Community Development</i>	<i>HOME</i>
ASSETS			
Cash	\$ 1,028		84,451
Receivables (net of allowance for uncollectible):			
Other taxes			
Accounts			
Other government agencies		21,741	
Accrued interest			
Loans		127,605	258,457
Land held for resale			
TOTAL ASSETS	<u>1,028</u>	<u>149,346</u>	<u>342,908</u>
 LIABILITIES AND FUND BALANCES			
Accounts payable		429	
Accrued payroll		2,026	
Due to other funds		23,235	
Deferred revenue			
Unearned revenue		123,656	
Other liabilities and escrow deposits			7,454
TOTAL LIABILITIES	<u>-</u>	<u>149,346</u>	<u>7,454</u>
 FUND BALANCES			
Reserved for:			
Noncurrent receivables			253,174
Capital improvements			
Building maintenance			
Unreserved, designated for convention center			
Unreserved, undesignated	1,028		82,280
TOTAL FUND BALANCE	<u>1,028</u>	<u>-</u>	<u>335,454</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u>1,028</u>	<u>149,346</u>	<u>342,908</u>

Special Revenue Funds

<u>Teen Court</u>	<u>Theatre</u>	<u>Hotel/ Motel Tax</u>	<u>Housing</u>	<u>Economic Development</u>	<u>Law Enforcement Block Grant</u>	<u>Law Enforcement Programs</u>
2,574	669,037	516,502	454	1,709,788	7,227	20,464
		262,320		42,062		
50	500		28			
11,525			9,600			
			194,964			
			295,000			
<u>14,149</u>	<u>669,537</u>	<u>778,822</u>	<u>500,046</u>	<u>1,751,850</u>	<u>7,227</u>	<u>20,464</u>
	7,430	15,188	564	5,411	3,075	3,211
1,686	7,706		57,110			
		74,148			4,317	
<u>1,686</u>	<u>15,136</u>	<u>89,336</u>	<u>57,674</u>	<u>5,411</u>	<u>7,392</u>	<u>3,211</u>
			189,214			
	631,257		253,158			
12,463	23,144	201,975		1,746,439	(165)	17,253
<u>12,463</u>	<u>654,401</u>	<u>487,511</u>	<u>442,372</u>	<u>1,746,439</u>	<u>(165)</u>	<u>17,253</u>
		689,486				
<u>14,149</u>	<u>669,537</u>	<u>778,822</u>	<u>500,046</u>	<u>1,751,850</u>	<u>7,227</u>	<u>20,464</u>

(Continued)

CITY OF TEXARKANA, TEXAS

BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS September 30, 2010

	<i>Special Revenue Funds</i>		
	<i>JAG Recovery Act Grant</i>	<i>Brownfield Grant</i>	<i>Total Special Revenue</i>
ASSETS			
Cash	62	5	3,011,592
Receivables (net of allowance for uncollectible):			
Other taxes			304,382
Accounts			578
Other government agencies			33,266
Accrued interest			9,600
Loans			581,026
Land held for resale			295,000
TOTAL ASSETS	<u>62</u>	<u>5</u>	<u>4,235,444</u>
 LIABILITIES AND FUND BALANCES			
Accounts payable		50	35,358
Accrued payroll			2,026
Due to other funds		496	90,233
Deferred revenue			74,148
Unearned revenue			127,973
Other liabilities and escrow deposits			7,454
TOTAL LIABILITIES	<u>-</u>	<u>546</u>	<u>337,192</u>
 FUND BALANCES			
Reserved for:			
Noncurrent receivables			442,388
Capital improvements			-
Building maintenance			884,415
Unreserved, designated for convention center			201,975
Unreserved, undesignated	62	(541)	2,369,474
TOTAL FUND BALANCE	<u>62</u>	<u>(541)</u>	<u>3,898,252</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u>62</u>	<u>5</u>	<u>4,235,444</u>

Capital Projects Funds

1998 Bond	2003 Bond	2005 Bond	2008 Tax Note	2010 Bond	Total Capital Project	Total Nonmajor Governmental Fund
29,871	1,086,011	1,404,545	8	6,028,529	8,548,964	11,560,556
	2,780				-	304,382
					2,780	3,358
					-	33,266
					-	9,600
					-	581,026
						295,000
<u>29,871</u>	<u>1,088,791</u>	<u>1,404,545</u>	<u>8</u>	<u>6,028,529</u>	<u>8,551,744</u>	<u>12,787,188</u>
		430		225	655	36,013
	515	2,202	8		-	2,026
					2,725	92,958
					-	74,148
					-	127,973
					-	7,454
<u>-</u>	<u>515</u>	<u>2,632</u>	<u>8</u>	<u>225</u>	<u>3,380</u>	<u>340,572</u>
	1,036,321	1,018,506		6,024,222	-	442,388
					8,079,049	8,079,049
					-	884,415
					-	201,975
<u>29,871</u>	<u>51,955</u>	<u>383,407</u>		<u>4,082</u>	<u>469,315</u>	<u>2,838,789</u>
<u>29,871</u>	<u>1,088,276</u>	<u>1,401,913</u>	<u>-</u>	<u>6,028,304</u>	<u>8,548,364</u>	<u>12,446,616</u>
<u>29,871</u>	<u>1,088,791</u>	<u>1,404,545</u>	<u>8</u>	<u>6,028,529</u>	<u>8,551,744</u>	<u>12,787,188</u>

(Concluded)

CITY OF TEXARKANA, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS For the Year Ended September 30, 2010

	<i>Special Revenue Funds</i>		
	<i>Police Dog</i>	<i>Housing and Community Development</i>	<i>HOME</i>
REVENUES:			
Taxes-other			
Franchise receipts			
Charges for services			
Grants and entitlements		237,867	
Investment earnings:			
Interest and dividends	5	50	
Intergovernmental			
Sale of capital assets			
Other	17	28,681	
Total revenues	<u>22</u>	<u>266,598</u>	<u>-</u>
EXPENDITURES:			
Current:			
General government		47,838	
Public safety			
Parks and recreation			
Health and welfare		166,910	45,598
Debt service:			
Bond issuance costs			
Capital outlay		51,850	
Total expenditures	<u>-</u>	<u>266,598</u>	<u>45,598</u>
Excess (deficiency) of revenues over expenditures	<u>22</u>	<u>-</u>	<u>(45,598)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in			
Transfers out			
Bonds issued			
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	22	-	(45,598)
Fund balances at beginning of year	<u>1,006</u>	<u>-</u>	<u>381,052</u>
Fund balances at end of year	<u><u>1,028</u></u>	<u><u>-</u></u>	<u><u>335,454</u></u>

Special Revenue Funds

<u>Teen Court</u>	<u>Theatre</u>	<u>Hotel/ Motel Tax</u>	<u>Housing</u>	<u>Economic Development</u>	<u>Law Enforcement Block Grant</u>	<u>Law Enforcement Programs</u>
		1,203,169		409,292		
1,780	89,915				71,312	
48,208						
293	2,972	5,575	33,815	7,945		90
15,708						10,478
<u>2,600</u>				<u>7,850</u>		
<u>68,589</u>	<u>92,887</u>	<u>1,208,744</u>	<u>33,815</u>	<u>425,087</u>	<u>71,312</u>	<u>10,568</u>
117,762				243,560		
	324,596	333,069			88,486	7,127
			19,728			
		<u>1,328,470</u>				
<u>117,762</u>	<u>324,596</u>	<u>1,661,539</u>	<u>19,728</u>	<u>243,560</u>	<u>88,486</u>	<u>7,127</u>
<u>(49,173)</u>	<u>(231,709)</u>	<u>(452,795)</u>	<u>14,087</u>	<u>181,527</u>	<u>(17,174)</u>	<u>3,441</u>
5,000	305,000					
		(488,980)				(2,974)
<u>5,000</u>	<u>305,000</u>	<u>(488,980)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,974)</u>
(44,173)	73,291	(941,775)	14,087	181,527	(17,174)	467
<u>56,636</u>	<u>581,110</u>	<u>1,631,261</u>	<u>428,285</u>	<u>1,564,912</u>	<u>17,009</u>	<u>16,786</u>
<u>12,463</u>	<u>654,401</u>	<u>689,486</u>	<u>442,372</u>	<u>1,746,439</u>	<u>(165)</u>	<u>17,253</u>

(continued)

CITY OF TEXARKANA, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS For the Year Ended September 30, 2010

	<i>Special Revenue Funds</i>		
	<i>JAG Recovery Act Grant</i>	<i>Brownfield Grant</i>	<i>Total Special Revenue</i>
REVENUES:			
Taxes-other			1,203,169
Franchise receipts			409,292
Charges for services			91,695
Grants and entitlements	293,158		650,545
Investment earnings:			
Interest and dividends			50,745
Intergovernmental			26,186
Sale of capital assets			-
Other			39,148
Total revenues	<u>293,158</u>	<u>-</u>	<u>2,470,780</u>
EXPENDITURES:			
Current:			
General government			409,160
Public safety	139,706	541	235,860
Parks and recreation			657,665
Health and welfare			232,236
Debt service:			
Bond issuance costs			-
Capital outlay	153,390		1,533,710
Total expenditures	<u>293,096</u>	<u>541</u>	<u>3,068,631</u>
Excess (deficiency) of revenues over expenditures	<u>62</u>	<u>(541)</u>	<u>(597,851)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in			310,000
Transfers out			(491,954)
Bonds issued			-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(181,954)</u>
Net change in fund balances	62	(541)	(779,805)
Fund balances at beginning of year, as previously reported			<u>4,678,057</u>
Fund balances at end of year	<u>62</u>	<u>(541)</u>	<u>3,898,252</u>

Capital Projects Funds

<u>1998 Bond</u>	<u>2003 Bond</u>	<u>2005 Bond</u>	<u>2008 Tax Note</u>	<u>2010 Bond</u>	<u>Total Capital Projects</u>	<u>Total Nonmajor Governmental Fund</u>
					-	1,203,169
					-	409,292
					-	91,695
					-	650,545
701	8,763	7,464	349	10,440	27,717	78,462
					-	26,186
					-	-
					-	39,148
<u>701</u>	<u>8,763</u>	<u>7,464</u>	<u>349</u>	<u>10,440</u>	<u>27,717</u>	<u>2,498,497</u>
					-	409,160
					-	235,860
					-	657,665
					-	232,236
				120,461	120,461	120,461
<u>257,579</u>	<u>827,923</u>	<u>167,965</u>	<u>109,037</u>	<u>861,675</u>	<u>2,224,179</u>	<u>3,757,889</u>
<u>257,579</u>	<u>827,923</u>	<u>167,965</u>	<u>109,037</u>	<u>982,136</u>	<u>2,344,640</u>	<u>5,413,271</u>
<u>(256,878)</u>	<u>(819,160)</u>	<u>(160,501)</u>	<u>(108,688)</u>	<u>(971,696)</u>	<u>(2,316,923)</u>	<u>(2,914,774)</u>
			(19,681)		-	310,000
				7,000,000	(19,681)	(511,635)
				<u>7,000,000</u>	<u>7,000,000</u>	<u>7,000,000</u>
			<u>(19,681)</u>	<u>7,000,000</u>	<u>6,980,319</u>	<u>6,798,365</u>
(256,878)	(819,160)	(160,501)	(128,369)	6,028,304	4,663,396	3,883,591
<u>286,749</u>	<u>1,907,436</u>	<u>1,562,414</u>	<u>128,369</u>		<u>3,884,968</u>	<u>8,563,025</u>
<u>29,871</u>	<u>1,088,276</u>	<u>1,401,913</u>	<u>-</u>	<u>6,028,304</u>	<u>8,548,364</u>	<u>12,446,616</u>

(concluded)

CITY OF TEXARKANA, TEXAS

**TEEN COURT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variances with Final Budget Over (Under)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES:				
Charges for services	\$ 1,850	1,920	1,780	(140)
Grants and entitlements	51,023	51,023	48,208	(2,815)
Investment earnings:				
Interest and dividends	400	295	293	(2)
Intergovernmental	14,500	14,500	15,708	1,208
Other	5,500	2,600	2,600	-
Total revenues	<u>73,273</u>	<u>70,338</u>	<u>68,589</u>	<u>(1,749)</u>
EXPENDITURES:				
Current:				
General government	<u>59,348</u>	<u>131,974</u>	<u>117,762</u>	<u>14,212</u>
Total expenditures	<u>59,348</u>	<u>131,974</u>	<u>117,762</u>	<u>14,212</u>
Excess (deficiency) of revenues over expenditures	<u>13,925</u>	<u>(61,636)</u>	<u>(49,173)</u>	<u>12,463</u>
OTHER FINANCING SOURCES				
Transfers in	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total other financing sources	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Net change in fund balances	18,925	(56,636)	(44,173)	12,463
Fund balances at beginning of year	<u>56,636</u>	<u>56,636</u>	<u>56,636</u>	<u>-</u>
Fund balances at end of year	<u>\$ 75,561</u>	<u>-</u>	<u>12,463</u>	<u>12,463</u>

CITY OF TEXARKANA, TEXAS

THEATRE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2010

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variances with Final Budget Over (Under)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES:				
Charges for services	\$ 30,000	93,000	89,915	(3,085)
Investment earnings:				
Interest and dividends	12,000	2,965	2,972	7
Total revenues	<u>42,000</u>	<u>95,965</u>	<u>92,887</u>	<u>(3,078)</u>
EXPENDITURES:				
Current:				
Parks and recreation	362,192	368,470	324,596	43,874
Capital outlay	10,000	-	-	-
Total expenditures	<u>372,192</u>	<u>368,470</u>	<u>324,596</u>	<u>43,874</u>
Excess (deficiency) of revenues over expenditures	<u>(330,192)</u>	<u>(272,505)</u>	<u>(231,709)</u>	<u>40,796</u>
OTHER FINANCING SOURCES/USES				
Transfers in	305,000	305,000	305,000	-
Total other financing sources/uses	<u>305,000</u>	<u>305,000</u>	<u>305,000</u>	<u>-</u>
Net change in fund balances	(25,192)	32,495	73,291	40,796
Fund balances at beginning of year	<u>581,110</u>	<u>581,110</u>	<u>581,110</u>	<u>-</u>
Fund balances at end of year	<u>\$ 555,918</u>	<u>613,605</u>	<u>654,401</u>	<u>40,796</u>

