



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR
ENDED SEPTEMBER 30, 2011**

CITY OF TEXARKANA, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**For the Fiscal Year Ended
September 30, 2011**

Prepared by:

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

Table of Contents

INTRODUCTORY SECTION

Letter of Transmittal	vii
GFOA Certificate of Achievement	xiv
Principal Officials	xv
Organizational Chart	xvi

FINANCIAL SECTION

Independent Auditors' Report	3
Management's Discussion and Analysis	7
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	22
Statement of Activities	24
Fund Financial Statements	
Balance Sheet - Governmental Funds	27
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	28
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	29
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	30
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	31
Statement of Net Assets - Proprietary Funds	32
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	34
Statement of Cash Flows - Proprietary Funds	36
Statement of Fiduciary Net Assets - Fiduciary Funds	38
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	39
Notes to the Financial Statements	40
Required Supplementary Information:	
TMRS Plan # 1 - Police Officers	96
TMRS Plan # 2 - Other City Employees	96
TMRS Plan # 3 - Water Utilities	97
Texarkana Firemen's Relief and Retirement	98

Table of Contents Continued.

	<u>Page</u>
Combining and Individual Statements and Schedules:	
Combining Balance Sheet - Nonmajor Governmental Funds	102
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	106
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual:	
Teen Court Fund	110
Theatre Fund	111
Hotel/Motel Tax Fund	112
Economic Development Fund	113
Law Enforcement Block Grant Fund	114
Law Enforcement Programs Fund	115
Brownfield Grant Fund	116
TIRZ #1 Fund	117
Combining Statement of Net Assets - Nonmajor Enterprise Funds	120
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets - Nonmajor Enterprise Funds	121
Combining Statement of Cash Flows - Nonmajor Enterprise Funds	122
Combining Statement of Net Assets - Internal Service Funds	126
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets - Internal Service Funds	127
Combining Statement of Cash Flows - Internal Service Funds	128
Combining Statement of Fiduciary Net Assets - Agency Funds	130
Capital Assets Used in the Operation of Governmental Funds:	
Schedule by Source	133
Schedule by Function and Activity	134
Schedule of Changes by Function and Activity	138
Component Units - Health Center and Public Library	
Balance Sheet	144
Statement of Revenues, Expenditures, and Changes in Fund Balance	145

STATISTICAL SECTION

Net Assets by Component	150
Changes in Net Assets	152
Program Revenues by Function/Program	156
Fund Balances, Governmental Funds	158
Changes in Fund Balances, Governmental Funds	160
Tax Revenue by Source, Governmental Funds	162
Assessed and Estimated Actual Value of Taxable Property	163
Direct and Overlapping Property Tax Rates	164
Principal Property Taxpayers	166
Property Tax Levies and Collections	168

Table of Contents Continued.

	<u>Page</u>
Direct and Overlapping Sales Tax Rates	169
Water Sold by Type of Customer	170
Water and Sewer Rates	172
Principal Water and Sewer Revenue Payers	173
Ratios of Outstanding Debt by Type	174
Ratios of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	176
Direct and Overlapping Governmental Activities Debt	179
Legal Debt Margin	180
Pledged Revenue Coverage	183
Demographic and Economic Statistics	184
Principal Employers, MSA-Texarkana, Texas and Texarkana, Arkansas	185
Full-time-Equivalent City Government Employees by Function/Program	186
Operating Indicators by Function/Program	190
Capital Assets Statistics by Function/Program	192
 SUPPLEMENTAL REPORT ON FEDERAL AWARDS	
Summary of Auditors' Results	199
Schedule of Expenditures of Federal Awards	200
Notes to Schedule of Expenditures of Federal Awards	202
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	203
Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	207
Summary Schedule of Prior Audit Findings	211
Schedule of Findings – Financial Statement Audit	213
Schedule of Findings – Major Federal Awards Program Audit	217

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Introductory Section



CITY OF TEXARKANA, TEXAS

FINANCE DEPARTMENT

P. O. BOX 1967 75504

PHONE 903-798-3929

FAX 903-798-3933

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, 2011, 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, 2011. 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 and 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 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 completed Bringle Lake Village, the first student housing on campus in August of 2011; 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.

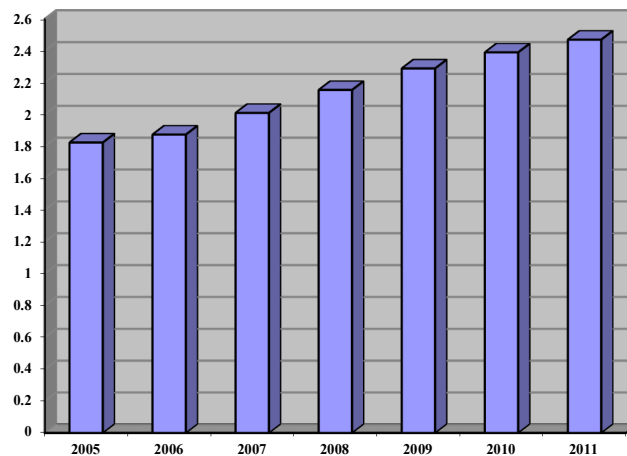
The City's economy has been steady over the past twelve months as reflected in reported building statistics. Permits for new non-residential construction decreased from last year's value of over \$19,200,000 to around \$15,993,000 this year. Permits for non-residential additions, alterations and conversions also decreased from over \$15,200,000 last year to \$14,326,000 this year. Residential permits increased from \$10,600,000 to \$29,210,000. Residential additions, alterations and conversions ended the year at \$3,520,000, a decline from last year's number of \$4,100,000. Commercial projects for the new year include the following:

- Pecan Ridge Apartments
- Arista Apartments
- Pleasant Grove Apartments
- Verizon Store
- Baskin's Department Store
- ASI, Inc.
- Pediatric Dentistry Office
- Texarkana Convention Center and Hilton Garden Inn

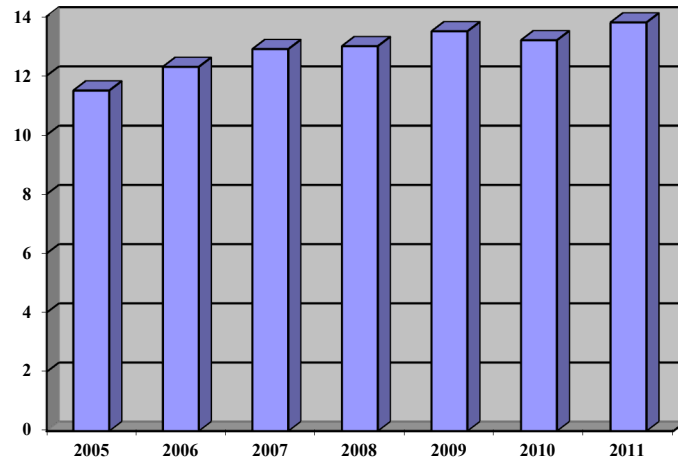
Sales tax and property tax revenues are responsible for a substantial portion of the City's operating budget. Sales tax collections reflected a recovering local economy, as collections increased by just under five percent (4.9%) from the prior year. This increase resulted in a gain of just above six hundred fifty thousand dollars (\$650,000) in the City's general fund revenues for the year. Property tax values for the current year were \$2,470,636,763, an increase of three and one half percent (3.5 %) over last year.

Historical perspectives of these revenues are illustrated in the following graphs:

**ASSESSED PROPERTY VALUATIONS
(in billions)**



SALES TAX COLLECTIONS
(in millions)



Unemployment in the City increased slightly to 7.9%, but the local rate still compares favorably to the state rate of 8.0% and the national rate of 8.8%.

Long-Term Financial Planning

Unassigned fund balance in the general fund (9.75% of general fund expenditures) is slightly below the reserve goal set by the City Manager of ten percent (10%). The City may choose to increase this reserve goal in the future as long-range strategic planning processes are completed and continually updated.

The I-30 Corridor remains the major commercial growth area in the City. Work is almost complete on the Texas Department of Transportation's estimated \$153,000,000 project along I-30 through the City. 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 eighty-one percent (81%) of the City's General Fund 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.

The increase in the hotel occupancy tax rate was set aside for future development of a convention center facility for the City. Construction of the facility, along with an adjacent Hilton Garden Inn is currently underway; with a projected opening date in the fall of 2012. 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 operates 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 runs 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 several potential projects could be presented for approval during the current fiscal year.

At the end of fiscal 2010 Texarkana Water Utilities reported on two engineering studies related to future water and sewer projects. Both were contracts with HDR Engineering, Inc. of Dallas, Texas. One of the projects was the evaluation of the improvements and upgrades needed at the South Regional Wastewater Treatment Plant, which is over twenty years old. Improvements needed are estimated to cost about \$14,000,000. Since this is a jointly funded facility, the decision to move forward with this project will involve the approval of the Texarkana, Texas City Council and the Texarkana, Arkansas Board of Directors. A draft contract between the two cities has been proposed and is in the process of being reviewed and updated at this time. Once a final agreement has been reached, it is the intent of the Texas city to issue bonds and the project could begin in the latter part 2012.

The second project was the evaluation of the Wright Patman Water Treatment Plant to help determine the path to be taken with the existing water plant on New Boston Road, which is over forty years old. The HDR report on this project was received in 2010. The upgraded treatment facilities would treat up to 20 million gallons per day, the same as the existing plant, occupy the same footprint on existing property at the old plant and thus would be able to use many of the existing facilities such as the raw water intake and line to the treatment plant, administration building, high-service pumps, clear wells, underground storage, and sludge disposal. The proposed estimated cost is \$28,339,000 and would require the issuance of bonds by the City of Texarkana, Texas. The Riverbend Water Resources District (RWRD) was created by the Texas Legislature in 2009 to oversee the use and development of surface water in Bowie County, Texas and surrounding counties. RWRD also commissioned an engineering study to consider options for the replacement of the New Boston Road water treatment plant. This study was done by CH2M Hill of Dallas, Texas and MTG Engineers and Surveyors of Texarkana, Texas. A draft report was released on May 8, 2012. This study recommended building a new water treatment plant using a treatment process consisting of coagulation, clarification, ozonation, and biological filtration at a site on TexAmericas property located about 15 miles west of Texarkana. This plant would require a new raw water intake and line, administration building, high-service pumps, clear wells, water storage, treated water lines, and sludge disposal facilities. Estimated cost for a 20 million gallon per day plant is \$103,000,000. Two public hearings on this report have made it clear that moving forward with this water plant project will most likely require the evaluation of other water plant sites and cost options. The final decision as to location, treatment options, costs, financing and operations of Texas water treatment facilities will of necessity be a broad-based community decision since this issue is of vital importance to not only to Texarkana, but all members of RWRD and other water users in the region. Currently, there is no estimate as to when a final decision on this project will be made.

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 May 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 2011-2012, the City will implement a new computer software program City-wide. Full implementation of this program is anticipated to be complete within the fiscal year. This new comprehensive program will provide City staff with the ability to provide more timely and accurate financial reporting to the City Council and the citizens of Texarkana, Texas, and it will also enhance our ability to plan for the future needs of the City. Extensive infrastructure upgrades are continuing in the area of Texas A&M University's new campus. Construction has begun on the City's convention center and full-service Hilton Garden Inn, using a public/private ownership arrangement. Grand opening is expected by fall, 2012.

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, 2010. This was the twenty-first (21st) 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,

A handwritten signature in black ink that reads "Charles L. Bassett, Jr." with a stylized flourish at the end.

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

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, 2010

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.



Linda C. Danson

President

Jeffrey R. Emmer

Executive Director

PRINCIPAL OFFICIALS

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

BILL MILLER

Councilmember, Ward 5

JOSH DAVIS

Councilmember, Ward 6

F. LARRY SULLIVAN, ED. D.

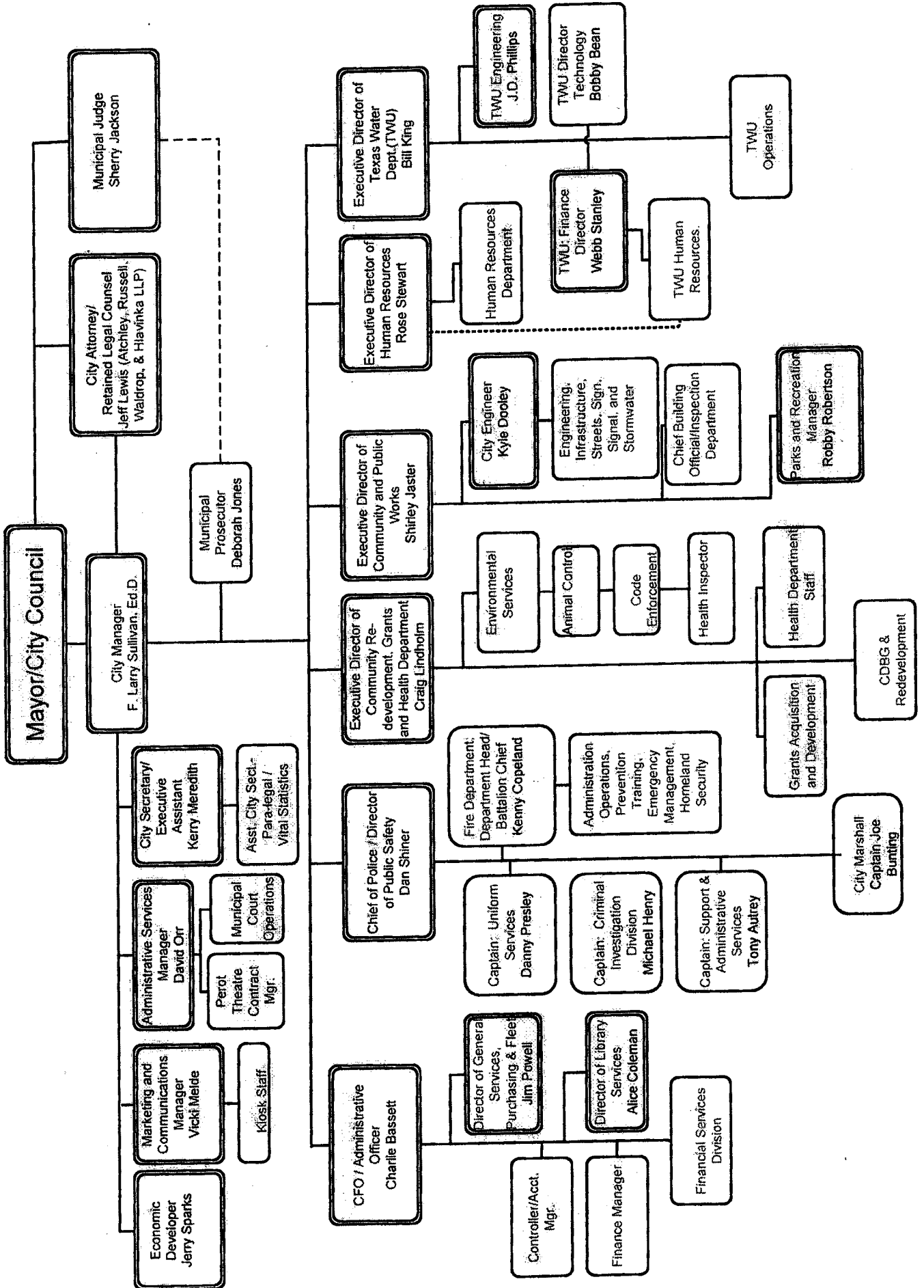
City Manager

CHARLES L. BASSETT, JR., CPA

Chief Financial Officer

KERRY MEREDITH

City Secretary



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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of 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, 2011 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2012, 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 19 and pages 96 through 97, respectively, be presented to supplement the basic financial statements. Such information, although

2001 MOORES LANE • TEXARKANA, TEXAS 75503 • (903) 823-2727 • FAX (903) 823-2734

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TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
ARKANSAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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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 them.

Holliday, Lemons & Cox, P.C.

May 29, 2012

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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, 2011. 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 - xiii of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$168,155,211 (net assets). Of this amount, \$5,177,826 (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 \$937,366 during this fiscal year. All of the increase was due to current operations.
- At the close of the current fiscal year, the City's governmental funds reported ending fund balances of \$30,354,492. Approximately 9.2% of this total amount, \$2,785,910 is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,785,910, or 9.75% of total general fund expenditures.
- The City has approximately 71 days of expenditures in the fund balance of the general fund at year end.
- The City's total long-term liabilities decreased by \$2,523,842 (3.29%) during the current fiscal year, due to regularly scheduled bond payments.

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-one (21) 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 eighteen (18) 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 27 - 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. The 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 - 93 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 96 - 98 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 99 - 130 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 \$168,155,211 as of September 30, 2011. The largest portion of the City's net assets (\$131,530,866 or 78.22%), 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

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>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 46,960,479	51,122,601	19,614,703	19,011,445	66,575,182	70,134,046
Capital assets	115,476,287	113,567,716	67,917,132	67,032,386	183,393,419	180,600,102
Total assets	<u>162,436,766</u>	<u>164,690,317</u>	<u>87,531,835</u>	<u>86,043,831</u>	<u>249,968,601</u>	<u>250,734,148</u>
Long-term liabilities	63,718,148	65,744,540	10,459,346	10,956,796	74,177,494	76,701,336
Other liabilities	2,862,285	2,723,443	4,773,311	4,091,524	7,635,596	6,814,967
Total liabilities	<u>66,580,433</u>	<u>68,467,983</u>	<u>15,232,657</u>	<u>15,048,320</u>	<u>81,813,090</u>	<u>83,516,303</u>
Net assets:						
Invested in capital assets, net of related debt	73,083,340	75,989,018	58,447,526	56,910,208	131,530,866	132,899,226
Restricted	22,377,550	3,527,351	9,068,969	9,365,905	31,446,519	12,893,256
Unrestricted	395,143	16,705,965	4,782,683	4,719,398	5,177,826	21,425,363
Total net assets	<u>\$ 95,856,033</u>	<u>96,222,334</u>	<u>72,299,178</u>	<u>70,995,511</u>	<u>168,155,211</u>	<u>167,217,845</u>

An additional portion of the City's net assets (18.7%) 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 \$5,177,826 (3.08%) 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 decreased by \$2,253,551 due to bond fund expenditures for capital projects around the City. Total liabilities decreased by \$1,887,250 due to regularly scheduled debt service payments as well as ongoing capital projects.

Business Type Activities:

Total assets and total liabilities increased by \$1,488,004 and \$184,337, respectively. The amounts related to TWU - Texas activities were increases of \$1,983,065 and \$579,165 for total assets and total liabilities, respectively. Other funds business activities decreased by \$495,061 and \$394,828 for assets and liabilities, respectively.