CITY OF TEXARKANA, TEXAS

**HOTEL/MOTEL TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variances with Final Budget Over (Under)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES:				
Taxes-other	\$1,341,000	776,322	1,203,169	426,847
Grants and entitlements		-		-
Investment earnings:				
Interest and dividends	25,000	2,380	5,575	3,195
Total revenues	<u>1,366,000</u>	<u>778,702</u>	<u>1,208,744</u>	<u>430,042</u>
EXPENDITURES:				
Current:				
Parks and recreation	754,600	511,216	333,069	178,147
Capital outlay			1,328,470	(1,328,470)
Total expenditures	<u>754,600</u>	<u>511,216</u>	<u>1,661,539</u>	<u>(1,150,323)</u>
Excess of revenues over expenditures	<u>611,400</u>	<u>267,486</u>	<u>(452,795)</u>	<u>(720,281)</u>
OTHER FINANCING USES:				
Transfers out	(305,000)	(305,000)	(488,980)	(183,980)
Total other financing uses	<u>(305,000)</u>	<u>(305,000)</u>	<u>(488,980)</u>	<u>(183,980)</u>
Net change in fund balances	306,400	(37,514)	(941,775)	(904,261)
Fund balances at beginning of year	<u>1,631,261</u>	<u>1,631,261</u>	<u>1,631,261</u>	<u>-</u>
Fund balances at end of year	<u>\$1,937,661</u>	<u>1,593,747</u>	<u>689,486</u>	<u>(904,261)</u>

CITY OF TEXARKANA, TEXAS

**ECONOMIC DEVELOPMENT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 For the Year Ended September 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variances with Final Budget Over (Under)</i>
	<u><i>Original</i></u>	<u><i>Final</i></u>		
REVENUES:				
Franchise receipts	\$ 447,000	450,000	409,292	(40,708)
Investment earnings:				
Interest and dividends	20,000	12,295	7,945	(4,350)
Other		7,850	7,850	-
Total revenues	<u>467,000</u>	<u>470,145</u>	<u>425,087</u>	<u>(45,058)</u>
EXPENDITURES:				
Current:				
General government	<u>314,320</u>	<u>263,450</u>	<u>243,560</u>	<u>19,890</u>
Total expenditures	<u>314,320</u>	<u>263,450</u>	<u>243,560</u>	<u>19,890</u>
Net change in fund balances	152,680	206,695	181,527	(25,168)
Fund balances at beginning of year	<u>1,564,912</u>	<u>1,564,912</u>	<u>1,564,912</u>	<u>-</u>
Fund balances at end of year	<u><u>\$1,717,592</u></u>	<u><u>1,771,607</u></u>	<u><u>1,746,439</u></u>	<u><u>(25,168)</u></u>

CITY OF TEXARKANA, TEXAS

**LAW ENFORCEMENT BLOCK GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variances with Final Budget Over (Under)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES:				
Grants and entitlements	\$ 318,445	364,470	71,312	(293,158)
Total revenues	<u>318,445</u>	<u>364,470</u>	<u>71,312</u>	<u>(293,158)</u>
EXPENDITURES:				
Current:				
Public safety	318,445	377,624	88,486	289,138
Total expenditures	<u>318,445</u>	<u>377,624</u>	<u>88,486</u>	<u>289,138</u>
Net change in fund balances	-	(13,154)	(17,174)	(4,020)
Fund balances at beginning of year	<u>17,009</u>	<u>17,009</u>	<u>17,009</u>	<u>-</u>
Fund balances at end of year	<u>\$ 17,009</u>	<u>3,855</u>	<u>(165)</u>	<u>(4,020)</u>

CITY OF TEXARKANA, TEXAS

**LAW ENFORCEMENT PROGRAMS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variances with Final Budget Over (Under)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES:				
Interest	\$ 100	85	90	5
Intergovernmental	12,500	7,479	10,478	2,999
Total revenues	<u>12,600</u>	<u>7,564</u>	<u>10,568</u>	<u>3,004</u>
EXPENDITURES:				
Current:				
Public safety	12,436	7,091	7,127	(36)
Total expenditures	<u>12,436</u>	<u>7,091</u>	<u>7,127</u>	<u>(36)</u>
Excess of revenues over expenditures	<u>164</u>	<u>473</u>	<u>3,441</u>	<u>2,968</u>
OTHER FINANCING USES:				
Transfers out			(2,974)	(2,974)
Total other financing uses	<u>-</u>	<u>-</u>	<u>(2,974)</u>	<u>(2,974)</u>
Net change in fund balances	164	473	467	(6)
Fund balances at beginning of year	<u>16,786</u>	<u>16,786</u>	<u>16,786</u>	<u>-</u>
Fund balances at end of year	<u>\$ 16,950</u>	<u>17,259</u>	<u>17,253</u>	<u>(6)</u>

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Nonmajor Enterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises in that the costs of providing goods and services to the general public on a continuing basis are recovered primarily through user charges. The City's enterprise funds are established to account for the financing of water and sewer services to the public, other municipalities and industrial customers. All activities necessary to provide these services are included in these funds.

Lake Texarkana Water Supply Corporation – This fund is used to account for the financing and operation of the water distribution system from Lake Wright Patman to the City of Texarkana and other “Member Cities” and wholesale customers located in Bowie and Red River counties. The operations of this fund are combined with the Texas Water Utilities for reporting purposes and all inter-fund accounts are eliminated in the combination.

International Paper Company Water System Contract Fund – This fund is used to account for the financing and operations of the water system which provides treated water from Lake Wright Patman to the International Paper Company paper mill.

CITY OF TEXARKANA, TEXAS

COMBINING STATEMENT OF NET ASSETS NONMAJOR ENTERPRISE FUNDS September 30, 2010

	<i>Lake Texarkana Water Supply Corporation</i>	<i>International Paper Company Water System Contract Fund</i>	<i>Total</i>
ASSETS			
Current assets:			
Cash		16,312	16,312
Receivables (net of allowance for uncollectible):			
Accounts		53,831	53,831
Due from other funds		55	55
Total current assets	<u>-</u>	<u>70,198</u>	<u>70,198</u>
Noncurrent assets:			
Restricted assets:			
Cash	32,130	120,622	152,752
Investments	1,352,058		1,352,058
Receivables:			
Accounts		363,759	363,759
Accrued interest	1,423		1,423
Total noncurrent assets	<u>1,385,611</u>	<u>484,381</u>	<u>1,869,992</u>
TOTAL ASSETS	<u>1,385,611</u>	<u>554,579</u>	<u>1,940,190</u>
LIABILITIES			
Current liabilities:			
Accounts payable		51,349	51,349
Accrued liabilities		994	994
Due to other funds	11,670	256,056	267,726
Due to other governments	5,260		5,260
Total current liabilities	<u>16,930</u>	<u>308,399</u>	<u>325,329</u>
Noncurrent liabilities:			
Capital improvement deposits	1,368,681	246,180	1,614,861
Total noncurrent liabilities	<u>1,368,681</u>	<u>246,180</u>	<u>1,614,861</u>
TOTAL LIABILITIES	<u>1,385,611</u>	<u>554,579</u>	<u>1,940,190</u>
NET ASSETS			
Unrestricted			-
TOTAL NET ASSETS	<u>\$ -</u>	<u>-</u>	<u>-</u>

CITY OF TEXARKANA, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS
For the Year Ended September 30, 2010**

	<i>Lake Texarkana Water Supply Corporation</i>	<i>International Paper Company Water System Contract Fund</i>	<i>Total</i>
OPERATING REVENUES			
Water sales	\$ -	1,004,907	1,004,907
Total operating revenues	<u>-</u>	<u>1,004,907</u>	<u>1,004,907</u>
OPERATING EXPENSES			
Contract water & sewer expense-International Paper	<u>-</u>	1,160,145	1,160,145
Total operating expense	<u>-</u>	<u>1,160,145</u>	<u>1,160,145</u>
Operating income (loss)	<u>-</u>	<u>(155,238)</u>	<u>(155,238)</u>
NONOPERATING REVENUES			
Interest revenue - investments	-	1,034	1,034
Capital contributions	<u>-</u>	154,204	154,204
Total nonoperating revenues	<u>-</u>	<u>155,238</u>	<u>155,238</u>
Change in net assets	-	-	-
Total net assets, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets, end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>

CITY OF TEXARKANA, TEXAS

COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS For the Year Ended September 30, 2010

	<i>Lake Texarkana Water Supply Corporation</i>	<i>International Paper Company Water System Contract Fund</i>	<i>Total</i>
Cash flows from operating activities:			
Cash received from customers	\$ -	727,830	727,830
Cash paid to suppliers		(891,482)	(891,482)
Cash paid to employees		(111,198)	(111,198)
Net cash used from operating activities	<u>-</u>	<u>(274,850)</u>	<u>(274,850)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(44,185)		(44,185)
Capital improvement deposits received	744	153,590	154,334
Interest received on capital improvement deposits	6,614		6,614
Net cash used from capital and related financing activities	<u>(36,827)</u>	<u>153,590</u>	<u>116,763</u>
Cash flows from investing activities:			
Purchase of investments	(3,204,619)		(3,204,619)
Proceeds from sale and maturities of investments	3,203,833		3,203,833
Interest received on investments		1,648	1,648
Net cash provided from investing activities	<u>(786)</u>	<u>1,648</u>	<u>862</u>
Net increase (decrease) in cash	(37,613)	(119,612)	(157,225)
Cash, beginning of year	<u>69,743</u>	<u>256,546</u>	<u>326,289</u>
Cash, end of year	<u>\$ 32,130</u>	<u>136,934</u>	<u>169,064</u>

CITY OF TEXARKANA, TEXAS

COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS For the Year Ended September 30, 2010

	<i>Lake Texarkana Water Supply Corporation</i>	<i>International Paper Company Water System Contract Fund</i>	<i>Total</i>
<u>Reconciliation of operating income to net cash provided by operating activities</u>			
Operating income (loss)	\$ -	(155,238)	(155,238)
Adjustments to reconcile operating income to net cash provided by operating activities:			
(Increase) decrease in assets:			
Accounts receivable		(277,076)	(277,076)
Due from other funds			-
Increase (decrease) in liabilities:			
Accounts payable		(2,830)	(2,830)
Accrued liabilities		(3,828)	(3,828)
Due to other funds		167,878	167,878
Other payables		(3,756)	(3,756)
Total adjustments	<u>-</u>	<u>(119,612)</u>	<u>(119,612)</u>
Net cash provided from operating activities	<u>\$ -</u>	<u>(274,850)</u>	<u>(274,850)</u>

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Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other governments, on a cost-reimbursement basis.

Employee Benefit Fund - This fund is used to account for the contributions received from various other City funds and employees to pay medical benefits and life insurance premiums for covered City employees. Payments are made to a paying agent who determines coverage on claims submitted by employees.

Fleet Services Fund - This fund is used to account for the repair and maintenance on all vehicles and equipment owned by the City, excluding the Water Utilities.

Capital Replacement Fund – This fund is to utilize City contributions in the most effective and cost efficient ways to provide department with motor vehicles, rolling stock and other equipment they need to successfully achieve their responsibilities to the citizens.

CITY OF TEXARKANA, TEXAS

COMBINING STATEMENT OF NET ASSETS INTERNAL SERVICE FUNDS September 30, 2010

	<i>Employee Benefit</i>	<i>Fleet Services</i>	<i>Capital Replacement</i>	<i>Total</i>
ASSETS				
Current assets:				
Cash	\$ 2,282,690	13,322		2,296,012
Receivables (net of allowance for uncollectible):				
Other government agencies	658	16,363		17,021
Due from other funds		127,153		127,153
Due from component units	4,803	40		4,843
Inventory		23,243		23,243
Total current assets	<u>2,288,151</u>	<u>180,121</u>	<u>-</u>	<u>2,468,272</u>
Noncurrent assets:				
Capital assets (net of accumulated depreciation)				
Buildings		110,564		110,564
Improvements other than buildings		27,076		27,076
Machinery and equipment		36,026		36,026
Licensed vehicles		3,505		3,505
Total capital assets (net of accumulated depreciation)	<u>-</u>	<u>177,171</u>	<u>-</u>	<u>177,171</u>
TOTAL ASSETS	<u>2,288,151</u>	<u>357,292</u>	<u>-</u>	<u>2,645,443</u>
LIABILITIES				
Current liabilities:				
Accounts payable	331,298	24,076		355,374
Accrued payroll		14,280		14,280
Due to other funds		185,413		185,413
TOTAL LIABILITIES	<u>331,298</u>	<u>223,769</u>	<u>-</u>	<u>555,067</u>
NET ASSETS				
Invested in capital assets		177,171		177,171
Unrestricted (deficit)	1,956,853	(43,648)		1,913,205
TOTAL NET ASSETS	<u>\$ 1,956,853</u>	<u>133,523</u>	<u>-</u>	<u>2,090,376</u>

CITY OF TEXARKANA, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS INTERNAL SERVICE FUNDS For the Year Ended September 30, 2010

	<i>Employee Benefit</i>	<i>Fleet Services</i>	<i>Capital Replacement</i>	<i>Total</i>
OPERATING REVENUES				
Charges for services	\$4,594,874	1,595,826		6,190,700
Other		21,986		21,986
Total revenues	<u>4,594,874</u>	<u>1,617,812</u>	-	<u>6,212,686</u>
OPERATING EXPENSES				
Benefit payments	4,769,207			4,769,207
Cost of sales and service		1,645,108		1,645,108
Depreciation		15,113		15,113
Total expenditures	<u>4,769,207</u>	<u>1,660,221</u>	-	<u>6,429,428</u>
Operating income (loss)	<u>(174,333)</u>	<u>(42,409)</u>	-	<u>(216,742)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	10,106	367		10,473
Gain on sale of capital assets		12,568		12,568
Total nonoperating revenues (expenses)	<u>10,106</u>	<u>12,935</u>	-	<u>23,041</u>
Income (loss) before transfers	(164,227)	(29,474)	-	(193,701)
Transfers in	180,000	15,169		195,169
Transfers out			(17,202)	(17,202)
Change in net assets	15,773	(14,305)	(17,202)	(15,734)
Total net assets - beginning	<u>1,941,080</u>	<u>147,828</u>	<u>17,202</u>	<u>2,106,110</u>
Total net assets -ending	<u>\$1,956,853</u>	<u>133,523</u>	<u>-</u>	<u>2,090,376</u>

CITY OF TEXARKANA, TEXAS

COMBINING STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS

For the Year Ended September 30, 2010

	<i>Employee Benefit</i>	<i>Fleet Services</i>	<i>Capital Replacement</i>	<i>Total</i>
Cash flows from operating activities:				
Cash received from users	\$ 1,539,405			1,539,405
Cash received from interfund services provided and used	3,050,816	1,612,446		4,663,262
Cash paid to suppliers	(4,721,781)	(1,299,004)		(6,020,785)
Cash paid to employees		(309,854)		(309,854)
Net cash provided (used) from operating activities	<u>(131,560)</u>	<u>3,588</u>	<u>-</u>	<u>(127,972)</u>
Cash flows from noncapital financing activities:				
Transfers from other funds	180,000	15,169		195,169
Transfers to other funds			(17,202)	(17,202)
Net cash provided from noncapital financing activities	<u>180,000</u>	<u>15,169</u>	<u>(17,202)</u>	<u>177,967</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets		(18,679)		(18,679)
Proceeds received from sale of capital assets		12,569		12,569
Net cash provided from capital and related financing activities	<u>-</u>	<u>(6,110)</u>	<u>-</u>	<u>(6,110)</u>
Cash flows from investing activities:				
Proceeds from sale of investment	1,500,000			1,500,000
Interest received from investment	11,179	365		11,544
Net cash provided (used) from investing activities	<u>1,511,179</u>	<u>365</u>	<u>-</u>	<u>1,511,544</u>
Net increase (decrease) in cash	1,559,619	13,012	(17,202)	1,555,429
Cash at beginning of year	723,071	310	17,202	740,583
Cash at end of year	<u>2,282,690</u>	<u>13,322</u>	<u>-</u>	<u>2,296,012</u>
<u>Reconciliation of Operating Income to Net Cash</u>				
<u>Provided by Operating Activities</u>				
Operating income (loss)	(174,333)	(42,409)	-	(216,742)
<u>Adjustments to Reconcile Operating Income to Net Cash</u>				
<u>Provided by Operating Activities</u>				
Depreciation		15,113		15,113
<u>(Increase) decrease in assets:</u>				
Due from other government agencies	151	(3,770)		(3,619)
Due from other funds		(1,663)		(1,663)
Due from component units	(4,804)	67		(4,737)
Inventory		36,304		36,304
<u>Increase (decrease) in liabilities:</u>				
Accrued liabilities	68,638	(18,999)		49,639
Accrued payroll		(7,221)		(7,221)
Due to other funds	(21,212)	26,166		4,954
Total adjustments	<u>42,773</u>	<u>45,997</u>	<u>-</u>	<u>88,770</u>
Net cash provided by operating activities	<u>\$ (131,560)</u>	<u>3,588</u>	<u>-</u>	<u>(127,972)</u>

Fiduciary Funds

Fiduciary Funds are established to account for assets held by the City in a trustee capacity, or as an agent for individuals, other governmental units, and/or other funds.

Agency Funds

Police Evidence Fund - This fund is used to account for evidence money seized by the Police Department. This money is held until disposition is directed by the courts.

Drug Enforcement Fund - This fund is used to account for evidence money seized by the Police Department, primarily in drug related cases. This money is held until disposition is directed by the courts.

Federal Asset Forfeiture Fund - This fund is used to account for evidence money seized by the Police Department. This money is held until disposition is directed by the federal courts.

CITY OF TEXARKANA, TEXAS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Year Ended September 30, 2010

	<i>Balance October 1, 2009</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance September 30, 2010</i>
POLICE EVIDENCE FUND				
Assets				
Cash	10,850	4,323	(5,265)	9,908
Total Assets	<u>10,850</u>	<u>4,323</u>	<u>(5,265)</u>	<u>9,908</u>
Liabilities				
Escrow Deposits	10,850	4,218	(5,160)	9,908
Total Liabilities	<u>10,850</u>	<u>4,218</u>	<u>(5,160)</u>	<u>9,908</u>
Net assets	<u>-</u>	<u>105</u>	<u>(105)</u>	<u>-</u>
DRUG ENFORCEMENT ESCROW FUND				
Assets				
Cash	\$ 103,765	50,547	(94,033)	60,279
Total Assets	<u>103,765</u>	<u>50,547</u>	<u>(94,033)</u>	<u>60,279</u>
Liabilities				
Escrow deposits	103,765	49,852	(93,338)	60,279
Total liabilities	<u>103,765</u>	<u>49,852</u>	<u>(93,338)</u>	<u>60,279</u>
Net assets	<u>-</u>	<u>695</u>	<u>(695)</u>	<u>-</u>
FEDERAL ASSET FORFEITURE FUND				
Assets				
Cash	\$ 1,293	709	(2,002)	-
Total assets	<u>1,293</u>	<u>709</u>	<u>(2,002)</u>	<u>-</u>
Liabilities				
Escrow deposits	1,293	709	(2,002)	-
Total liabilities	<u>1,293</u>	<u>709</u>	<u>(2,002)</u>	<u>-</u>
Net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ALL AGENCY FUNDS				
Assets				
Cash	\$ 115,908	55,579	(101,300)	70,187
Total assets	<u>115,908</u>	<u>55,579</u>	<u>(101,300)</u>	<u>70,187</u>
Liabilities				
Escrow deposits	115,908	54,779	(100,500)	70,187
Total liabilities	<u>115,908</u>	<u>54,779</u>	<u>(100,500)</u>	<u>70,187</u>
Net assets	<u>-</u>	<u>800</u>	<u>(800)</u>	<u>-</u>

**Capital Assets
Used in the Operation
Of Governmental Funds**

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CITY OF TEXARKANA, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

SCHEDULE BY SOURCE

September 30, 2010

Governmental funds capital assets:

Land	\$ 46,036,843
Buildings	25,247,193
Improvements other than buildings	6,213,676
Infrastructure	99,247,617
Machinery and equipment	1,724,650
Licensed vehicles	7,527,555
Construction in progress	2,970,967
Total governmental funds capital assets	<u>\$ 188,968,501</u>

Investments in governmental funds capital assets by source:

General fund	\$ 133,750,800
Special revenue funds	3,884,692
Capital projects funds	51,333,009
Total governmental funds capital assets	<u>\$ 188,968,501</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service funds and investments in joint ventures are excluded from the above amounts. Generally, the capital assets of internal service funds and investments in joint ventures are included as governmental activities in the statement of net assets.

CITY OF TEXARKANA, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS SCHEDULE BY FUNCTION AND ACTIVITY September 30, 2010

Function and activity	<u>Land</u>	<u>Buildings</u>	<u>Improvements other than Buildings</u>	<u>Infrastructure</u>
General government				
Quality assurance				
Finance administration				
Purchasing		177,404		
Accounting				
Building maintenance		1,900,832	133,102	
Other - unclassified	46,036,843			
Total general government	<u>46,036,843</u>	<u>2,078,236</u>	<u>133,102</u>	<u>-</u>
Public safety				
Police administration		12,069,245	167,088	
Patrol division				
Services division				
Criminal investigation				
Commercial Vehicle Enforcement				
Code Enforcement				
Animal control				
Special operations				
Narcotics				
Fire operations		1,630,761	136,237	12,493
Fire prevention				
Fire training		791,009		
Emergency management				
Total public safety	<u>-</u>	<u>14,491,015</u>	<u>303,325</u>	<u>12,493</u>
Public works				
Public works administration				
Engineering design				
Street maintenance		460,894	128,268	96,371,118
Inspection				
Sign and signal		239,764	64,064	2,684,999
Total public works	<u>-</u>	<u>700,658</u>	<u>192,332</u>	<u>99,056,117</u>
Health and welfare				
Community development		6,500		
Environmental services				
Total health and welfare	<u>-</u>	<u>6,500</u>	<u>-</u>	<u>-</u>

<i>Machinery and Equipment</i>	<i>Licensed Vehicles</i>	<i>Construction in Progress</i>	<i>Total</i>
16,958			16,958
5,214			5,214
112,968	8,402		298,774
11,635			11,635
			2,033,934
			46,036,843
<u>146,775</u>	<u>8,402</u>	<u>-</u>	<u>48,403,358</u>
6,000	72,812		12,315,145
87,687	961,184		1,048,871
11,017	275,469		286,486
30,452	317,640		348,092
	51,625		51,625
	20,180		20,180
	100,027		100,027
15,188	25,650		40,838
14,150			14,150
238,265	2,678,410		4,696,166
14,309	62,001		76,310
	17,424		808,433
128,161	28,767		156,928
<u>545,229</u>	<u>4,611,189</u>	<u>-</u>	<u>19,963,251</u>
7,490			7,490
54,918	58,824		113,742
494,446	2,131,109	2,863,361	102,449,196
	78,640		78,640
94,358	154,306		3,237,491
<u>651,212</u>	<u>2,422,879</u>	<u>2,863,361</u>	<u>105,886,559</u>
	16,600		23,100
11,271	12,388		23,659
<u>11,271</u>	<u>28,988</u>	<u>-</u>	<u>46,759</u>

CITY OF TEXARKANA, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS SCHEDULE BY FUNCTION AND ACTIVITY September 30, 2010

Function and activity	<u><i>Land</i></u>	<u><i>Buildings</i></u>	<u><i>Improvements other than Buildings</i></u>	<u><i>Infrastructure</i></u>
Parks and recreation				
Parks maintenance		2,063,604	1,373,035	111,858
Recreational programs		54,874	4,044,102	
Perot Theatre		3,001,305	51,468	
Senior citizens programs		103,800	70,084	
Beverly Center		125,960		
Library		2,621,241	46,228	67,149
Total parks and recreation	<u>-</u>	<u>7,970,784</u>	<u>5,584,917</u>	<u>179,007</u>
Total governmental funds capital assets	<u>\$ 46,036,843</u>	<u>25,247,193</u>	<u>6,213,676</u>	<u>99,247,617</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service funds and investments in joint ventures are excluded from the above amounts. Generally, the capital assets of internal service funds and investments in joint ventures are included as governmental activities in the statement of net assets.

<i><u>Machinery and Equipment</u></i>	<i><u>Licensed Vehicles</u></i>	<i><u>Construction in Progress</u></i>	<i><u>Total</u></i>
224,531	456,097	107,606	4,336,731
69,418			4,168,394
69,776			3,122,549
			173,884
			125,960
6,438			2,741,056
<u>370,163</u>	<u>456,097</u>	<u>107,606</u>	<u>14,668,574</u>
<u>1,724,650</u>	<u>7,527,555</u>	<u>2,970,967</u>	<u>188,968,501</u>

CITY OF TEXARKANA, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY For the Year Ended September 30, 2010

Function and activity	<i>Governmental Funds Capital Assets 9/30/2009</i>	<i>Additions</i>
General government		
Quality assurance		16,958
Finance administration	5,214	
Purchasing	185,806	112,968
Accounting	19,427	
Building maintenance	2,033,934	
Other - unclassified	44,002,429	2,034,414
Total general government	<u>46,246,810</u>	<u>2,164,340</u>
Public safety		
Police administration	12,337,088	
Patrol division	830,704	303,261
Services division	139,391	143,594
Criminal investigation	309,622	37,454
Commercial Vehicle Enforcement		29,163
Code Enforcement	-	
Animal control	78,684	21,343
Special operations	40,838	
Narcotics	30,117	
Fire operations	4,631,123	43,021
Fire prevention	76,310	
Fire training	808,433	
Emergency management	178,950	
Total public safety	<u>19,461,260</u>	<u>577,836</u>
Public works		
Public works administration	7,490	
Engineering design	113,742	
Street maintenance	99,787,964	6,395,970
Inspection	78,640	
Sign and signal	3,936,366	
Total public works	<u>103,924,202</u>	<u>6,395,970</u>
Health and welfare		
Community development	23,100	
Environmental services	23,659	
Total health and welfare	<u>46,759</u>	<u>-</u>

<u>Deductions</u>	<u>Transfers</u>	<i>Governmental Funds Capital Assets 9/30/2010</i>
		16,958
		5,214
		298,774
(7,792)		11,635
		2,033,934
		46,036,843
<u>(7,792)</u>	<u>-</u>	<u>48,403,358</u>
	(21,943)	12,315,145
(64,396)	(20,698)	1,048,871
	3,501	286,486
	1,016	348,092
	22,462	51,625
	20,180	20,180
		100,027
		40,838
	(15,967)	14,150
	22,022	4,696,166
		76,310
		808,433
	(22,022)	156,928
<u>(64,396)</u>	<u>(11,449)</u>	<u>19,963,251</u>
		7,490
		113,742
(89,655)	(3,645,083)	102,449,196
		78,640
<u>(698,875)</u>		<u>3,237,491</u>
<u>(788,530)</u>	<u>(3,645,083)</u>	<u>105,886,559</u>
		23,100
		23,659
<u>-</u>	<u>-</u>	<u>46,759</u>

CITY OF TEXARKANA, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY For the Year Ended September 30, 2010

Function and activity	<i>Governmental Funds Capital Assets 9/30/2009</i>	<i>Additions</i>
Parks and recreation		
Parks maintenance	3,988,410	409,675
Recreational programs	4,168,394	
Perot Theatre	3,083,074	39,475
Senior citizens programs	173,884	
Beverly Center	125,960	
Library	<u>2,741,056</u>	
Total parks and recreation	<u>14,280,778</u>	<u>449,150</u>
Total governmental funds capital assets	<u>183,959,809</u>	<u>9,587,296</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service funds and investments in joint ventures are excluded from the above amounts. Generally, the capital assets of internal service funds and investments in joint ventures are included as governmental activities in the statement of net assets.