Changes in TWU assets consisted of the following:

Cash and investments	\$ 1,111,393
Receivables	190,368
Inventories	(65,075)
Other noncurrent assets	(134,950)
Other	(3,417)
Capital asset additions	3,671,500
Asset depreciation	(2,764,503)
Asset retirement	(22,251)
Total increase in assets	<u>\$ 1,983,065</u>

Changes in TWU liabilities consisted of the following:

Accounts payable	\$ 548,609
Due to other governments	339,267
Capital deposits	142,939
Net pension & other postemployment obligations	223,031
Revenue bonds payable	(507,167)
Obligations under capital leases	(187,981)
Other	20,467
Total increase in liabilities	<u>\$ 579,165</u>

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 Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues						
Charges for services	\$ 3,221,978	3,471,535	16,030,015	15,259,196	19,251,993	18,730,731
Operating grants and contributions	1,133,876	1,552,787			1,133,876	1,552,787
Capital grants and contributions		293,158		199,074	-	492,232
General revenues:						
Property taxes	13,655,104	13,584,920			13,655,104	13,584,920
Other taxes	17,149,037	16,725,753			17,149,037	16,725,753
Other revenue	1,422,648	1,695,611	1,135,270	1,704,147	2,557,918	3,399,758
Total revenue	<u>36,582,643</u>	<u>37,323,764</u>	<u>17,165,285</u>	<u>17,162,417</u>	<u>53,747,928</u>	<u>54,486,181</u>

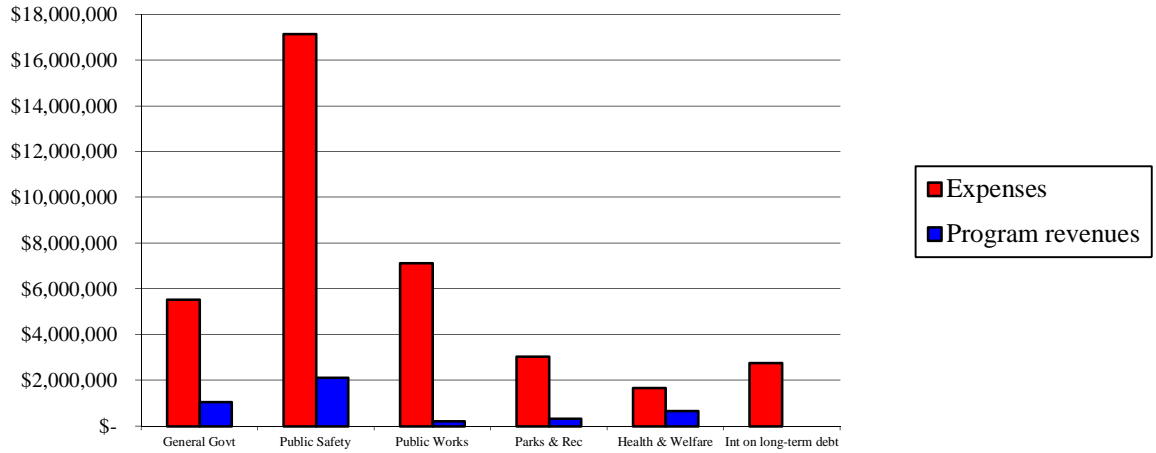
	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Expenditures:						
General government	5,523,459	6,009,327			5,523,459	6,009,327
Public safety	17,142,327	17,460,252			17,142,327	17,460,252
Public works	7,117,788	7,271,760			7,117,788	7,271,760
Parks and recreation	3,027,226	2,906,975			3,027,226	2,906,975
Health and welfare	1,659,584	1,630,227			1,659,584	1,630,227
Interest on long-term debt	2,747,460	2,246,394			2,747,460	2,246,394
Water and sewer			15,592,718	16,154,126	15,592,718	16,154,126
Total expenses	<u>37,217,844</u>	<u>37,524,935</u>	<u>15,592,718</u>	<u>16,154,126</u>	<u>52,810,562</u>	<u>53,679,061</u>
Change in net assets before transfers	(635,201)	(201,171)	1,572,567	1,008,291	937,366	807,120
Transfers	<u>268,900</u>	<u>18,900</u>	<u>(268,900)</u>	<u>(18,900)</u>	<u>-</u>	<u>-</u>
Change in net assets	(366,301)	(182,271)	1,303,667	989,391	937,366	807,120
Beginning 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>
Ending fund balance	<u>\$ 95,856,033</u>	<u>96,222,334</u>	<u>72,299,178</u>	<u>70,995,511</u>	<u>168,155,211</u>	<u>167,217,845</u>

Governmental Activities

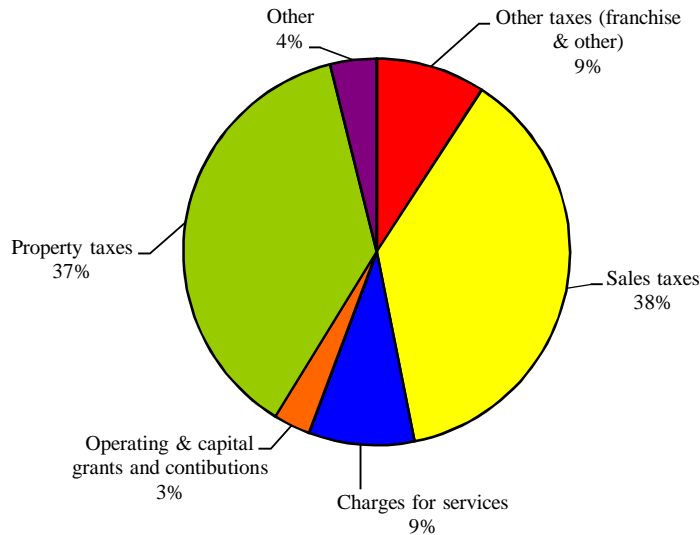
Governmental activities showed a net decrease in net assets by \$366,301. Key elements of this change are summarized as follows:

- Revenue from governmental activities decreased by \$741,000, due mostly to a decline in grant revenues received by the City.
- Expenditures from governmental activities decreased by \$307,000.
- Transfers increased by \$250,000.

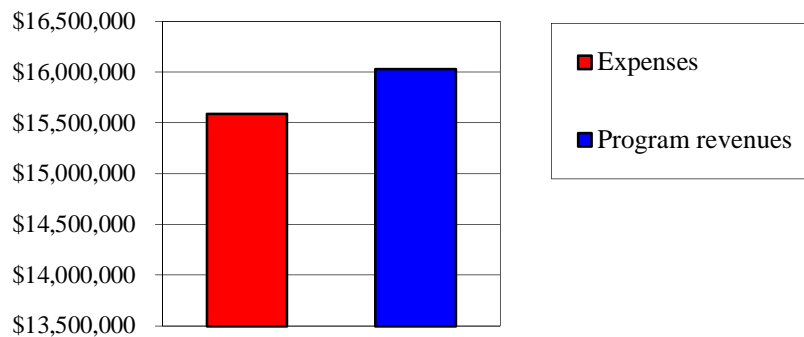
EXPENSES AND PROGRAM REVENUES –GOVERNMENTAL ACTIVITIES



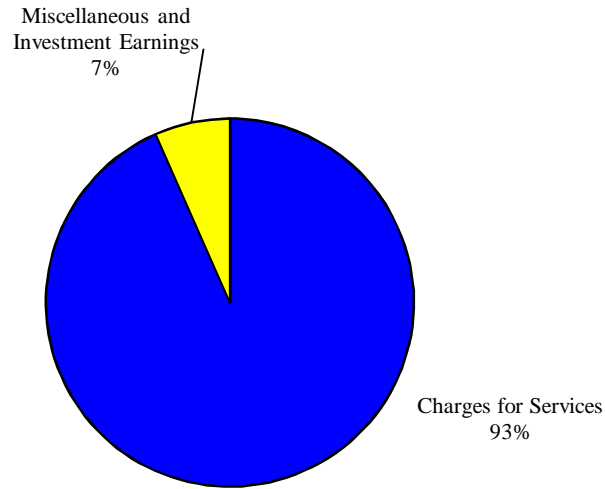
REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES



EXPENSES AND PROGRAM REVENUES – BUSINESS-TYPE ACTIVITIES



REVENUES BY SOURCE – BUSINESS-TYPE ACTIVITIES



Business Type Activities

Business type activities showed a net increase in net assets of \$1,303,667. TWU had a net increase of \$1,403,900, while the other business type funds showed a combined net decrease of \$100,233. TWU's total charges for services increased by \$786,318, while other income decreased by \$585,526 yielding a net increase in revenues of \$200,792. The increase in charges for services was attributable to increased water sales due to the extreme drought during the summer. The decrease in other income was due to a decrease in insurance proceeds from property loss claims. TWU's operating expenses decreased for the second straight year by \$363,318. Seven of the sixteen reporting divisions showed increases totaling \$295,696 while nine divisions showed decreases totaling \$376,849. TWU depreciation expense was up \$58,404 while other expenses were down by \$340,569.

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 \$30,354,492, a decrease of \$4,960,802 in comparison with the prior year. This decrease is due mostly due to the following:

- Annual Debt Service payments just under \$6,000,000
- Other fluctuations were due to normal operating revenue and expenditures.

The general fund is the chief operating fund of the City of Texarkana, Texas. At the end of the current fiscal year, the unassigned fund balance was \$2,785,910, while the total fund balance was \$5,551,518. As a measure of the general funds liquidity, it may be useful to compare both unassigned and total fund balances to total fund expenditures. Unassigned fund balances represent 9.75% of the total general fund expenditures, while total fund balance represents 19.42% of that same amount.

The fund balance of the City's general fund increased by \$249,928 during the current fiscal year compared to an increase of \$131,972 in 2010. Key factors in this growth are as follows;

- Net revenue and expenditures decreased by \$125,987 which was a result of normal operating activities.
- Total other sources and uses of fund increased by \$243,943 due mostly to increased transfers in and no capital lease transactions during the fiscal year.