<u>Deductions</u>	<u>Transfers</u>	<i>Governmental Funds Capital Assets 9/30/2010</i>
(10,258)	(51,096)	4,336,731
		4,168,394
		3,122,549
		173,884
		125,960
		<u>2,741,056</u>
<u>(10,258)</u>	<u>(51,096)</u>	<u>14,668,574</u>
<u>(870,976)</u>	<u>(3,707,628)</u>	<u>188,968,501</u>

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Component Units

CITY OF TEXARKANA, TEXAS

BALANCE SHEET COMPONENT UNITS September 30, 2010

	<i>Health</i>	<i>Public Library</i>
ASSETS		
Cash	\$ 260,947	527,202
Investments		443,956
Receivables (net of allowance for uncollectible):		
Accounts	10,035	
Other government agencies	191,395	86,814
Accrued interest		
Prepaid items		8,005
TOTAL ASSETS	<u>\$ 462,377</u>	<u>1,065,977</u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 100,491	8,563
Accrued payroll	46,361	23,992
Due to other governments		30,543
Due to primary government		4,843
Deferred revenue	96,898	
TOTAL LIABILITIES	<u>243,750</u>	<u>67,941</u>
 Fund Balances:		
Reserved for:		
Prepaid items		8,005
Endowed principal		10,000
Unreserved, undesignated	218,627	980,031
TOTAL FUND BALANCES	<u>218,627</u>	<u>998,036</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 462,377</u>	<u>1,065,977</u>

CITY OF TEXARKANA, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE COMPONENT UNITS For the Year Ended September 30, 2010

	<u>Health</u>	<u>Public Library</u>
REVENUES		
Charges for services	\$ 265,301	43,424
Grants and entitlements	663,219	46,886
Investment earnings:		
Interest and dividends	128	15,633
Net increase in fair value of investments		17,738
Intergovernmental	152,808	838,412
Other	2,010	47,511
Total revenues	<u>1,083,466</u>	<u>1,009,604</u>
EXPENDITURES		
Current:		
Culture and recreation		842,516
Health and welfare	1,336,941	
Capital outlay	756	13,851
Total expenditures	<u>1,337,697</u>	<u>856,367</u>
Net change in fund balance	(254,231)	153,237
Fund balance at beginning of year	<u>472,858</u>	<u>844,799</u>
Fund balance at end of year	<u>\$ 218,627</u>	<u>998,036</u>

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Statistical Section

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Statistical Section

This part of the City of Texarkana, Texas' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Financial Trends - Schedule 1 through Schedule 6 - These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity - Schedule 7 through Schedule 14 - These schedules contain information to help the reader assess the City's most significant local revenue sources, including property taxes and water and sewer revenue.

Debt Capacity - Schedule 15 through Schedule 19 - The schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information - Schedule 20 through Schedule 21 - These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information - Schedule 22 through Schedule 24 - These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Net Assets by Component

Last Six Fiscal Years

Schedule 1

(accrual basis of accounting)

	<i>Fiscal Year</i>	
	<u>2005</u>	<u>2006</u>
Governmental activities:		
Invested in capital assets, net of related debt	\$ 74,294,428	75,882,325
Restricted	2,276,875	3,858,131
Unrestricted	13,254,500	10,442,284
Total governmental activities net assets	<u>89,825,803</u>	<u>90,182,740</u>
Business-type activities:		
Invested in capital assets, net of related debt	52,418,769	53,583,586
Restricted	7,530,857	7,524,832
Unrestricted (deficit)	6,064,248	7,207,285
Total business-type activities net assets	<u>66,013,874</u>	<u>68,315,703</u>
Primary government		
Invested in capital assets, net of related debt	126,713,197	135,935,912
Restricted	9,807,732	11,382,963
Unrestricted	19,318,748	11,179,568
Total primary government net assets	<u>155,839,677</u>	<u>158,498,443</u>

Note: The City began to report the above information when it implemented GASB Statement 44 in fiscal year 2006.

Unaudited -see accompanying auditors' report

Fiscal Year

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
76,103,232	76,349,021	75,187,833	75,989,018
3,808,754	3,955,059	4,597,610	3,527,351
<u>16,623,006</u>	<u>14,341,579</u>	<u>16,619,162</u>	<u>16,705,965</u>
<u>96,534,992</u>	<u>94,645,659</u>	<u>96,404,605</u>	<u>96,222,334</u>
55,838,951	57,848,213	57,582,403	56,910,208
8,176,712	6,458,586	7,646,353	9,365,905
<u>6,079,546</u>	<u>5,662,181</u>	<u>4,777,364</u>	<u>4,719,398</u>
<u>70,095,209</u>	<u>69,968,980</u>	<u>70,006,120</u>	<u>70,995,511</u>
131,942,183	134,197,234	132,770,236	132,899,226
11,985,466	10,413,645	12,243,963	12,893,256
<u>22,702,552</u>	<u>20,003,760</u>	<u>21,396,526</u>	<u>21,425,363</u>
<u>166,630,201</u>	<u>164,614,639</u>	<u>166,410,725</u>	<u>167,217,845</u>

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Changes in Net Assets

Last Six Fiscal Years

Schedule 2

(accrual basis of accounting)

	<i>Fiscal Year</i>	
	<u>2005</u>	<u>2006</u>
Expenses		
Governmental activities:		
Current:		
General government	\$ 5,740,531	6,146,510
Public safety	13,243,055	13,182,978
Public works	5,632,282	5,832,473
Parks and recreation	2,398,572	2,520,349
Health and welfare	838,040	1,250,425
Interest on long-term debt	1,297,580	2,056,693
Total governmental activities expenses	<u>29,150,060</u>	<u>30,989,428</u>
Business-type activities:		
Water and Sewer	<u>13,147,935</u>	<u>13,348,455</u>
Total business-type activities expenses	<u>13,147,935</u>	<u>13,348,455</u>
Total primary government expenses	<u><u>42,297,995</u></u>	<u><u>44,337,883</u></u>
Program Revenues		
Governmental activities:		
Charges for services:		
General government	744,237	995,303
Public safety	1,029,318	1,488,121
Other activities	506,723	459,752
Operating grants and contributions	1,419,592	1,183,307
Capital grants and contributions		
Total governmental activities program revenues	<u>3,699,870</u>	<u>4,126,483</u>
Business-type activities:		
Charges for services:		
Water and sewer	13,227,921	14,351,535
Capital grants and contributions	90,800	1,054
Total business-type activities program revenues	<u>13,318,721</u>	<u>14,352,589</u>
Total primary government program revenues	<u><u>\$ 17,018,591</u></u>	<u><u>18,479,072</u></u>

Note: The City began to report the above information when it implemented GASB Statement 44 in fiscal year 2006.

Unaudited -see accompanying auditors' report

Fiscal Year

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
6,612,065	7,494,737	6,677,826	6,009,327
13,517,972	13,812,910	16,495,996	17,460,252
5,956,957	5,682,854	6,755,059	7,271,760
2,632,806	2,926,214	2,755,050	2,906,975
1,260,117	1,391,078	1,724,892	1,630,227
1,954,819	1,947,304	1,868,860	2,246,394
31,934,736	33,255,097	36,277,683	37,524,935
13,931,868	15,361,311	16,166,206	16,154,126
13,931,868	15,361,311	16,166,206	16,154,126
45,866,604	48,616,408	52,443,889	53,679,061
1,081,360	966,780	978,806	1,057,194
1,506,126	1,839,093	2,148,979	1,735,896
496,407	607,380	572,359	678,445
1,616,829	1,476,933	2,513,783	1,552,787
	355,900		293,158
4,700,722	5,246,086	6,213,927	5,317,480
13,453,857	13,988,748	15,184,072	15,259,196
879,848	41,822		199,074
14,333,705	14,030,570	15,184,072	15,458,270
19,034,427	19,276,656	21,397,999	20,775,750

(Continued)

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Changes in Net Assets

Last Four Fiscal Years

Schedule 2 Continued

	<i>Fiscal Year</i>	
	<u>2005</u>	<u>2006</u>
Net (Expense)/Revenue		
Governmental activities	\$(25,450,190)	(26,862,945)
Business-type activities	170,786	1,004,134
Total primary government net expense	<u>(25,279,404)</u>	<u>(25,858,811)</u>
General Revenues and Other Changes in Net Assets		
Governmental activities:		
Property taxes	8,582,181	9,959,722
Sales taxes	11,520,058	12,349,822
Franchise taxes	1,969,038	2,165,122
Other taxes	932,178	919,402
Unrestricted investment earnings	592,936	1,603,970
Gain on sale of capital assets		6,398
Miscellaneous	403,711	178,743
Transfers	83,900	36,703
Total governmental activities	<u>24,084,002</u>	<u>27,219,882</u>
Business-type activities:		
Unrestricted investment earnings	581,326	583,293
Gain on sale of capital assets	2,185	-
Miscellaneous	834,342	751,105
Transfers	(83,900)	(36,703)
Total business-type activities program revenues	<u>1,333,953</u>	<u>1,297,695</u>
Change in Net Assets		
Governmental activities	(1,366,188)	356,937
Business-type activities	1,504,739	2,301,829
Total primary government	<u>\$ 138,551</u>	<u>2,658,766</u>

Fiscal Year

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
(27,234,014)	(28,009,011)	(30,063,756)	(32,207,455)
401,837	(1,330,741)	(982,134)	(695,856)
<u>(26,832,177)</u>	<u>(29,339,752)</u>	<u>(31,045,890)</u>	<u>(32,903,311)</u>
10,689,899	11,456,172	13,346,908	13,584,920
12,861,211	13,045,922	13,392,204	13,148,821
2,160,078	2,230,071	2,196,103	2,197,528
892,562	1,261,153	1,183,855	1,379,404
1,425,700	663,762	198,386	243,935
62,273			
627,374	1,231,150	1,486,346	1,451,676
14,308	17,325	18,900	18,900
<u>28,733,405</u>	<u>29,905,555</u>	<u>31,822,702</u>	<u>32,025,184</u>
669,904	348,128	94,880	48,472
722,073	873,709	943,294	1,655,675
(14,308)	(17,325)	(18,900)	(18,900)
<u>1,377,669</u>	<u>1,204,512</u>	<u>1,019,274</u>	<u>1,685,247</u>
1,499,391	1,896,544	1,758,946	(182,271)
1,779,506	(126,229)	37,140	989,391
<u>3,278,897</u>	<u>1,770,315</u>	<u>1,796,086</u>	<u>807,120</u>

(Concluded)

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Program Revenues by Function/ Program

Last Six Fiscal Years

Schedule 3

(accrual basis of accounting)

	<i>Program Revenues</i>	
	<u>2005</u>	<u>2006</u>
Function/ Program		
Governmental activities:		
General government	\$ 816,697	1,035,897
Public safety	1,758,076	1,831,168
Public works	283,348	313,885
Parks and Recreation	156,632	167,308
Health and welfare	685,117	778,225
Subtotal governmental activities	<u>3,699,870</u>	<u>4,126,483</u>
<i>Business-type activities:</i>		
Water and sewer	<u>13,318,721</u>	<u>14,352,589</u>
Subtotal business-type activities	<u>13,318,721</u>	<u>14,352,589</u>
Total primary government	<u>\$ 17,018,591</u>	<u>18,479,072</u>

Note: The City began to report the above information when it implemented GASB Statement 44 in fiscal year 2006.

Program Revenues

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
1,231,574	1,565,525	1,436,165	1,385,662
2,019,494	2,153,738	2,991,916	2,604,636
444,022	671,838	446,057	509,842
199,088	167,696	238,500	296,044
806,544	687,289	1,101,289	521,296
<u>4,700,722</u>	<u>5,246,086</u>	<u>6,213,927</u>	<u>5,317,480</u>
<u>14,333,705</u>	<u>14,030,570</u>	<u>15,184,072</u>	<u>15,458,270</u>
<u>14,333,705</u>	<u>14,030,570</u>	<u>15,184,072</u>	<u>15,458,270</u>
<u>19,034,427</u>	<u>19,276,656</u>	<u>21,397,999</u>	<u>20,775,750</u>

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION
Fund Balances, Governmental Funds
Last Six Fiscal Years
Schedule 4
(modified accrual basis of accounting)

	<i>Fiscal Year</i>	
	<u>2005</u>	<u>2006</u>
General Fund		
Reserved	332,751	384,658
Unreserved, designated for:		
Subsequent expenditures	985,581	732,852
Unreserved, reported in:		
General fund	<u>1,977,402</u>	<u>1,985,615</u>
Total general fund	<u><u>3,295,734</u></u>	<u><u>3,103,125</u></u>
All Other Governmental Funds		
Reserved	24,685,615	21,604,607
Unreserved, designated for:		
Convention center		
Unreserved, reported in:		
Special revenue fund	246,959	564,945
Debt service fund	1,410,722	1,588,486
Capital projects fund	<u>2,950,060</u>	<u>1,345,965</u>
Total all other governmental funds	<u><u>29,293,356</u></u>	<u><u>25,104,003</u></u>

Note: The City began to report the above information when it implemented GASB Statement 44 in fiscal year 2006.