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 \$12,985,126. The fund expended \$3,117,141 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 \$670,992 a decrease of \$867,664 (56%) 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 \$5,810,565 in debt payments during this fiscal year, an increase of \$1,493,689 from last year. The majority of this increase is due to the first payment of the 2009 Capital Projects Fund.

The other governmental funds of the City include special revenue funds and capital project funds. At the end of the 2011 fiscal year, the City had combined ending fund balances in its special revenue funds of \$4,532,836 an increase from last year of \$634,584. The majority of this increase was due to the following:

- The Hotel/Motel fund increased by \$556,915 which included sale of the land related to the Convention Center project.
- The Economic Development fund balance increased \$164,902 due to franchise fee revenues designated for future economic development projects and incentives.

At the end of fiscal year 2011, the City had a total of four (4) capital project funds included in other governmental funds, with total fund balances of \$6,614,020, a decrease of \$1,934,344 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 \$2,148,764 for the fiscal year, and involved several different projects, including 2011 Street Reconstruction and Drainage Projects as well as the convention center construction work (\$1,300,000).

Proprietary funds -The City's proprietary funds, primarily Texarkana Water Utilities (TWU), 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 fiscal year amounted to \$4,782,683, an increase of \$63,285 from the previous year. TWU's portion of this balance was \$4,363,123 which was an increase of \$163,518 from fiscal 2010. This increase consisted of net income of \$1,403,900 for the year less \$1,240,382 for the increase in restricted funds for the year. The restricted fund change consisted of a decrease of \$296,936 in reserves for debt service and an increase of \$1,537,318 in the amount invested in capital assets, net of related debt. The investments in capital assets increase of \$3,434,002 was funded by various accounts, including the capital improvement account, infrastructure account, depreciation account, technology account and equipment acquisition account. The net increase of \$1,537,318 was the result of applying the current year depreciation and debt retirement to the increase in capital assets.

Internal service funds - The City uses two (2) 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 \$1,419,757, a decrease from last year of \$537,096 (27.45%). This decrease was due mostly to a General Fund transfer of \$200,000 and a net operating loss in the fund of \$348,000. The Fleet Services Fund accounts for repair and maintenance on all City vehicles, excluding TWU. Net assets in the fund increased by \$68,671 due to excess revenue over operating costs for the year.

Fiduciary funds - The City also maintains three (3) 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 decreased by \$340,897 during this fiscal year, and net assets totaled \$23,805,017 at the end of the year. The decrease is due to the market value fluctuations in investment earnings. The two 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 \$36,453 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 \$18,401.

General Fund Budgetary Highlights

The differences between the original budget and final amended budget totaled \$1,444,649. The increase can be summarized as follows:

- Initial revenue estimates were monitored and adjusted throughout the year. Total revenue decrease was \$1,052,523 which included decreases in grants and entitlements, charges for services and municipal court.
- Overall expenditures as originally approved by the Council were reduced to reflect the decrease in revenue by reducing total expenditures by \$2,038,697.
- Net transfers and capital leases increased by \$458,475.

Even though the City saw a slight decrease in revenue as originally anticipated, the ending fund balance of \$5,551,518 exceeded the Council's original estimate by \$1,574,322.

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, 2011, amounts to \$183,393,419 (net of accumulated depreciation), compared to \$180,600,102 in 2010. Investment in capital assets related to governmental activities (\$115,476,287) 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 \$67,917,132 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 increased by \$884,746 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:

- Morris Lane Phase I - \$827,000
- Texas A&M East Approach - \$714,000
- Convention Center Construction - \$1,300,000
- City Wide Master Drainage Plan - \$456,000
- Gibson Lane Extension Project - \$501,880
- Texas A&M Phase 2 - \$591,000
- Texas A&M Phase 3 - \$366,000

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

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 45,241,184	46,036,843	1,333,465	1,314,209	46,574,649	47,351,052
Buildings	11,696,201	12,109,898	1,246,356	1,323,909	12,942,557	13,433,807
Improvements other than buildings	1,970,229	2,191,129	51,140,329	51,829,054	53,110,558	54,020,183
Machinery and equipment	1,765,311	1,024,176	1,366,055	1,266,576	3,131,366	2,290,752
Licensed vehicles	2,070,400	1,968,631			2,070,400	1,968,631
Infrastructure	46,720,500	47,266,071			46,720,500	47,266,071
Construction in progress	6,012,462	2,970,968	2,901,881	979,889	8,914,343	3,950,857
Water rights				11,523	-	11,523
Property under capital lease			9,929,046	10,307,226	9,929,046	10,307,226
Total capital assets	<u>\$ 115,476,287</u>	<u>113,567,716</u>	<u>67,917,132</u>	<u>67,032,386</u>	<u>183,393,419</u>	<u>180,600,102</u>

Additional information on the City’s capital assets can be found in Note 6 in this report on pages 59-61.

Debt Administration

At the end of the current fiscal year the City of Texarkana, Texas had total debt outstanding of \$74,177,494. Of this amount, \$57,130,447 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 2011, this amount was \$17,047,047.

OUTSTANDING DEBT AT YEAR END

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
General obligation bonds	\$ 15,108,573	16,509,387			15,108,573	16,509,387
Revenue bonds			3,971,711	4,478,878	3,971,711	4,478,878
Certificates of obligation	42,021,874	43,564,165			42,021,874	43,564,165
Capital leases	148,537	254,195	5,497,784	5,685,765	5,646,321	5,939,960
Tax notes	1,040,000	1,160,000			1,040,000	1,160,000
Accrued compensated absences	3,299,591	2,943,389	357,831	383,164	3,657,422	3,326,553
Net pension and other post employment obligations	2,099,573	1,313,404	632,020	408,989	2,731,593	1,722,393
Total	\$ 63,718,148	65,744,540	10,459,346	10,956,796	74,177,494	76,701,336

The City's total debt decreased by \$2,523,842 (3.29%) during the current fiscal year. This decrease is due to regularly scheduled debt service payments.

The City's General Obligation Bonds, Certificates of Obligation, and Revenue Bonds' 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 \$.1867 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 72 – 78 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 7.9, which remains unchanged from last year. This rate is significantly lower than the State rate of 8.0 and National rate of 8.8.

Sales tax collections are projected to comprise about thirty-seven percent (37%) of the City's proposed budget for the 2012 fiscal year. Collections are budgeted to increase four percent (4.0%) over the final budgeted revenue for 2011. This is a positive reflection of the current economic conditions of the City.

Total assessed value of property within the City for the 2012 budget year (based on the 2011 certified valuation) increased by \$4,186,331 (.18%) from last year. Tax revenues allocated to the Debt Service Fund next year will increase from the prior year to thirty-three percent (33.27%) of collections. The City Council has elected to increase the property tax rate to .669293 per \$100 valuation for the 2012 fiscal year. Total property tax collections are expected to increase by approximately \$2,000,000 for 2012.

Before the Council elected to increase the tax rate, the following actions were implemented:

- One time transfers from several other City funds, including the Water Department of \$3,300,000.
- Several positions in public safety and public works were frozen and resulted in projected savings of \$376,000.
- Department heads were charged with saving \$584,000 to cover COLA raises for city employees.

All of the above factors were considered in preparing the City's budget for the 2011-2012 fiscal year. The 2012 budget does not anticipate using any available General Fund balances. The ending General Fund balance is projected to be approximately fifteen percent (15%) of budgeted expenditures.

The Texas Revenue Fund of TWU is projected to end the 2011-2012 budget year with a balance of \$1,472,500, or approximately 8.8% of Total Budgeted Expenditures. The budget anticipates using approximately \$1,340,000 of the of the available fund balance to fund projected capital fund requirements for proposed projects.

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.

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Basic Financial Statements

CITY OF TEXARKANA, TEXAS

STATEMENT OF NET ASSETS September 30, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Health	Library
ASSETS					
Cash	\$ 27,918,005	2,795,502	30,713,507	190,037	615,815
Investments	943,000	1,225,000	2,168,000		512,980
Receivables (net of allowance for uncollectibles):					
Property taxes	971,332		971,332		
Other taxes	447,281		447,281		
Accounts	661,324	2,456,717	3,118,041	6,100	
Other government agencies	3,772,925	25,602	3,798,527	125,472	10,173
Accrued interest	17,787	696	18,483		
Loans	1,278,568		1,278,568		
Internal balances	(419,560)	419,560	-		
Due from fiduciary funds			-		
Due from primary government			-	3,169	
Due from component units	24,139		24,139		
Inventory	24,037	669,759	693,796		
House held for resale	46,000		46,000		
Prepaid items		15,597	15,597		4,196
Restricted assets:					
Cash		5,137,685	5,137,685		
Investments		5,500,000	5,500,000		
Receivables:					
Accounts		156,239	156,239		
Accrued interest		2,946	2,946		
Deferred charges		1,149,138	1,149,138		
Net investment in direct financing lease:					
Due within one year		29,317	29,317		
Due in more than one year		30,945	30,945		
Investments in joint venture	11,275,641		11,275,641		
Capital assets (net of accumulated depreciation):					
Land	45,241,184	1,333,465	46,574,649		
Buildings	11,696,201	1,246,356	12,942,557	412,623	
Improvements other than buildings	1,970,229	51,140,329	53,110,558		
Infrastructure	46,720,500		46,720,500		
Machinery and equipment	1,765,311	1,366,055	3,131,366	1,016	96,716
Licensed vehicles	2,070,400		2,070,400		
Property under capital leases		9,929,046	9,929,046		
Water rights			-		
Construction in progress	6,012,462	2,901,881	8,914,343		
TOTAL ASSETS	\$ 162,436,766	87,531,835	249,968,601	738,417	1,239,880