<i>Fiscal Year</i>			
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
425,905	491,130	372,368	379,637
504,565	205,066	551,949	1,550,244
<u>2,990,900</u>	<u>3,595,302</u>	<u>4,245,301</u>	<u>3,371,709</u>
<u>3,921,370</u>	<u>4,291,498</u>	<u>5,169,618</u>	<u>5,301,590</u>
12,395,257	7,093,884	4,356,314	25,434,284
469,717	827,949	1,183,828	201,975
1,474,430	1,757,441	2,400,757	2,369,474
1,779,458	1,748,284	1,707,982	1,538,656
<u>1,841,743</u>	<u>786,593</u>	<u>622,126</u>	<u>469,315</u>
<u>17,960,605</u>	<u>12,214,151</u>	<u>10,271,007</u>	<u>30,013,704</u>

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION Changes in Fund Balances, Governmental Funds Last Six Fiscal Years Schedule 5

(modified accrual basis of accounting)

	<i>Fiscal Year</i>	
	<u>2005</u>	<u>2006</u>
REVENUES:		
Taxes	\$23,112,100	25,243,079
Fees and permits	343,759	426,164
Charges for services	589,071	620,418
Municipal court	895,266	1,251,154
Grants and entitlements	1,043,160	939,334
Rental	10,828	15,565
Investment earnings	475,944	1,557,036
Intergovernmental	197,474	213,570
Other	303,120	388,964
Total revenues	<u>26,970,722</u>	<u>30,655,284</u>
EXPENDITURES:		
Current:		
General government	5,420,827	5,627,117
Public safety	11,738,759	12,428,580
Public works	3,340,575	3,399,674
Parks and recreation	1,882,981	2,076,854
Health and welfare	198,072	596,843
Miscellaneous	467,717	504,364
Capital outlay	4,690,270	6,235,723
Debt service:		
Principal retirement	2,116,829	2,553,606
Interest and fiscal charges	943,887	1,682,159
Bond issuance costs	229,878	73,907
Total expenditures	<u>31,029,795</u>	<u>35,178,827</u>
Excess (deficiency) of revenues over expenditures	<u>(4,059,073)</u>	<u>(4,523,543)</u>
OTHER FINANCING SOURCES (USES):		
Transfers in	646,229	404,381
Transfers out	(562,329)	(367,678)
Bonds issued	17,750,000	3,060,000
Tax notes issued		
Payments to refunded bond escrow agent	-	(3,024,153)
Bond premium	319,878	-
Capital lease	658,820	288,021
Discount on bonds issued		
Total other financing sources (uses)	<u>18,812,598</u>	<u>360,571</u>
Net change in fund balances	<u>\$14,753,525</u>	<u>(4,162,972)</u>
Debt Service as a percentage of noncapital expenditures	12.5%	14.9%

Note: The City began to report the above information when it implemented GASB Statement 44 in fiscal year 2006.

Unaudited - see accompanying auditors' report

Fiscal Year

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
26,545,692	27,941,371	30,037,456	30,258,026
219,157	309,680	395,834	395,511
775,330	694,878	677,603	846,054
1,428,189	1,734,734	2,051,942	1,648,799
929,462	884,610	1,182,928	1,013,367
16,785	28,990	16,938	15,790
1,377,117	620,674	173,039	233,463
504,807	284,794	507,715	677,714
585,450	992,189	918,426	451,737
<u>32,381,989</u>	<u>33,491,920</u>	<u>35,961,881</u>	<u>35,540,461</u>
6,240,999	7,171,027	6,326,081	5,638,878
12,823,379	13,615,418	15,178,168	16,291,717
3,806,711	3,467,370	4,036,371	4,004,301
2,151,789	2,496,629	2,159,831	2,282,880
674,659	613,902	1,497,632	1,419,374
410,378	612,979	9,609	16,448
9,738,050	7,960,625	3,650,301	6,115,692
2,798,292	2,583,789	2,685,087	2,552,290
1,588,909	1,573,889	1,502,725	1,897,567
	12,820		394,530
<u>40,233,166</u>	<u>40,108,448</u>	<u>37,045,805</u>	<u>40,613,677</u>
<u>(7,851,177)</u>	<u>(6,616,528)</u>	<u>(1,083,924)</u>	<u>(5,073,216)</u>
555,206	408,440	488,197	593,911
(540,898)	(391,115)	(469,297)	(752,978)
	1,200,000		24,420,000
			446,830
248,619			332,847
			(92,725)
<u>262,927</u>	<u>1,217,325</u>	<u>18,900</u>	<u>24,947,885</u>
<u>(7,588,250)</u>	<u>(5,399,203)</u>	<u>(1,065,024)</u>	<u>19,874,669</u>
14.4%	13.0%	12.5%	14.0%

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION
Tax Revenue by Source, Governmental Funds
Last Six Fiscal Years
Schedule 6

<i>Fiscal Year</i>	<i>Property</i>	<i>Sales and Use</i>	<i>Franchise</i>	<i>Other</i>	<i>Total</i>
2005	\$ 8,642,384	11,520,058	1,969,038	980,620	23,112,100
2006	9,891,537	12,349,822	2,165,122	836,598	25,243,079
2007	10,606,159	12,861,211	2,160,079	918,243	26,545,692
2008	11,350,892	13,045,922	2,230,070	1,314,487	27,941,371
2009	13,261,502	13,392,204	2,196,103	1,187,647	30,037,456
2010	13,606,421	13,148,821	2,197,528	1,305,256	30,258,026
Percentage change	2.60%	-1.82%	0.06%	9.90%	0.73%

Note: The City began to report the above information when it implemented GASB Statement 44 in fiscal year 2006.

Unaudited - see accompanying auditors' report

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION
Assessed and Estimated Actual Value of Taxable Property
 (per \$100 of assessed value)
Last Ten Fiscal Years
Schedule 7

<i>Fiscal Year</i>	<i>Tax Roll Year</i>	<i>Personal Property Assessed Value</i>	<i>Real Property Assessed Value</i>	<i>Total Property Assessed Value</i>	<i>Tax Rate (1)</i>	<i>Total Tax Levy</i>	<i>Tax Distribution</i>	
							<i>General Fund</i>	<i>Debt Service</i>
2001	2000	\$ 469,889,408	927,416,582	1,397,305,990	0.4565	6,366,348	4,158,499	2,207,849
2002	2001	314,657,413	1,222,579,224	1,537,236,637	0.4465	6,863,763	4,814,243	2,049,520
2003	2002	313,859,583	1,275,361,917	1,589,221,500	0.4465	7,095,874	5,015,583	2,080,291
2004	2003	299,910,899	1,393,619,102	1,693,530,001	0.4715	7,864,994	5,291,147	2,573,847
2005	2004	340,491,257	1,483,075,445	1,823,566,702	0.4715	8,598,119	6,260,291	2,337,828
2006	2005	349,333,095	1,524,200,808	1,873,533,903	0.5265	9,864,056	6,038,775	3,825,281
2007	2006	343,388,570	1,666,170,594	2,009,559,164	0.5265	10,580,329	6,608,474	3,971,855
2008	2007	363,820,820	1,789,358,078	2,153,178,898	0.5265	11,339,330	7,593,949	3,745,381
2009	2008	378,012,082	1,911,219,783	2,289,231,865	0.5831	12,971,666	9,071,086	3,900,580
2010	2009	388,655,480	1,998,210,887	2,386,866,367	0.5831	13,533,009	9,199,740	4,333,269

Note:

(1) Tax rate per \$100 of assessed value.

Source: Bowie Central Appraisal District

Unaudited - see accompanying auditors' report

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Direct and Overlapping Property Tax Rates

(per \$100 of assessed value)

Last Ten Fiscal Years

Schedule 8

<i>Fiscal Year</i>	<i>City Direct Rates</i>		
	<i>General</i>	<i>General Obligation Debt Service</i>	<i>Total City Direct Rate</i>
2001	0.2982	0.1583	0.4565
2002	0.3132	0.1333	0.4465
2003	0.3156	0.1309	0.4465
2004	0.3172	0.1543	0.4715
2005	0.3433	0.1282	0.4715
2006	0.3223	0.2042	0.5265
2007	0.3289	0.1976	0.5265
2008	0.3526	0.1739	0.5265
2009	0.4078	0.1753	0.5831
2010	0.4078	0.1753	0.5831

Source: Bowie Central Appraisal District

Notes: Overlapping rates are those of local and county governments that apply to the property owners within the City of Texarkana, Texas. Not all overlapping rates apply to all City property owners.

Unaudited -see accompanying auditors' report

Overlapping Rates

<i>Texarkana Independent School District</i>	<i>Bowie County</i>	<i>Texarkana Independent College</i>	<i>Liberty-Eylau Independent School District</i>	<i>Pleasant Grove Independent School District</i>
1.502	0.2726	0.0840	1.3800	1.4880
1.5022	0.2869	0.0806	1.4100	1.5080
1.5362	0.3175	0.0831	1.4870	1.5325
1.5362	0.3141	0.0820	1.5300	1.5725
1.5362	0.3141	0.0820	1.5300	1.5725
1.6200	0.3090	0.0827	1.5453	1.6595
1.5116	0.3191	0.0826	1.4390	1.5289
1.339	0.327	0.089591	1.299535	1.44
1.339	0.327	0.09679	1.299193	1.44
1.339	0.3262	0.097527	1.29388	1.44

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION Principal Property Taxpayers Current Year and Nine Years Ago Schedule 9

<u>Taxpayer</u>	<u>Rank</u>	<u>2010</u>	
		<u>2009 Assessed Valuation (1) (2)</u>	<u>Percentage of Total Assessed Valuation</u>
Christus Health ArkLaTex	1	\$ 110,835,270	4.64%
GG&A Central Mall Partners	2	32,621,506	1.37%
AEP Southwestern Electric Power Co.	3	21,974,640	0.92%
Richmond Road Apartments LP	4	14,443,896	0.60%
Arklatex Real Estate LP	5	14,159,015	0.59%
Arden Texarkana LLC ETAL	6	13,661,500	0.57%
WalMart Stores #01-2123	7	11,865,618	0.50%
Orr, William Gregg	8	10,795,793	0.45%
Condeb, LP	9	10,630,222	0.45%
Candle Corporation of America	10	10,545,480	0.44%
General Telephone Co.			
WalMart Store Properties			
Alberton's Inc.			
Lowe's Properties			
Lowe's Home Center			
Jasper S. Howard			
Total principal taxpayers		<u>\$ 251,532,940</u>	<u>10.53%</u>

Notes:

(1) Net of exemptions

(2) Source - Bowie Central Appraisal District

Unaudited - see accompanying auditors' report

<i>2001</i>		
<i>Rank</i>	<i>2000 Assessed Valuation (1) (2)</i>	<i>Percentage of Total Assessed Valuation</i>
6	\$ 9,219,568	0.66%
2	23,085,912	1.65%
5	11,585,534	0.83%
4	15,921,000	1.14%
1	28,359,720	2.03%
3	17,535,149	1.25%
7	8,386,621	0.60%
9	7,105,076	0.51%
8	7,584,647	0.54%
10	6,670,482	0.48%
	<u>\$ 135,453,709</u>	<u>9.69%</u>

CITY OF TEXARKANA, TEXAS

**STATISTICAL SECTION
Property Tax Levies and Collections
Last Ten Fiscal Years
Schedule 10**

<i>Fiscal Year</i>	<i>Tax Roll Year</i>	<i>Total Tax Levy</i>	<i>Collected within the Fiscal Year of the Levy</i>		<i>Collections in Subsequent Years</i>	<i>Total Collections to Date</i>	
			<i>Amount</i>	<i>Percentage</i>		<i>Amount</i>	<i>Percentage</i>
2001	2000	\$ 6,366,348	6,188,734	97.21%	160,834	6,349,568	99.74%
2002	2001	6,863,763	6,711,130	97.78%	152,633	6,863,763	100.00%
2003	2002	7,095,874	6,918,461	97.50%	151,832	7,070,293	99.64%
2004	2003	7,864,994	7,629,459	97.01%	199,163	7,828,622	99.54%
2005	2004	8,598,119	8,336,441	96.96%	222,718	8,559,159	99.55%
2006	2005	9,864,056	9,571,045	97.03%	229,214	9,800,259	99.35%
2007	2006	10,580,329	10,253,335	96.90%	243,091	10,496,426	99.21%
2008	2007	11,339,330	10,918,808	96.29%	211,381	11,130,189	98.16%
2009	2008	12,971,666	12,634,807	97.40%	298,436	12,933,243	99.70%
2010	2009	13,523,534	13,056,769	96.55%		13,056,769	96.55%

Ad valorem taxes are levied on October 1 of each year.

Source - Bowie Central Appraisal District.