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					6,824
Accounts payable	1,601,148	1,210,501	2,811,649	25,357	
Contracts payable	714,171	134,858	849,029		
Accrued liabilities	405,861	114,982	520,843	13,624	7,646
Due to other governments		437,637	437,637		
Due to primary government			-	963	23,176
Due to component units	3,169		3,169		
Unearned revenue	125,790		125,790		
Accrued interest payable from restricted assets		26,971	26,971		
Customer deposits		603,460	603,460		
Capital improvement deposits		2,170,703	2,170,703		
Other liabilities and escrow deposits	12,446	74,199	86,645		
Long-term liabilities					
Due within one year:					
Bonds payable	1,506,234	550,000	2,056,234		
Certificates of obligation	1,680,000		1,680,000		
Tax notes	180,000		180,000		
Obligations under capital leases	94,444	341,521	435,965		
Accrued compensated absences	190,919	29,284	220,203		20,751
Due in more than one year:					
Net pension and other postemployment obligations	2,099,573	632,020	2,731,593		30,754
Bonds payable	13,602,339	3,421,711	17,024,050		
Certificates of obligation	40,341,874		40,341,874		
Tax notes	860,000		860,000		
Obligations under capital leases	54,093	5,156,263	5,210,356		
Accrued compensated absences	3,108,672	328,547	3,437,219		
TOTAL LIABILITIES	66,580,733	15,232,657	81,813,390	39,944	89,151
NET ASSETS					
Invested in capital assets, net of related debt	73,083,340	58,447,526	131,530,866	413,639	96,716
Restricted for:					
Court security and technology	315,524		315,524		
Police	195,122		195,122		
Parks and recreation	533,344		533,344		
Health and welfare	27,640		27,640		
Convention center	737,577		737,577		
Construction		6,615,706	6,615,706		
Capital maintenance		1,681,906	1,681,906		
Debt service	969,197	771,357	1,740,554		
Capital improvements	19,599,146		19,599,146		
Library operations:					
Expendable					195,351
Nonexpendable					10,000
Unrestricted	395,143	4,782,683	5,177,826	284,834	848,662
TOTAL NET ASSETS	\$ 95,856,033	72,299,178	168,155,211	698,473	1,150,729

CITY OF TEXARKANA, TEXAS

STATEMENT OF ACTIVITIES For the Year Ended September 30, 2011

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	\$ 5,523,459	957,111	92,609	
Public safety	17,142,327	1,619,345	493,330	
Public works	7,117,788	188,045	35,791	
Parks and recreation	3,027,226	233,334	82,229	
Health and welfare	1,659,584	224,143	429,917	
Interest on long-term debt	2,747,460			
Total governmental activities	<u>37,217,844</u>	<u>3,221,978</u>	<u>1,133,876</u>	<u>-</u>
Business-type activities:				
Water and sewer	15,592,718	16,030,015		
Total business-type activities	<u>15,592,718</u>	<u>16,030,015</u>	<u>-</u>	<u>-</u>
Total primary government	<u>52,810,562</u>	<u>19,251,993</u>	<u>1,133,876</u>	<u>-</u>
Component units				
Component unit - Health	1,248,727	297,736	891,192	
Component unit - Library	893,113	40,108	627,931	16,021
Total component units	<u>\$ 2,141,840</u>	<u>337,844</u>	<u>1,519,123</u>	<u>16,021</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>
(4,473,739)		(4,473,739)		
(15,029,652)		(15,029,652)		
(6,893,952)		(6,893,952)		
(2,711,663)		(2,711,663)		
(1,005,524)		(1,005,524)		
(2,747,460)		(2,747,460)		
<u>(32,861,990)</u>	<u>-</u>	<u>(32,861,990)</u>	<u>-</u>	<u>-</u>
	437,297	437,297		
<u>-</u>	<u>437,297</u>	<u>437,297</u>	<u>-</u>	<u>-</u>
<u>(32,861,990)</u>	<u>437,297</u>	<u>(32,424,693)</u>	<u>-</u>	<u>-</u>
			(59,799)	
			<u>(59,799)</u>	<u>(209,053)</u>
				<u>(209,053)</u>
13,655,104		13,655,104		275,245
13,800,353		13,800,353		
2,070,004		2,070,004		
1,278,680		1,278,680		
211,155	65,121	276,276	97	18,818
1,211,493	1,070,149	2,281,642		
268,900	(268,900)	-		
<u>32,495,689</u>	<u>866,370</u>	<u>33,362,059</u>	<u>97</u>	<u>294,063</u>
(366,301)	1,303,667	937,366	(59,702)	85,010
<u>96,222,334</u>	<u>70,995,511</u>	<u>167,217,845</u>	<u>758,175</u>	<u>1,065,719</u>
<u>\$ 95,856,033</u>	<u>72,299,178</u>	<u>168,155,211</u>	<u>698,473</u>	<u>1,150,729</u>

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CITY OF TEXARKANA, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2011

	<i>General</i>	<i>2009 Bond Capital Projects</i>	<i>Debt Service</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
ASSETS					
Cash	\$ 2,722,009	13,223,931	615,110	9,472,823	26,033,873
Investments	1,000			942,000	943,000
Receivables (net of allowance for uncollectible):					
Property taxes	49,376		24,900	585	74,861
Other taxes	202,275			245,006	447,281
Accounts	81,765			45,852	127,617
Other government agencies	3,327,378	310,847		134,333	3,772,558
Accrued interest				17,787	17,787
Loans				1,278,568	1,278,568
Due from other funds	932,562	127,063	30,982	61,576	1,152,183
Due from component units	8,743				8,743
Inventory	794				794
House held for resale				46,000	46,000
Investment in joint venture	92,463				92,463
TOTAL ASSETS	<u>7,418,365</u>	<u>13,661,841</u>	<u>670,992</u>	<u>12,244,530</u>	<u>33,995,728</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	1,038,813			83,979	1,122,792
Contracts payable		655,729		58,442	714,171
Accrued payroll	399,233			994	400,227
Due to other funds	375,190	20,986		754,417	1,150,593
Due to component units	3,169				3,169
Deferred revenue	42,325			177,812	220,137
Unearned revenue				17,701	17,701
Other liabilities and escrow deposits	8,117			4,329	12,446
TOTAL LIABILITIES	<u>1,866,847</u>	<u>676,715</u>	<u>-</u>	<u>1,097,674</u>	<u>3,641,236</u>
Fund Balances:					
Nonspendable for:					
Noncurrent loans				638,311	638,311
Inventory	794				794
Investment in joint venture	92,463				92,463
Restricted	499,889	12,985,126	670,992	7,923,338	22,079,345
Committed				1,911,341	1,911,341
Assigned	2,172,462			697,434	2,869,896
Unassigned					
General fund	2,785,910				2,785,910
Special revenue fund				(23,568)	(23,568)
TOTAL FUND BALANCES	<u>5,551,518</u>	<u>12,985,126</u>	<u>670,992</u>	<u>11,146,856</u>	<u>30,354,492</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,418,365</u>	<u>13,661,841</u>	<u>670,992</u>	<u>12,244,530</u>	<u>33,995,728</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, 2011

Total governmental funds balances	\$ 30,354,492
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.	115,291,894
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.	1,430,178
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	112,048
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.	1,202,391
Long-term liabilities, including bonds payable, are not due and payable in the current periods and therefore are not reported in the funds.	(63,718,148)
Equity interest in joint ventures are not current financial resources and therefore may not be reported in the funds.	<u>11,183,178</u>
Net assets of governmental activities	<u><u>\$ 95,856,033</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, 2011

	<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	\$ 9,250,969		4,371,483	43,906	13,666,358
Other taxes	13,910,691			1,199,011	15,109,702
Franchise receipts	1,679,123			390,881	2,070,004
Fees and permits	200,558				200,558
Charges for services	676,599			83,601	760,200
Municipal court	1,723,251				1,723,251
Grants and entitlements	179,231			587,044	766,275
Interest and dividends	26,225	73,835	9,250	90,306	199,616
Intergovernmental	279,420			10,504	289,924
Sale of capital assets				780,731	780,731
Other	287,829			47,517	335,346
Total revenues	<u>28,213,896</u>	<u>73,835</u>	<u>4,380,733</u>	<u>3,233,501</u>	<u>35,901,965</u>
EXPENDITURES					
Current:					
General government	4,898,853			268,353	5,167,206
Public safety	15,376,202			103,768	15,479,970
Public works	4,077,566				4,077,566
Parks and recreation	1,551,841			790,223	2,342,064
Health and welfare	1,067,895			415,252	1,483,147
Miscellaneous	11,134				11,134
Capital outlay	1,522,607	3,117,141		2,219,292	6,859,040
Debt service:					
Principal retirement	77,228		3,395,000		3,472,228
Interest and fiscal charges			2,415,565		2,415,565
Total expenditures	<u>28,583,326</u>	<u>3,117,141</u>	<u>5,810,565</u>	<u>3,796,888</u>	<u>41,307,920</u>
Excess (deficiency) of revenues over expenditures	<u>(369,430)</u>	<u>(3,043,306)</u>	<u>(1,429,832)</u>	<u>(563,387)</u>	<u>(5,405,955)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	643,105		562,168	305,000	1,510,273
Transfers out	(23,747)			(1,041,373)	(1,065,120)
Total other financing sources (uses)	<u>619,358</u>	<u>-</u>	<u>562,168</u>	<u>(736,373)</u>	<u>445,153</u>
Net change in fund balances	249,928	(3,043,306)	(867,664)	(1,299,760)	(4,960,802)
Fund balances at beginning of year	5,301,590	16,028,432	1,538,656	12,446,616	35,315,294
Fund balances at end of year	<u>\$ 5,551,518</u>	<u>12,985,126</u>	<u>670,992</u>	<u>11,146,856</u>	<u>30,354,492</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, 2011