Unaudited -see accompanying auditors' report

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Direct and Overlapping Sales Tax Rates

(per \$100 of assessed value)

Last Ten Fiscal Years

Schedule 11

<i>Fiscal Year</i>	<i>City Direct Rate</i>	<i>Bowie County</i>
2001	1.50%	0.50%
2002	1.50%	0.50%
2003	1.50%	0.50%
2004	1.50%	0.50%
2005	1.50%	0.50%
2006	1.50%	0.50%
2007	1.50%	0.50%
2008	1.50%	0.50%
2009	1.50%	0.50%
2010	1.50%	0.50%

Source: Texas Comptroller Website

Unaudited -see accompanying auditors' report

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Water Sold by Type of Customer - Texarkana, Texas Water Utilities

(in thousands of gallons)

Last Ten Fiscal Years

Schedule 12

Type of Customer	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Residential	1,087,131	1,010,504	1,091,067	936,885	1,029,450
Commercial	753,087	753,489	784,149	716,485	799,087
Member Cities	950,968	942,643	922,641	919,958	1,005,885
Wholesale	<u>631,617</u>	<u>631,607</u>	<u>622,003</u>	<u>633,148</u>	<u>726,797</u>
Total	<u><u>3,422,803</u></u>	<u><u>3,338,243</u></u>	<u><u>3,419,860</u></u>	<u><u>3,206,476</u></u>	<u><u>3,561,219</u></u>
Total Direct Rate					
per 1,000 Gallons					
Residential	2.27	2.27	2.27	2.27	2.35
Commercial	1.71	1.71	1.71	1.71	1.77
Member Cities	0.44	0.47	0.55	0.56	0.58

Unaudited -see accompanying auditors' report

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
1,020,361	944,028	937,401	914,376	926,250
722,743	664,667	652,537	585,553	596,290
1,012,144	905,547	936,941	916,698	928,052
<u>752,482</u>	<u>723,824</u>	<u>683,562</u>	<u>676,645</u>	<u>717,840</u>
<u>3,507,730</u>	<u>3,238,066</u>	<u>3,210,441</u>	<u>3,093,272</u>	<u>3,168,432</u>
2.43	2.48	2.59	3.01	3.01
1.83	1.87	1.95	2.26	2.26
0.64	0.67	0.64	0.77	0.66

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Water and Sewer Rates - Texarkana, Texas Water Utilities

Last Ten Fiscal Years

Schedule 13

<i>Fiscal Year</i>	<i>Water</i>		<i>Sewer</i>	
	<i>Monthly Minimum 2000 Gals</i>	<i>Rate per 1000 Gals Over Minimum</i>	<i>Monthly Minimum 2000 Gals</i>	<i>Rate per 1000 Gals Over Minimum</i>
Residential				
2001	6.15	2.27	6.10	2.20
2002	6.15	2.27	8.30	2.98
2003	6.15	2.27	8.30	2.98
2004	6.15	2.27	8.30	2.98
2005	6.37	2.35	8.59	3.08
2006	6.59	2.43	8.89	3.19
2007	6.72	2.48	9.07	3.25
2008	7.01	2.59	9.46	3.39
2009	8.15	3.01	10.52	3.77
2010	8.15	3.01	10.52	3.77
Commercial				
2001	7.00	1.71	6.10	2.64
2002	7.00	1.71	8.30	3.48
2003	7.00	1.71	8.30	3.48
2004	7.00	1.71	8.30	3.48
2005	7.25	1.77	8.59	3.60
2006	7.50	1.83	8.89	3.73
2007	7.65	1.87	9.07	3.80
2008	7.98	1.95	9.46	3.96
2009	9.28	2.26	10.52	4.41
2010	9.28	2.26	10.52	4.41

Note: (1) The Commercial minimum for water is based on a 5/8 inch meter. The minimum increases for each size up to \$50 for a 6 inch or larger meter.

(2) Rates for outside the City limit are 50% more than the above.

Unaudited -see accompanying auditors' report

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Principal Water and Sewer Revenue Payers - Texarkana, Texas Water Utilities

Current Year and Nine Years Ago

Schedule 14

<i>Payer</i>	<i>Rank</i>	<i>2010</i>		<i>Rank</i>	<i>2001</i>	
		<i>Water & Sewer Revenue</i>	<i>Percentage of Total Water & Sewer Revenue</i>		<i>Water & Sewer Revenue</i>	<i>Percentage of Total Water & Sewer Revenue</i>
Federal Correctional Institute	1	\$ 754,019	6.45%	1	\$ 596,034	7.80%
Brighton Manor Apartments	2	384,799	3.29%			
Texarkana Housing Authority	3	274,069	2.35%	2	212,322	2.78%
Christus St Michael Hospital	4	241,544	2.07%	3	165,165	2.16%
Texarkana Texas ISD	5	167,910	1.44%			
Wadley Hospital	6	155,653	1.33%	4	92,654	1.21%
Civigenics Texas, Inc.	7	136,047	1.16%			
River Crossing Apartments	8	108,702	0.93%			
Town North Apartments	9	85,787	0.73%			
Texarkana College	10	75,455	0.65%			
Alcoa				5	61,824	0.81%
Bowie County Jail				6	57,435	0.75%
Bi State Justice Building				7	43,126	0.56%
Summerhill Woods Apt				8	42,843	0.56%
Texarkana Nursing Center				9	39,088	0.51%
I. P. Sawmill				10	36,483	0.48%
Totals		<u>\$ 2,383,985</u>	20.40%		<u>\$ 1,346,974</u>	17.62%

Unaudited -see accompanying auditors' report

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
Schedule 15

<i>Governmental Activities</i>						
<i>Fiscal Year</i>	<i>General Obligation Bonds</i>	<i>Certificates of Obligation</i>	<i>Tax Notes</i>	<i>Installment loans</i>	<i>Capital Leases</i>	<i>Net Pension Obligation</i>
2001	\$ 5,280,000	\$ 12,400,000	\$ -	\$ 93,316	\$ -	\$ -
2002	4,415,000	14,495,000		69,184		
2003	21,859,718	8,405,000		114,586		
2004	21,335,055	7,825,000		71,978	495,409	
2005	20,394,344	25,230,000		39,457	799,326	
2006 (1)	22,016,817	21,865,680		22,893	628,627	
2007	20,625,223	21,281,360		5,818	437,852	
2008 (3)	19,301,168	20,617,040	1,200,000		208,852	
2009	17,867,429	19,857,720	1,200,000		82,959	628,994
2010 (4)	16,509,387	43,564,165	1,160,000		254,195	1,335,635

(1) The City issued \$3,060,000 in General Obligation Refunding Bonds in 2006.

(2) See Demographic and Economic Statistics Schedule for personal income and population data.

(3) The City issued \$1,200,000 in Tax Notes in 2009.

(4) The City issued \$24,420,000 in Certificates of Obligation in 2010.

Unaudited -see accompanying auditors' report

Business-type Activities

<i>Water Revenue Bonds</i>	<i>Capital Leases</i>	<i>Net Pension Obligation</i>	<i>Total Primary Government</i>	<i>Percentage of Personal Income(2)</i>	<i>Per Capita(2)</i>
\$22,111,010	\$8,680,269	\$ -	\$ 48,564,595	10.45%	\$ 1,388
18,307,640	8,227,856		45,514,680	7.20%	1,282
16,556,187	7,538,730		54,474,221	8.50%	1,530
17,279,820	7,120,442		54,127,704	8.53%	1,520
9,328,909	6,771,951		62,563,987	9.86%	1,757
7,882,549	6,470,001		58,886,567	9.01%	1,647
6,930,380	6,129,990		55,410,623	7.21%	1,529
5,963,213	5,900,544		53,190,817	6.56%	1,463
4,961,046	5,674,537	167,018	50,439,703	6.33%	1,414
4,478,878	5,685,765	408,989	73,397,014	7.96%	2,016

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Ratios of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita Last Ten Fiscal Years

Schedule 16

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Assessed Value</u>	<u>Gross Bonded Debt (2)</u>
2001	35,000	\$ 1,397,305,990	\$ 30,940,000
2002	35,500	1,537,236,637	30,024,725
2003	35,600	1,589,221,500	40,746,876
2004	35,600	1,589,221,500	40,702,543
2005	35,600	1,823,566,702	55,497,057
2006	35,750	1,873,533,903	51,765,046
2007	36,250	2,009,559,164	48,836,963
2008	36,350	2,153,718,898	47,081,421
2009	35,682	2,289,231,865	43,886,195
2010	36,411	2,386,866,367	65,712,430

Notes:

(1) Estimate of City Planning Department except for 2000 which is from U.S. Census.

(2) Excluding International Paper Company revenue bonds and including certificates of obligations issued for water and sewer programs.

Unaudited - see accompanying auditors' report

<i>Less Debt Service Funds</i>	<i>Less Debt Payable From Enterprise Funds (2)</i>	<i>Net Bonded Debt</i>	<i>Ratio of Net Bonded Debt to Assessed Value</i>	<i>Net Bonded Debt per Capita</i>
\$ 1,648,323	\$ 13,260,000	\$ 16,031,677	1.15	\$ 458
1,645,575	11,114,725	17,264,425	1.12	486
1,516,217	9,845,001	29,385,658	1.85	825
1,572,527	10,956,818	28,173,198	1.77	791
1,410,722	9,428,532	44,657,803	2.45	1,254
1,588,486	7,882,549	42,294,011	2.26	1,183
1,779,458	6,930,380	40,127,125	2.00	1,107
1,748,284	5,963,213	39,369,924	1.83	1,083
1,707,982	4,961,046	37,217,167	1.63	1,043
1,538,656	4,478,878	59,694,896	2.50	1,639

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CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Direct and Overlapping Governmental Activities Debt

September 30, 2010

Schedule 17

<u>Jurisdiction</u>	<u>Gross Bonded Debt (1)</u>	<u>Percentage of Debt Applicable to City of Texarkana</u>	<u>Amount Applicable to City of Texarkana</u>
Direct:			
City of Texarkana, Texas	\$61,233,552	100.00%	<u>\$ 61,233,552</u>
Overlapping:			
Texarkana Independent School District	44,069,462	90.00%	39,662,516
Bowie County	1,255,000	38.95%	488,823
Liberty-Eylau Independent School District	3,430,000 3,395,000	85.00% 100.00%	2,915,500 3,395,000
Pleasant Grove School District	38,015,000	15.00%	<u>5,702,250</u>
Subtotal - Overlapping debt			<u>52,164,089</u>
Total direct and overlapping			<u><u>\$ 113,397,641</u></u>
Per capita overlapping debt			<u><u>\$ 3,178</u></u>

Source-City and County tax records

(1) Includes only bonded debt being repaid by property taxes.

Unaudited -see accompanying auditors' report

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION Legal Debt Margin Last Six Fiscal Years Schedule 18

	<u>2005</u>	<u>2006</u>
Assessed value of real property	<u>\$ 1,608,640,595</u>	<u>1,521,332,143</u>
Debt limit - 25% of assessed value of real property	<u>402,160,149</u>	<u>380,333,036</u>
Total general obligation bonded debt	20,394,344	22,016,817
Less amount available in Debt Service Fund	<u>(1,410,722)</u>	<u>(1,588,486)</u>
Total amount of debt applicable to debt limit	<u>18,983,622</u>	<u>20,428,331</u>
Legal debt margin	<u>\$ 383,176,527</u>	<u>359,904,705</u>

Notes:

There is a rate limitation of \$2.50 per \$100 of assessed value imposed by the Texas Constitution and City Charter.

Article 3, Section 53 of the Texas Constitution limits the legal debt to 25% of the assessed valuation of the real property.

Unaudited - see accompanying auditors' report

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>1,640,707,284</u>	<u>1,771,117,978</u>	<u>1,997,924,581</u>	<u>1,998,210,887</u>
<u>410,176,821</u>	<u>442,779,495</u>	<u>499,481,145</u>	<u>499,552,722</u>
20,625,223	-	17,867,429	16,509,387
<u>-</u>	<u>-</u>	<u>(1,707,982)</u>	<u>(1,538,656)</u>
<u>20,625,223</u>	<u>-</u>	<u>16,159,447</u>	<u>14,970,731</u>
<u>389,551,598</u>	<u>442,779,495</u>	<u>483,321,698</u>	<u>484,581,991</u>

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION
Pledged Revenue Coverage (1)
Last Ten Fiscal Years
Schedule 19

<i>Fiscal Year</i>	<i>Gross Revenue(2)</i>	<i>Operating Expenses (3)</i>	<i>Net Revenue Available For Debt Service</i>	<i>Debt Service Requirements (4)</i>	<i>Coverage</i>
2001	\$ 11,471,198	7,312,466	4,158,732	2,779,055	1.50
2002	12,648,480	7,457,883	5,190,597	2,712,531	1.91
2003	12,409,060	7,545,712	4,863,348	1,862,535	2.61
2004	12,959,889	8,060,324	4,899,565	1,845,023	2.66
2005	13,949,693	8,271,195	5,678,498	2,015,991	2.82
2006	15,042,070	9,025,324	6,016,746	1,625,741	3.70
2007	14,126,104	9,512,745	4,613,359	1,271,608	3.63
2008	14,472,792	10,321,585	4,151,207	1,250,470	3.32
2009	15,412,539	11,522,666	3,889,873	1,246,946	3.12
2010	15,983,461	11,459,098	4,524,363	697,624	6.49

Notes:

- (1) Exclusive of Lake Texarkana Water Supply Corporation and International Paper Company utility operations and obligations.
- (2) Total revenue includes interest income on investments and payments received from Texarkana, Arkansas Utilities for debt service on revenue bonds issued for construction on direct financing lease facilities.
- (3) Operating expenses exclude depreciation and amortization.
- (4) Principal and interest on revenue bonds only. Amounts do not include payments on obligations under capital leases.

Unaudited -see accompanying auditors' report

CITY OF TEXARKANA, TEXAS

**STATISTICAL SECTION
Demographic and Economic Statistics
Last Ten Fiscal Years
Schedule 20**

<i>Fiscal Year</i>	<i>Population</i>	<i>Median Age</i>	<i>Per Capita Income</i>	<i>Unemployment Rate</i>	<i>Personal Income (6)</i>
2001	35,000 (1)	37.1 (4)	13,280 (1)	5.2 (3)	464,800,000
2002	35,500 (1)	36.05 (4)	17,815 (2)	6.4 (3)	632,432,500
2003	35,600 (1)	36.3 (1)	17,993 (1)	7.0 (3)	640,550,800
2004	35,600 (1)	35.7 (2)	17,815 (2)	6.0 (3)	634,214,000
2005	35,600 (1)	35.7 (2)	17,815 (2)	5.8 (3)	634,214,000
2006	35,750 (1)	36.1 (5)	18,286 (5)	5.8 (3)	653,724,500
2007	36,250 (1)	36.4 (5)	21,220 (5)	5.3 (3)	769,225,000
2008	36,350 (1)	35.7 (5)	22,291 (2)	5.1 (5)	810,277,850
2009	35,682 (1)	37.1 (1)	22,326 (5)	7.2 (7)	796,636,332
2010	36,411 (8)	36.4 (7)	25,336 (7)	7.2 (7)	922,509,096

Notes:

- (1) Estimate of City of Texarkana, Texas.
- (2) 2000 U.S. Census. (ATCOG)
- (3) Texas Workforce Commission LMI Tracer
- (4) Texarkana Chamber of Commerce: Source - Sales Marketing and Management
- (5) Sites on Texas.com
- (6) Personal income calculated by multiplying estimated population by per capita income.
- (7) Economic Development Director, City of Texarkana, Texas
- (8) 2010 U. S. Census. (City of Texarkana, Texas)

Unaudited -see accompanying auditors' report

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CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Principal Employers, Metropolitan Statistical Area (MSA) - Texarkana, Texas and Texarkana, Arkansas

Current Year and Nine Years Ago Schedule 21

<i>Employer</i>	<i>2010</i>			<i>2001</i>		
	<i>Employees</i>	<i>Rank</i>	<i>Percentage of Total MSA Employ- ment (1)</i>	<i>Employees</i>	<i>Rank</i>	<i>Percentage of Total MSA Employ- ment (2)</i>
Red River Army Depot & Tenants	7,200	1	11.54%	2,470	1	4.54%
Cooper Tire & Rubber	1,860	2	2.98%	1,550	2	2.85%
Christus St. Michael Health Care	1,850	3	2.97%	1,200	5	2.21%
Domtar (fr. Georgia Pacific)	1,150	4	1.84%	1,400	3	2.57%
Wal-Mart/Sam's	1,100	5	1.76%			
International Paper	925	6	1.48%	1,250	4	2.30%
Wadley Regional Medical Ctr	850	7	1.36%	980	6	1.80%
Texarkana Texas ISD	795	8	1.27%	800	7	1.47%
Texarkana AR ISD	785	9	1.26%	800	8	1.47%
Southern Refrigerated Transport	750	10	1.20%			
City of Texarkana, Texas	615		0.99%	466	9	0.86%
Alcoa Mill Products (fr. Alumax)	12		0.02%	365	10	0.67%
Total	17,892		28.67%	11,281		20.74%

Source:

Chamber of Commerce, Texas Workforce Commission LMI Tracer

Notes:

(1) MSA employment for 2010 is 62,380

(2) MSA employment for 2001 is 54,400.

Unaudited - see accompanying auditors' report

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Full-time-Equivalent City Government Employees by Function/Program,

Last Ten Fiscal Years

Schedule 22

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
General government				
Purchasing- General Services	4	4	4	4
Finance / Accounting	8	9	8	8
Building Maintenance	3	3	3	2
City Manager	3	3	3	3
City Secretary	3	3	3	3
Research and Vital Statistics				
Human Resources	3	3	3	3
City Attorney	3.5	3.5	3.5	3.5
Municipal Court	8	7.5	8	7
Quality Assurance	0	0	0	0
Marketing	0	0	0	0
Public safety				
Police Administration	2	4	3	3
Uniform Services- Patrol	67	65	62	61
Support Services	8	10	15	15
Criminal Investigation	15.5	16.5	17.5	19.5
CMV Enforcement Unit	0	0	0	0
Narcotics	5	4	4	4
Fire Administration	3	3	3	3
Fire Operations	70	71	72	69
Fire Prevention	3	3	3	3
Fire Training	2	2	2	2
Emergency Management	1	1	1	1
Public works				
Public Works Administration	3	3	3	3
Engineering	6	6	6	6
Engineering & Infrastructure Administration				
Street Maintenance	39	40.5	42.5	38
Building Inspection	6	7	7	6
Sign and Signal	6	6	6	6
P&Z/Comm & PW Administration	0	0	0	0
Code Enforcement	0	0	0	0
Health and welfare				
Community Development	6	6	6	6
Environmental Services				
Environmental Health Services	2	2	2	2
Demolition	4	4	4	4
Animal Control	2	2	2	2

as of September 30

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
4	4	4	4	3	3
7	7	7	6	5	6
3	3	3	3	3	3
3	3	3	1	1	1
3	3	3	1	1	2
			2	2	2
3	3	3	5	4	5
3.5	3.5	3.5	2.0	0	0
7	7	7	7.5	8.5	8
0	0	0	0	0	1
0	0	0	0	0	1
4	7	3	3	7	7
69	67	66	74	65	69
14	6	12	11	9	10
19.5	20.5	18.5	17.5	18.5	18.5
0	0	0	0	0	2
4	6	4	2	3	4
3	3	3	3	3	3
72	72	72	72	72	72
5	4	4	4	4	4
2	2	2	2	2	2
2	2	2	2	2	2
3	3	3	2	0	0
6	6	7	7	7	7
			2	2	2
38	38	38	38	38	38
6	6	7	7	7	7
6	6	6	6	6	6
2	2	2	0	2	2
0	0	0	0	3	3
4	4	4	3	3	3
			3	2	2
2	2	2	2	1	1
4	4	4	4	1	1
2	2	2	2	2	2

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Full-time-Equivalent City Government Employees by Function/Program, Last Ten Fiscal Years Schedule 22 (Continued)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Parks and recreation				
Parks Administration	4	4	4	4
Parks Maintenance	27.5	27.5	24.5	26.5
Recreational Programs	12	14	5.5	7.5
Senior Citizen Programs	1.5	3	4	1.5
Community Center / Weed & Seed	2	2	2	2
Library	14.5	15	14	12.5
Teen Court	1.5	1.5	1.5	1.5
Veterans Affairs	0.5	0.5	0.5	0.5
Family Health Center				
Administration	4	4	4	4
Community	6	7	6	6
WIC	6	7	7	7
Reproductive	9	9	9	8
TB	2	2	2	1
Public Health Response	0	0	3	4
Tobacco	1	1	1	0
Central Records - Dispatch	50	54	52	53
MPO	2.5	2.5	2.5	2.5
Fleet	10	10	10	10
Total	<u>440</u>	<u>456</u>	<u>449</u>	<u>438.5</u>

Source: Various City Departments

Notes: Full-time equivalent of non-civil service employees and civil service police is 2,080 hours per year and 2,912 hours per year for civil service firefighters.

as of September 30

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
3	3	3	2	2	2
26.5	23	23	24	24	19
7.5	8	5.5	5.5	5.5	3.5
2.5	2	2.5	2.5	2.5	1
2	2	3	3	3	1
12.5	12.5	12.5	12.5	12.5	16
1.5	1.5	1.5	1	1	1
0.5	0.5	0.5	0.5	0.5	1
4	4	3	5	4	4
6	6	4	6	5	6
7	7	7	7	5	7
8	7	7	7	6	7
1	1	1	0	0	0
4	5	5	2	0	0
0	0	0	0	0	0
53	53	53	54	54	53
2.5	2.5	2.5	2.5	2.5	3
10	10	10	11	9	8
<u>452.5</u>	<u>444</u>	<u>439</u>	<u>443.5</u>	<u>423.5</u>	<u>432</u>

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION Operating Indicators by Function/Program Last Ten Fiscal Years Schedule 23

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>Function/Program</u>				
General government				
Birth certificate requests	4,564	5,187	5,041	5,404
Public safety				
Police				
Commissioned officers	90	92	90	87
Calls for service	40,304	38,514	40,249	40,024
Total citations issued	8,907	11,822	8,837	6,807
Custody arrests	3,313	3,073	2,728	2,768
Fire				
Firefighters	76	78	75	76
Responses- Fire	320	296	277	303
Responses- EMS/Rescue	421	439	478	420
Responses- Other	1,167	883	875	847
Inspections	3,677	3,672	3,756	3,812
Public works				
Street resurfacing (miles)	(1)	(1)	(1)	(1)
Building permits issued	310	650	688	652
Building permits (\$)	37,202,903	46,086,487	63,046,707	65,590,653
Water				
Average daily consumption (millions of gallons)	10.236	10.269	9.958	8.924
Raw water production (millions of gallons)	10.750	11.147	11.275	11.291
Wastewater				
Average daily sewage treatment (millions of gallons)				
South Regional Plant	11.802	11.236	9.987	8.597
Wagner Creek Plant	1.865	1.616	1.433	1.460

Source: Various City Departments

Notes:

(1) No information available

Unaudited -see accompanying auditors' report

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
5,713	5,333	5,740	5,695	5,278	6,138
93	93	94	94	94	100
42,392	43,814	44,456	43,554	45,673	43,518
9,656	13,440	13,922	8,879	11,606	10,536
2,898	3,106	3,739	4,032	5,085	4,010
76	79	79	79	79	78
279	362	250	281	250	256
951	999	1,295	1,357	1,494	1,479
1,005	973	963	1,139	978	1,098
4,197	4,083	4,217	3,983	3,988	2,837
(1)	(1)	(1)	(1)	(1)	(1)
611	938	663	484	1,188	768
61,734,325	61,978,494	48,621,881	76,804,888	44,937,572	49,115,042
8.429	8.881	10.29	10.938	10.255	14.89
11.204	10.840	11.849	11.882	11.978	17.01
8.782	8.065	10.348	10.762	10.524	9.575
1.443	1.204	1.088	1.190	1.257	0.993

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION Capital Asset Statistics by Function/ Program Last Ten Fiscal Years Schedule 24

<u>Function/Program</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
General Government				
Buildings	2	2	2	2
Public safety				
Police Stations	1	1	1	1
Number of vehicles	47	67	66	66
Fire Stations	5	5	5	5
Fire Apparatus	9	9	8	8
Other motorized vehicles	5	5	5	5
Public works				
Buildings	3	3	3	3
Streets (miles)	247.5	250	254	254
Paved alleys	5	5	5	5
Unpaved alleys	15	15	15	15
Storm sewers	28.5	29	29.5	29.5
Streetlights	3,100	3,150	(1)	(1)
Parks and recreation				
Parks	10	10	11	12
Park acreage developed	500	500	533	533
Park acreage partially developed	1,330	1,330	1,454	1,454
Playgrounds	18	18	19	20
Swimming pools	1	1	1	1
Tennis courts	4	4	6	6
Baseball diamonds	8	8	8	8
Softball diamonds	11	11	11	11
Recreation centers	1	1	1	1
Senior citizens centers	1	1	1	1
Cemetery acreage	19	19	19	19
Landscaped island/ historical markers	8	8	8	8
Landscaped medians	4	4	4	5
Soccer fields	9	9	9	9
Restroom facilities		8	8	8
Boat ramp		1	1	1
Perot Theatre	1	1	1	1

Notes:

(1) No information available

Unaudited -see accompanying auditors' report

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
2	2	2	2	2	4
1	1	1	1	1	1
66	68	69	72	63	69
5	5	5	5	5	5
8	9	9	9	9	9
5	6	6	6	6	6
3	3	3	3	3	2
254	(1)	(1)	(1)	(1)	(1)
5	(1)	(1)	(1)	(1)	(1)
15	(1)	(1)	(1)	(1)	(1)
29.5	(1)	(1)	(1)	(1)	(1)
(1)	(1)	(1)	(1)	(1)	(1)
12	12	15	14	14	12
533	533	500	500	500	500
1,454	1,454	1,330	1,330	1,330	1,330
20	20	19	20	20	26
1	1	0	0	0	0
6	6	6	6	6	4
8	8	8	8	8	8
11	11	10	10	10	10
1	1	2	2	2	2
1	1	1	1	1	1
19	19	19	19	19	19
8	8	8	8	8	8
5	5	4	4	4	4
9	9	8	10	10	12
13	13	14	15	17	17
1	1	1	1	1	1
1	1	1	1	1	1

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION Capital Asset Statistics by Function/ Program Last Ten Fiscal Years Schedule 24 (Continued)

<u>Function/Program</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Library				
Number of libraries	1	1	1	1
Health and Welfare				
Buildings	1	1	1	1
Water				
Water mains (miles)	430	433	433	438
Water connections	13,231	13,310	13,511	12,890
Fire hydrants	1,529	1,415	1,415	1,761
Plant capacity (million gallons per day)	18	18	18	18
Wastewater				
Sanitary sewer mains (miles)	277	297	297	303
Sewer connections	11,678	11,665	11,724	11,954
Sewer plant capacity (millions gallons per day)	18	18	18	18
Airports				
Number of airports	1	1	1	1
Acres	1,200	1,200	1,200	1,200
Length of main runways	6,601	6,601	6,601	6,601

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
1	1	1	1	1	1
1	1	1	1	1	1
451	448	460	462	473	479
12,708	12,813	12,893	13,032	12,951	12,937
1,807	1,846	1,906	1,963	2,013	2,051
18	18	18	18	18	18
311	315	323	329	330	328
12,051	12,166	12,364	12,512	12,418	12,436
18	18	18	20	20	20
1	1	1	1	1	1
1,200	1,200	1,200	1,200	1,200	1,200
6,601	6,601	6,601	6,601	6,601	6,601

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**Supplemental Report on
Federal Awards**

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CITY OF TEXARKANA, TEXAS

SUMMARY OF AUDITORS' RESULTS For the Year Ended September 30, 2010

PROGRAM	DESCRIPTION
Type of Report of Financial Statements	Unqualified Opinion
Significant Deficiencies in Internal Control	Schedule of Findings Reference #10-1
Material Weaknesses in Internal Control	Schedule of Findings Reference #10-1
Noncompliance Material to Financial Statements	None
Significant Deficiencies in Internal Controls over Major Programs	None
Material Weaknesses Involving Significant Deficiencies over Major Programs	None
Type of Report on Compliance with Major Programs	Unqualified Opinion
Findings for Federal Awards as Defined in OMB Circular A-133	None
Major Federal Programs	16.738 U.S. Department of Justice – Passed through Texas Governor’s Office Criminal Justice Division - Recovery Act Grant 16.738 U.S. Department of Justice – Passed through Texas Governor’s Office Criminal Justice Division - Law Enforcement Block Grant 20.507 U.S. Department of Transportation - Urban Transit Program
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
Low Risk Auditee Statements	The City of Texarkana, Texas was not classified as a low-risk auditee in the context of OMB Circular A-133

CITY OF TEXARKANA, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended September 30, 2010