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

Net change in fund balances - total governmental funds	\$ (4,960,802)
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.	2,743,900
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.	(842,551)
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.	96,380
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.	(1,799)
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.	2,382,594
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.	(356,202)
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.	(368,193)
Increases from the equity interest in joint ventures are not current financial resources and therefore may not be reported in the funds.	<u>940,372</u>
Change in net assets of governmental activities	<u>\$ (366,301)</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 - BUDGET AND ACTUAL - GENERAL FUND For the Year Ended September 30, 2011

	<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	\$9,140,383	9,211,000	\$ 9,250,969	39,969
Other taxes	13,500,500	13,724,857	13,910,691	185,834
Franchise receipts	1,766,680	1,692,940	1,679,123	(13,817)
Fees and permits	213,970	209,500	200,558	(8,942)
Charges for services	867,400	630,250	676,599	46,349
Municipal court	1,972,655	1,636,170	1,723,251	87,081
Grants and entitlements	792,668	297,922	179,231	(118,691)
Investment earnings	139,705	150,980	26,225	(124,755)
Intergovernmental	412,500	282,794	279,420	(3,374)
Other	694,423	611,948	287,829	(324,119)
Total revenues	<u>29,500,884</u>	<u>28,448,361</u>	<u>28,213,896</u>	<u>(234,465)</u>
EXPENDITURES				
Current:				
General government	7,464,512	5,727,634	4,898,853	828,781
Public safety	15,501,260	15,293,495	15,376,202	(82,707)
Public works	4,154,219	4,293,798	4,077,566	216,232
Parks and recreation	1,537,541	1,563,018	1,551,841	11,177
Health and welfare	1,044,709	962,313	1,067,895	(105,582)
Miscellaneous	11,060	11,060	11,134	(74)
Capital outlay	1,331,222	1,042,849	1,522,607	(479,758)
Debt service:				
Principal		106,582	77,228	29,354
Interest		5,077		5,077
Total expenditures	<u>31,044,523</u>	<u>29,005,826</u>	<u>28,583,326</u>	<u>422,500</u>
Excess (deficiency) of revenue over expenditures	<u>(1,543,639)</u>	<u>(557,465)</u>	<u>(369,430)</u>	<u>188,035</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	590,966	643,810	643,105	(705)
Transfers out	(460,721)	(8,010)	(23,747)	(15,737)
Capital leases	89,000	41,920		(41,920)
Total other financing sources (uses)	<u>219,245</u>	<u>677,720</u>	<u>619,358</u>	<u>(58,362)</u>
Net change in fund balance	(1,324,394)	120,255	249,928	129,673
Fund balances at beginning of year	<u>5,301,590</u>	<u>5,301,590</u>	<u>5,301,590</u>	<u>-</u>
Fund balance at end of year	<u>\$3,977,196</u>	<u>5,421,845</u>	<u>5,551,518</u>	<u>129,673</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, 2011

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Texarkana, Texas Water Utilities	Other Proprietary Funds	Total	
ASSETS				
Current assets:				
Cash	\$ 2,762,038	33,464	2,795,502	1,884,130
Investments	1,225,000		1,225,000	
Receivables (net of allowance for uncollectible):				
Accounts	2,382,137	74,580	2,456,717	
Accrued interest	696		696	
Other government agencies	25,602		25,602	367
Due from other funds	284,167	55	284,222	155,569
Due from component units			-	15,396
Inventory	669,759		669,759	23,243
Prepaid expenses	15,597		15,597	
Net investment in direct financing leases - current	29,317		29,317	
Total current assets	<u>7,394,313</u>	<u>108,099</u>	<u>7,502,412</u>	<u>2,078,705</u>
Noncurrent assets:				
Restricted assets:				
Cash	4,840,907	296,778	5,137,685	
Investments	4,500,000	1,000,000	5,500,000	
Receivables:				
Accounts		156,239	156,239	
Accrued interest	2,259	687	2,946	
Total restricted assets	<u>9,343,166</u>	<u>1,453,704</u>	<u>10,796,870</u>	<u>-</u>
Other noncurrent assets:				
Deferred charges	1,149,138		1,149,138	
Net investment in direct financing leases	30,945		30,945	
Total other noncurrent assets	<u>1,180,083</u>	<u>-</u>	<u>1,180,083</u>	<u>-</u>
Capital assets (net of accumulated depreciation):				
Land	1,333,465		1,333,465	
Buildings	1,246,356		1,246,356	104,151
Improvements other than buildings	51,140,329		51,140,329	25,157
Machinery and equipment	1,366,055		1,366,055	31,907
Property under capital leases	9,929,046		9,929,046	
Licensed vehicles			-	23,178
Construction in progress	2,901,881		2,901,881	
Total capital assets	<u>67,917,132</u>	<u>-</u>	<u>67,917,132</u>	<u>184,393</u>
Total noncurrent assets	<u>78,440,381</u>	<u>1,453,704</u>	<u>79,894,085</u>	<u>184,393</u>
TOTAL ASSETS	<u>\$ 85,834,694</u>	<u>1,561,803</u>	<u>87,396,497</u>	<u>2,263,098</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	1,161,059	49,442	1,210,501	478,356
Construction contracts payable	134,858		134,858	
Accrued liabilities	113,758	1,224	114,982	5,632
Accrued interest	26,971		26,971	
Due to other funds	55	284,167	284,222	157,159
Due to other governments	432,376	5,261	437,637	
Other payables	74,199		74,199	
Accrued compensated absences - current	29,284		29,284	
Revenue bonds - current	550,000		550,000	
Obligations under capital leases - current	341,521		341,521	
Total current liabilities	<u>2,864,081</u>	<u>340,094</u>	<u>3,204,175</u>	<u>641,147</u>
Noncurrent liabilities:				
Customer deposits	603,460		603,460	
Capital improvement deposits	948,994	1,221,709	2,170,703	
Accrued compensated absences	328,547		328,547	
Net pension and other postemployment obligations	632,020		632,020	
Revenue bonds	3,421,711		3,421,711	
Obligations under capital leases	5,156,263		5,156,263	
Total noncurrent liabilities	<u>11,090,995</u>	<u>1,221,709</u>	<u>12,312,704</u>	<u>-</u>
TOTAL LIABILITIES	<u>13,955,076</u>	<u>1,561,803</u>	<u>15,516,879</u>	<u>641,147</u>
NET ASSETS				
Invested in capital assets, net of related debt	58,447,526		58,447,526	184,393
Restricted for construction	6,615,706		6,615,706	
Restricted for capital maintenance	1,681,906		1,681,906	
Restricted for debt service	771,357		771,357	
Unrestricted	4,363,123		4,363,123	1,437,558
TOTAL NET ASSETS	<u>\$ 71,879,618</u>	<u>-</u>	<u>71,879,618</u>	<u>1,621,951</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.

419,560

Net assets of business-type activities

\$ 72,299,178

CITY OF TEXARKANA, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS For the Year Ended September 30, 2011

	<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	\$ 6,118,287	989,408	7,107,695	
Wholesale water sales	1,647,594		1,647,594	
Water connection fees	3,725		3,725	
Sewer charges	6,772,525		6,772,525	
Penalties and service charges	498,476		498,476	
Insurance contributions			-	4,467,974
Fleet services			-	1,514,175
Other income	1,070,149		1,070,149	1,483
Total operating revenues	<u>16,110,756</u>	<u>989,408</u>	<u>17,100,164</u>	<u>5,983,632</u>
OPERATING EXPENSES				
Administrative	137,211		137,211	
Finance	866,981		866,981	
Customer service	469,890		469,890	
Water production	2,624,244		2,624,244	
Water distribution	867,569		867,569	
Sewer collection	715,699		715,699	
Wastewater treatment	2,509,852		2,509,852	
Environmental service	161,102		161,102	
Engineering design	358,647		358,647	
Geographical information systems	254,227		254,227	
Composting	195,481		195,481	
Operations administration	144,669		144,669	
Service center	197,485		197,485	
Safety	51,104		51,104	
Field service	305,819		305,819	
Water/Sewer construction	475,410		475,410	
Benefit payments			-	4,816,259
Fleet services			-	1,478,656
Depreciation	2,764,503		2,764,503	16,525
Other expenses	730,077		730,077	
Contract water & sewer expense-International Paper		990,120	990,120	
Total operating expense	<u>13,829,970</u>	<u>990,120</u>	<u>14,820,090</u>	<u>6,311,440</u>
Operating income (loss)	<u>2,280,786</u>	<u>(712)</u>	<u>2,280,074</u>	<u>(327,808)</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	60,926	712	61,638	11,536
Interest revenue - capital leases	3,483		3,483	
Interest expense and paying agent fees	(194,174)		(194,174)	
Interest expense - capital leases	(307,388)		(307,388)	
Gain (loss) on disposal of capital assets	(18,703)		(18,703)	24,100
Other revenues (expenses)	(152,130)		(152,130)	
Total nonoperating revenues (expenses)	<u>(607,986)</u>	<u>712</u>	<u>(607,274)</u>	<u>35,636</u>
Income before contributions and transfers	1,672,800	-	1,672,800	(292,172)
Transfers in			-	23,747
Transfers out	<u>(268,900)</u>		<u>(268,900)</u>	<u>(200,000)</u>
Change in net assets	1,403,900	-	1,403,900	(468,425)
Total net assets, beginning of year	<u>70,475,718</u>	<u>-</u>		<u>2,090,376</u>
Total net assets, end of year	<u>\$ 71,879,618</u>	<u>-</u>		<u>1,621,951</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>(100,233)</u>	
Change in net assets of business-type activities			<u>\$ 1,303,667</u>	