Grant Title	CFDA Number	Grant Program/ Number
U.S. Department of Housing and Urban Development		
Community Development Blk Grant-Entitlement		
Program Year 2009	14.218	B07-MC-48-1000
Program Year 2006	14.218	B08-MC-48-1000
Passed Through the Texas Dept of Housing & Comm Affairs		
HOME Investment Partnerships Program	14.239	100668
TOTAL U.S. DEPT OF HOUSING & URBAN DEVELOPMENT		
U.S. Department of Transportation		
Selective Traffic Enforcement Prog (STEP)	20.600	587XXF6013
Urban Transit Program	20.507	TX-90-X604
Urban Transit Program	20.507	URB0202
Federal Transit Capital & Operating Assistance Formula Grant		
Passed through Texas Department of Transportation	20.505	50-8xxf0017
Passes through Arkansas Highway Transportation Department	20.505	50-8xxf0017
TOTAL U.S. DEPT OF TRANSPORTATION		
U.S. Department of Justice		
Passed Through the Texas Governor's Office Criminal Justice Division		
ARRA - Justice Assistance Grant	16.738	2009-SB-B9-1869
Law Enforcement Block Grant J.A.G.	16.738	2009-DJ-BX-0598
TOTAL U.S. DEPARTMENT OF JUSTICE		
U. S. Department of Homeland Security		
2007 Homeland Security Grant	97.067	
Passed Through Office of the Governor's		
Emergency Management Performance Grant	97.042	09TX-EMPG-0208

<u>Grant Revenue Received Cash Basis</u>	<u>(Accrued) Deferred Grant Revenue 9/30/2009</u>	<u>Accrued (Deferred) Grant Revenue 9/30/2010</u>	<u>Grant Revenue Accrual Basis</u>	<u>Grant Expenditures</u>
216,126		21,741	237,867	237,867
<u>30,645</u>	<u>(30,645)</u>		<u>-</u>	
<u>246,771</u>	<u>(30,645)</u>	<u>21,741</u>	<u>237,867</u>	<u>237,867</u>
5,434	(5,434)		-	
<u>252,205</u>	<u>(36,079)</u>	<u>21,741</u>	<u>237,867</u>	<u>237,867</u>
12,038	(2,480)	3,511	13,069	13,069
1,308,953	(173,708)	141,581	1,276,826	1,276,827
<u>432,847</u>	<u>(207,339)</u>	<u>26,409</u>	<u>251,917</u>	<u>233,721</u>
<u>1,741,800</u>	<u>(381,047)</u>	<u>167,990</u>	<u>1,528,743</u>	<u>1,510,548</u>
58,757	(2,060)		56,697	56,697
<u>169,601</u>	<u>(39,209)</u>	<u>35,801</u>	<u>166,193</u>	<u>166,193</u>
<u>228,358</u>	<u>(41,269)</u>	<u>35,801</u>	<u>222,890</u>	<u>222,890</u>
<u>1,982,196</u>	<u>(424,796)</u>	<u>207,302</u>	<u>1,764,702</u>	<u>1,746,507</u>
293,158			293,158	293,096
<u>71,312</u>			<u>71,312</u>	<u>70,073</u>
<u>364,470</u>	<u>-</u>	<u>-</u>	<u>364,470</u>	<u>363,169</u>
176,593	(26,891)		149,702	149,702
48,504	(12,126)	24,252	60,630	48,504

(continued)

CITY OF TEXARKANA, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended September 30, 2010

Grant Title	CFDA Number	Grant Program/ Number
FEMA-Disaster Relief-Ike/Gustov	97.036	FEMA-1791-DRTX 09
FEMA-Disaster Relief-Ike/Gustov	97.036	DR-1791-027
 TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		
 U.S. Department of Health		
Passed Through Texas Department of Health: Family Planning Services - Title X	93.217	2009-029590
Social Services Block Grant (title XX)	93.667	209-029349
Preventive Health and Health Serv Blk Grant	93.991	2008-024525
Preventive Health and Health Serv Blk Grant	93.991	2009-028185
 TOTAL U.S. DEPARTMENT OF HEALTH		
 U.S. Department of Agriculture		
NSS-WIC Card Participation	10.557	2008-024670
NSS-WIC Card Participation	10.557	2009-030094
 TOTAL U.S. DEPARTMENT OF AGRICULTURE		
 Corporation for National Security and Community Service		
Retired Senior Volunteer Program Greater Texarkana RSVP - Action	94.002	U-05SRWTX010
 TOTAL CORP FOR NATIONAL SEC & COMMUNITY SERV		
 U.S. Department of Energy		
Energy Efficiency Energy Efficiency and Conservation Block Grant (EECBG)	81.128	EE001832
Energy Efficiency and Conservation Block Grant (EECBG)	81.128	EE001832
 TOTAL U.S DEPARTMENT OF ENERGY		
 TOTAL FEDERAL ASSISTANCE		

<u>Grant Revenue Received Cash Basis</u>	<u>(Accrued) Deferred Grant Revenue 9/30/2009</u>	<u>Accrued (Deferred) Grant Revenue 9/30/2010</u>	<u>Grant Revenue Accrual Basis</u>	<u>Grant Expenditures</u>
250,258	(125,455)		124,803	
<u>140,218</u>			<u>140,218</u>	<u>140,218</u>
<u>390,476</u>	<u>(125,455)</u>	<u>-</u>	<u>265,021</u>	<u>140,218</u>
<u>615,573</u>	<u>(164,472)</u>	<u>24,252</u>	<u>475,353</u>	<u>338,424</u>
<u>4,095</u>	<u>(1,831)</u>		<u>2,264</u>	<u>2,264</u>
<u>35,629</u>			<u>35,629</u>	<u>35,629</u>
133,486			133,486	133,486
<u>13,747</u>	<u>(13,747)</u>		<u>-</u>	
<u>147,233</u>	<u>(13,747)</u>	<u>-</u>	<u>133,486</u>	<u>133,486</u>
<u>186,957</u>	<u>(15,578)</u>	<u>-</u>	<u>171,379</u>	<u>171,379</u>
213,241		73,770	287,011	287,011
<u>49,586</u>	<u>(49,586)</u>			
<u>262,827</u>	<u>(49,586)</u>	<u>73,770</u>	<u>287,011</u>	<u>287,011</u>
<u>47,203</u>	<u>(2,619)</u>	<u>3,501</u>	<u>48,085</u>	<u>48,085</u>
<u>47,203</u>	<u>(2,619)</u>	<u>3,501</u>	<u>48,085</u>	<u>48,085</u>
49,535		31,116	80,651	80,651
<u>30,000</u>			<u>30,000</u>	<u>23,521</u>
<u>79,535</u>		<u>31,116</u>	<u>110,651</u>	<u>104,172</u>
<u>3,790,966</u>	<u>(693,130)</u>	<u>361,682</u>	<u>3,459,518</u>	<u>3,296,614</u>

(concluded)

CITY OF TEXARKANA, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS September 30, 2010

NOTE 1 - GENERAL

The accompanying schedule of expenditures of federal awards is a summary of the activity of all federal award programs of the City of Texarkana, Texas for the year ended September 30, 2010. The grant programs are administered by the various departments of the City. The activities of these departments are monitored by City staff to ensure compliance with the requirements of the underlying grants.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The grant accounts in the various funds where grants are recorded are maintained on the modified accrual basis. Grant revenues are recognized when eligible grant expenditures are incurred.

NOTE 3 - RELATIONSHIP TO GRANT FINANCIAL REPORTS

The amounts reported in the accompanying schedule may not agree with the amounts reported in the related grant financial reports filed with grantor agencies due to the fact that the accompanying schedule represents the activity for the twelve months ended September 30, 2010, while some grant reports are prepared monthly, quarterly, or annually on a grant fiscal year end that is different.

NOTE 4 - STATUS OF PRIOR YEAR FINDINGS

The current status of findings related to federal grant awards that were reported with the September 30, 2009 audit of the City of Texarkana, Texas financial statements is provided in the Summary Schedule of Prior Audit Findings.



HOLLIDAY, LEMONS, & COX, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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*

Honorable Mayor and
Members of the City Council
Texarkana, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Texarkana, Texas as of and for the year ended September 30, 2010, which collectively comprise the City of Texarkana, Texas' basic financial statements and have issued our report thereon dated March 25, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Texarkana, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Texarkana, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Texarkana, Texas' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weakness.

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 controls 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. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses: Reference # 10-1.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Texarkana, 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 the City of Texarkana, Texas, in a separate letter dated March 25, 2011.

City of Texarkana, Texas' responses to the findings identified in our audit is described in the accompanying Schedule of Findings and questioned costs. We did not audit City of Texarkana, Texas' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the 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.



March 25, 2011

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HOLLIDAY, LEMONS, & COX, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and
Members of the City Council
Texarkana, Texas

Compliance

We have audited the City of Texarkana, Texas' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Texarkana Texas' major federal programs for the year ended September 30, 2010. The City of Texarkana, Texas' major federal programs are identified in the summary of auditor's results included in this section. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Texarkana, Texas' management. Our responsibility is to express an opinion on the City of Texarkana, Texas' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Texarkana, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Texarkana, Texas' compliance with those requirements.

In our opinion, the City of Texarkana, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major programs for the year ended September 30, 2010.

Internal Control Over Compliance

Management of the City of Texarkana, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Texarkana, Texas' internal control over compliance with the requirements that could have a direct and material effect on a major federal

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program to determine the auditing procedure for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Texarkana, Texas' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Texarkana, Texas' responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City of Texarkana, Texas' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the 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 black ink that reads "Holliday, Lemons & Cox, P.C." The signature is written in a cursive, flowing style.

March 25, 2011

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CITY OF TEXARKANA, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS For the Year Ended September 30, 2010

Reference 09-1 Financial Policies, Procedures, and Application of Accounting Principles

Current Status: Sections of the finding were corrected in the current year. Other sections remain uncorrected and are included in the current schedule of findings as part of Reference 10-1.

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CITY OF TEXARKANA, TEXAS

SCHEDULE OF FINDINGS - *FINANCIAL STATEMENT AUDIT*

For the Year Ended September 30, 2010

Financial Policies, Procedures, and Application of Accounting Principles *Reference 10-1*

Condition

The following situations occurred during the year and appear attributable to the lack of use of proper financial policies and procedures and the lack of proper application of accounting principles:

- (1) The reserved fund balance for several funds were either not established or not adjusted to the proper balance at year end prior to adjustments proposed by the auditors. Adjustments included the following:

Reserve for capital improvements:

2009 Bond Fund	\$16,028,432
2010 Convention Center Bond Fund	6,024,222
2003 Bond Fund	909,228
2005 Bond Fund	136,735

Reserve for Convention Center:

Hotel/Motel Tax Fund	\$1,089,375
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Reserve for Loans Receivable

Housing and Community Development Fund	\$610,156
HOME Fund	45,538

- (2) Health claims payable, incurred but not reported as obtained from the insurance company at year end, for the Employee Benefit Fund were not properly recorded prior to an audit adjustment of \$100,918.
- (3) Receivables in the Public Health Fund and the Economic Development fund were not recorded prior to audit adjustments in the amounts of \$48,726 and \$42,062, respectively.
- (4) The cash account in the Disbursement fund (General Fund) was not properly recorded prior to an audit adjustment of \$129,344. The cash account was improperly reported as overdrawn.
- (5) The bond premium associated with the issuance of the 2009 Bond Fund was improperly recorded net of the bond discount in the amount of \$92,725 and the issuance costs of \$112,995, prior to audit adjustments.
- (6) Three new capital lease obligations for technology purchases were not recorded as long-term debt prior to audit adjustments. The original amounts of the leases are \$61,633, \$78,221, and \$192,992 for a total of \$332,846. The lease proceeds and the purchases were not recorded in the Technology fund (General Fund). The lease payments of \$88,682 were recorded as computer supplies, instead of debt service expense – principal. The current year principal paid also required adjustment to the long-term debt amount. The portions for three other City funds which also participated in the leases had not been recorded.

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CITY OF TEXARKANA, TEXAS

SCHEDULE OF FINDINGS - *FINANCIAL STATEMENT AUDIT* For the Year Ended September 30, 2010

Financial Policies, Procedures, and Application of Accounting Principles *Reference 10-1 (Continued)*

- (7) Several transfer accounts and due to/from accounts were not in balance with their reciprocal account at year end. These include the following:
- Two transfer accounts in the General fund were out of balance by \$53,250;
 - Four General fund due to/from accounts were out of balance by \$14,537 and \$7,993.
- (8) The Member Cities enterprise fund is a new fund of the City that required several audit adjustments including the following:
- An accrual for September receivables was not recorded for the member cities' water revenue in the amount of \$62,621;
 - The reciprocal payables to the TWU – Texas fund for \$58,595 and the Riverbend Water Resources District for \$4,027 were not recorded;
 - The payable to the TWU – Texas fund for the September payments received had not been recorded for \$67,431; and
 - The income from one of the member cities which had been paid directly by the member city to the TWU – Texas fund had not been properly recorded for \$23,648.

In addition, the City had not “balanced” its Member City Enterprise Fund with the TWU – Texas fund and prepared an eliminating entry for duplicate activity when the City’s fund was combined with the TWU – Texas fund.

Criteria

Management and the Council are responsible for establishing and maintaining effective internal controls over financial policies.

Cause

Internal controls were not in place or were not followed to ensure all formal financial policies are established to provide adequate and complete guidance for financial staff. Some ending balances may not have been assessed for completeness and accuracy by the City’s Finance department.

Effect

Potentially material misstatements in the financial statements or material misstatements of assets due to error or fraud could occur and not be prevented or detected in a timely manner.

In addition, without the proper application of generally accepted accounting principles (GAAP), the City’s Finance department could not produce fairly stated financial statements.

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CITY OF TEXARKANA, TEXAS

SCHEDULE OF FINDINGS - *FINANCIAL STATEMENT AUDIT* For the Year Ended September 30, 2010

Financial Policies, Procedures, and Application of Accounting Principles *Reference 10-1 (Continued)*

Recommendation

Management should develop and follow formalized financial policies and procedures which provide for accurate and complete financial reporting. In addition, Finance staff should properly apply GAAP in order to produce fairly stated financial statements.

Views of Responsible Officials and Planned Corrective Actions

Staff will schedule an exit conference with the auditors to discuss each finding and to determine the proper policies and procedures necessary to correct each finding. Work has begun on a comprehensive internal control policy/procedures manual for the Finance Department.

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CITY OF TEXARKANA, TEXAS

SCHEDULE OF FINDINGS - *MAJOR FEDERAL AWARDS PROGRAM AUDIT* **For the Year Ended September 30, 2010**

None

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