CITY OF TEXARKANA, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS For the Year Ended September 30, 2011

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>
Cash flows from operating activities:				
Cash received from customers	\$ 15,845,375	994,707	16,840,082	1,434,849
Cash received from interfund services provided and used			-	4,506,938
Cash paid to suppliers	(5,898,516)	(871,783)	(6,770,299)	(5,922,573)
Cash paid to employees	(3,952,500)	(106,484)	(4,058,984)	(266,734)
Net cash provided from operating activities	<u>5,994,359</u>	<u>16,440</u>	<u>6,010,799</u>	<u>(247,520)</u>
Cash flows from non-capital financing activities:				
Nonoperating costs- legal fees	(152,130)		(152,130)	
Transfers from other funds			-	23,747
Transfers to other funds	(268,900)		(268,900)	(200,000)
Net cash used from non-capital financing activities	<u>(421,030)</u>	<u>-</u>	<u>(421,030)</u>	<u>(176,253)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(3,739,088)	(216,512)	(3,955,600)	(23,747)
Principal paid on bonds	(525,000)		(525,000)	
Interest paid on bonds	(197,541)		(197,541)	
Principal paid on capital leases	(306,604)		(306,604)	
Interest paid on capital leases	(254,769)		(254,769)	
Principal received on direct financing leases	29,317		29,317	
Interest received on direct financing leases	3,483		3,483	
Capital improvement deposits paid	(48,986)		(48,986)	
Capital improvement deposits received	514,890	1,587	516,477	
Interest received on capital improvement deposits	7,237	6,894	14,131	
Proceeds from disposal of capital assets	3,548		3,548	24,100
Net cash provided (used) from capital and related financing activities	<u>(4,513,513)</u>	<u>(208,031)</u>	<u>(4,721,544)</u>	<u>353</u>
Cash flows from investing activities:				
Purchase of investments	(10,850,000)	(2,550,000)	(13,400,000)	
Proceeds from sale and maturities of investments	10,204,566	2,902,057	13,106,623	
Interest received on investments	51,577	712	52,289	11,538
Net cash provided (used) from investing activities	<u>(593,857)</u>	<u>352,769</u>	<u>(241,088)</u>	<u>11,538</u>
Net increase (decrease) in cash	465,959	161,178	627,137	(411,882)
Cash, beginning of year	<u>7,136,986</u>	<u>169,064</u>	<u>7,306,050</u>	<u>2,296,012</u>
Cash, end of year	<u>\$ 7,602,945</u>	<u>330,242</u>	<u>7,933,187</u>	<u>1,884,130</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, 2011

	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)	\$2,280,786	(712)	2,280,074	(327,808)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	2,752,980		2,752,980	16,525
Amortization of bond issuance cost	39,614		39,614	
Millwood expense	28,310		28,310	
(Increase) decrease in assets:				
Accounts receivable	(169,196)	5,299	(163,897)	
Allowance for doubtful accounts	10,439		10,439	
Due from other government agencies			-	16,651
Due from other funds	(33,738)		(33,738)	(48,907)
Due from component units			-	(9,590)
Inventory	65,075		65,075	
Prepaid expenses	3,417		3,417	
Increase (decrease) in liabilities:				
Accounts payable	430,539	(4,818)	425,721	
Accrued liabilities	17,337	230	17,567	114,335
Due to other funds	339,267	16,441	355,708	(8,726)
Accrued compensated absences	(25,333)		(25,333)	
Customer deposits	(4,726)		(4,726)	
Net pension and other postemployment obligations	223,031		223,031	
Other payables	36,557		36,557	
Total adjustments	3,713,573	17,152	3,730,725	80,288
Net cash provided (used) from operating activities	\$5,994,359	16,440	6,010,799	(247,520)
Noncash investing, capital, and financing activities:				
Additions to capital assets and direct financing lease	28,310			
Additions to capital assets and capital leases	37,694			

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, 2011

	<i>Firemen's Relief Pension Trust Fund</i>	<i>Agency Funds</i>
ASSETS		
Cash	\$ 388,847	54,854
Investments, at fair value		
Common trust funds	14,837,652	
Treasury and federal agencies	3,825,148	
Nongovernment obligations	784,491	
Foreign obligations	944,790	
Exchange traded funds	816,358	
Small cap growth funds	1,335,481	
LTD partnerships & LTD liability corporations	16,142	
Preferred stocks nonconvertible	22,374	
Common stocks	781,316	
Accrued interest receivable	49,549	
Other receivables	11,367	
TOTAL ASSETS	<u>23,813,515</u>	<u>54,854</u>
LIABILITIES		
Accounts payable	8,498	
Escrow deposits		54,854
TOTAL LIABILITIES	<u>8,498</u>	<u>54,854</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	23,805,017	
TOTAL NET ASSETS	<u>\$ 23,805,017</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, 2011

	<i>Firemen's Relief Pension Trust Fund</i>
ADDITIONS	
Contributions:	
Employer	\$ 786,256
Employee	595,976
Investment earnings:	
Interest	727,714
Net increase in the fair value of investments	(753,821)
Other	7,065
TOTAL ADDITIONS	<u>1,363,190</u>
DEDUCTIONS	
Benefit payments	1,512,429
Administrative expenses	191,658
TOTAL DEDUCTIONS	<u>1,704,087</u>
Change in net assets	(340,897)
Net assets at beginning of year	<u>24,145,914</u>
Net assets at end of year	<u>\$ 23,805,017</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, 2011

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 statements 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 \$74,945 towards the Health Center's operations during the year ended September 30, 2011. 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 approves the Library's operating budget. The Library cannot issue bonded debt or levy taxes without the City's approval. Management believes that failure to include the Library would render the City's financial statements incomplete or misleading. The City contributed \$446,834 toward the Library's operations during the year ended September 30, 2011. 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 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), and Tax Increment Reinvestment Zone Boards. 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 \$753,977 by Texarkana, Texas and \$949,522 by Texarkana, Arkansas. During the Airport Authority's fiscal year ended December 31, 2010, the City of Texarkana, Texas contributed \$106,740 and the City of Texarkana, Arkansas contributed \$85,717. 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 \$9,778,240 at December 31, 2010. 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, 2011 was \$164,176 based on the Bi-State Justice Center's audited financial statements at December 31, 2010 (the latest available). As described in Note 18, the City has outstanding debt totaling \$2,040,000 at September 30, 2011, 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, 2011 was \$92,463 based on the Appraisal District's audited financial statements at December 31, 2010 (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, 2011 was \$0 based on the Texarkana Urban Transportation Study Policy Committee's audited financial statements at September 30, 2011. The TUTS does not have separately issued financial statements for the year ended September 30, 2011.

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, 2011 was \$1,240,762 based on the Texarkana Urban Transit District's audited financial statements at September 30, 2010 (the latest available). 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 two 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.

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 93 percent of outstanding property taxes as of September 30, 2011.

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, 2011 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 \$45,737,409 a year from the present assessed valuation of \$2,386,009,141 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	5,000
Improvements other than buildings	5,000
Infrastructure	5,000
Machinery and equipment	5,000
Licensed vehicles	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

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

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 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

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

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 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. Issuance costs, whether or not withheld from the actual debt proceeds received, as reported as debt service expenditures.

8. Fund equity

Effective October 1, 2010, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

As prescribed by GASB Statement No. 54, governmental funds report fund balance amounts in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Non-spendable fund balance - includes those amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts and long-term notes receivable.

Restricted fund balance – includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed fund balance - includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision making authority, the City Council of the City of

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Texarkana, Texas. Commitments may be changed or lifted only by the City taking the same formal actions that imposed the constraint originally (for example: resolution and ordinance).

Assigned fund balance - includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (a) Texarkana, Texas City Council or (b) a body (a budget, finance committee, or City Manager) to which the assigned amounts are to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts that are not classified as non-spendable, restricted, or committed).

Unassigned fund balance – this residual classification is used for all negative fund balances.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple funds balance classifications fund balance is depleted in the order of restricted, committed, assigned and unassigned.

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.

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 (\$63,718,148) difference are as follows:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Net pension and other postemployment obligations	\$ 2,099,573
General obligation bonds payable	15,108,573
Certificates of obligation	42,021,874
Tax notes	1,040,000
Capital leases	148,537
Compensated absences	<u>3,299,591</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 63,718,148</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 \$2,743,900 difference are as follows:

Capital outlay	\$ 6,859,040
Amounts in capital outlay below the capitalization threshold	(2,386)
Depreciation expense	<u>(4,112,754)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 2,743,900</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 \$2,382,594 difference are as follows:

Increase in net pension and other postemployment obligation	\$ (786,169)
Accretion on capital appreciation bonds	(262,494)
Principal repayments:	
General obligation bonds	1,730,000
Certificates of obligation	1,545,000
Tax notes	120,000
Capital leases	105,658
Amortization of bond issuance costs and premiums	<u>(69,401)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 2,382,594</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

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, Law Enforcement Programs, Brownfield Grant and TIRZ #1. 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.

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, Law Enforcement Programs, Brownfield Grant and TIRZ #1). 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:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

	<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	\$ 1,225	13,688		12,463	-
Theatre	86,865	389,592	301,825	654,401	653,499
Hotel/Motel Tax	1,984,244	400,161	(1,027,168)	689,486	1,246,401
Economic Development	401,951	227,049	(10,000)	1,746,439	1,911,341
Law Enforcement Block Grant	67,213	67,048		(165)	-
Law Enforcement Programs	9,385	13,631		17,253	13,007
Brownfield Grant	-	23,027		(541)	(23,568)
TIRZ #1	43,935	-		-	43,935
Total Special Revenue					
Funds with budgets	<u>2,594,818</u>	<u>1,134,196</u>	<u>(735,343)</u>	<u>3,119,336</u>	<u>3,844,615</u>
Special Revenue Funds					
without Budgets:					
Police Dog	2		(1,030)	1,028	-
Housing and Community Development	368,910	368,910			-
Home Program		131,632		335,454	203,822
Housing	30,351	12,844		442,372	459,879
JAG Recovery Act Grant		62		62	-
Rotary Splash Park	25,000	480		-	24,520
Total Special Revenue					
Funds without budgets	<u>424,263</u>	<u>513,928</u>	<u>(1,030)</u>	<u>778,916</u>	<u>688,221</u>
Total Special Revenue Funds	<u>\$3,019,081</u>	<u>1,648,124</u>	<u>(736,373)</u>	<u>3,898,252</u>	<u>4,532,836</u>

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The expenditures in the Law Enforcement Programs Fund exceeded appropriations by \$3,381.

C. RESTRICTED BY ENABLING LEGISLATION

The government-wide Statement of Net Assets reports restricted net assets, of which \$1,246,401 is restricted by enabling legislation. This amount consists of unspent hotel/motel taxes.

D. DEFICIT FUND EQUITY

The Brownfield Grant fund had a deficit fund balance of \$23,568.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

NOTE 4 - DEPOSITS AND INVESTMENTS

Interest Rate Risk

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.

The City, including the Utility and the component units, do not have any debt security investments, other than in the Firemen's Relief and Pension Fund, that are exposed to interest rate risk.

As of September 30, 2011, the City's Firemen's Relief and Pension fund had the following debt security investments and maturities:

<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 & federal agencies	\$ 3,825,148	741,711	828,257	150,894	2,104,286
Nongovernment obligations	784,492	-	584,771	199,721	
Foreign obligations	944,790	-	637,037	202,223	105,530
	<u>5,554,430</u>	<u>741,711</u>	<u>2,050,065</u>	<u>552,838</u>	<u>2,209,816</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

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:

<u>Portfolio Segment</u>	<u>Range of Portfolio Assets</u>
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 \$30,384,448 in categorizable bank deposits, none were uninsured and uncollateralized. Of the component units' \$951,532 in bank deposits, \$12,929 of Library's deposits were uninsured and uncollateralized at September 30, 2011. Of the enterprise fund's \$12,449,473, 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 categorizable investments of \$7,190,624, 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 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)

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

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 A2 to Aaa by Moody's Investors Service and A to AA+ by Standard and Poor's. The City's investments in U. S. treasuries and federal agencies were rated Aaa by Moody's Investor Service and AA+ by Standard and Poor's. The City's investments in foreign obligations were rated from B3 to Aaa by Moody's Investors Service, and B to AAA by Standard and Poor's.

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	\$ 41,957,432	59.85%

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. 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.

At September 30, 2011, the City's Firemen's Relief and Pension fund had fixed income securities of \$27,772 invested in foreign obligations with Hillswick Asset Management, LLC, and \$917,018 invested in foreign obligations with Seacrest Investment Management, LLC. The Firemen's Relief and Pension fund also had common trust funds of \$873,265 invested in Westwood Trust International Growth Equity- EB Fund and \$1,722,822 invested in Westwood Trust International Value Equity-EB. The Westwood equity funds are comprised of the following investments:

	International Growth	International Value
Cash and cash equivalents	1.25%	1.54%
Cash denominated in foreign currencies	2.27%	2.50%

Securities:	International Growth	International Value		International Growth	International Value
	Argentina	0.00%		2.37%	Hong Kong
Australia	3.46%	1.18%	Israel	0.00%	0.75%
Belgium	0.00%	1.89%	Italy	1.27%	1.71%
Brazil	4.39%	3.07%	Japan	14.24%	12.07%
Canada	6.54%	0.00%	Netherlands	5.15%	1.15%
China	1.40%	0.00%	Norway	1.62%	0.91%

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

	International Growth	International Value		International Growth	International Value	International Growth	International Value
Securities:							
Denmark	0.00%	3.25%	Singapore	3.31%	0.00%		
Egypt	0.00%	2.12%	South Africa	3.23%	4.22%		
Finland	0.00%	2.15%	Spain	0.00%	3.00%		
France	5.80%	8.14%	Switzerland	1.68%	5.60%		
Germany	7.23%	1.90%	Turkey	2.60%	0.42%		
Great Britain	21.90%	28.15%	USA	6.64%	4.48%		
Total Securities						94.41%	93.23%
Other						2.07%	2.73%
Total						100.00%	100.00%

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>Texarkana,</i>					
	<i>General</i>	<i>2009 Bond</i>	<i>Debt Service</i>	<i>Texas Water Utilities</i>	<i>Nonmajor and Other Funds</i>	<i>Total</i>
Receivables:						
Property taxes	\$ 666,292		336,043		7,891	1,010,226
Other taxes	202,275				245,006	447,281
Accounts	909,843			2,455,800	120,432	3,486,075
Intergovernmental	3,327,378	310,847		25,602	134,700	3,798,527
Interest				696	67,336	68,032
Loans					2,079,200	2,079,200
Other					11,367	11,367
Restricted accounts					156,239	156,239
Restricted interest				2,259	687	2,946
Gross receivables	5,105,788	310,847	336,043	2,484,357	2,822,858	11,059,893
Less: allowance for uncollectibles	1,444,994		311,143	73,663	807,938	2,637,738
Net total receivables	\$ 3,660,794	310,847	24,900	2,410,694	2,014,920	8,422,155

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

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

	<u>Unavailable</u>	<u>Unearned</u>
Grant receivable (General fund)	\$ 42,325	
Grant receivable (HCD fund)	108,089	
Grant receivable (Hotel/Motel Tax fund)	43,479	
Grant receivable (2005 Bond fund)	26,244	
Grant drawdowns prior to meeting all eligibility requirements (HCD)	<u> </u>	<u>17,701</u>
Total deferred/unearned revenue for governmental funds	<u>\$220,137</u>	<u>17,701</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 was as follows:

	<u>Balance October 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance September 30, 2011</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 46,036,843		(795,659)		45,241,184
Construction in progress	2,970,968	5,239,058		(2,197,564)	6,012,462
Total capital assets, not being depreciated	<u>49,007,811</u>	<u>5,239,058</u>	<u>(795,659)</u>	<u>(2,197,564)</u>	<u>51,253,646</u>
Capital assets, being depreciated:					
Buildings	25,525,508	92,924			25,618,432
Improvements other than buildings	6,272,937	5,000			6,277,937
Infrastructure	99,247,617	7,996		2,197,564	101,453,177
Machinery and equipment	1,786,437	877,550			2,663,987
Licensed vehicles	7,630,811	657,873	(616,658)		7,672,026
Total capital assets, being depreciated	<u>140,463,310</u>	<u>1,641,343</u>	<u>(616,658)</u>	<u>2,197,564</u>	<u>143,685,559</u>
Less accumulated depreciation for:					
Buildings	(13,415,610)	(506,621)			(13,922,231)
Improvements other than buildings	(4,081,808)	(225,900)			(4,307,708)
Infrastructure	(51,981,546)	(2,751,131)			(54,732,677)
Machinery and equipment	(762,261)	(136,415)			(898,676)
Licensed vehicles	(5,662,180)	(509,212)	569,766		(5,601,626)
Total accumulated depreciation	<u>(75,903,405)</u>	<u>(4,129,279)</u>	<u>569,766</u>		<u>(79,462,918)</u>
Total capital assets, being depreciated, net	<u>64,559,905</u>	<u>(2,487,936)</u>	<u>(46,892)</u>	<u>2,197,564</u>	<u>64,222,641</u>
Governmental capital assets, net	<u>113,567,716</u>	<u>2,751,122</u>	<u>(842,551)</u>	<u>-</u>	<u>115,476,287</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

	<i>Balance October 1, 2010</i>	<i>Additions</i>	<i>Deletions</i>	<i>Transfers</i>	<i>Balance September 30, 2011</i>
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 1,314,209			19,256	1,333,465
Construction in progress	979,889	3,587,454		(1,665,462)	2,901,881
Total capital assets, not being depreciated	<u>2,294,098</u>	<u>3,587,454</u>	<u>-</u>	<u>(1,646,206)</u>	<u>4,235,346</u>
Capital assets, being depreciated:					
Buildings	3,414,242				3,414,242
Improvements other than buildings	81,748,944			1,184,317	82,933,261
Machinery and equipment	8,649,404	60,443	(101,405)	461,889	9,070,331
Property under capital lease	20,531,208	23,602			20,554,810
Water rights	276,550		(276,550)		-
Total capital assets, being depreciated	<u>114,620,348</u>	<u>84,045</u>	<u>(377,955)</u>	<u>1,646,206</u>	<u>115,972,644</u>
Less accumulated depreciation for:					
Buildings	(2,090,333)	(77,553)			(2,167,886)
Improvements other than buildings	(29,919,890)	(1,873,042)			(31,792,932)
Machinery and equipment	(7,382,828)	(400,603)		79,155	(7,704,276)
Property under capital lease	(10,223,982)	(401,782)			(10,625,764)
Water rights	(265,027)	(11,523)	276,550		-
Total accumulated depreciation	<u>(49,882,060)</u>	<u>(2,764,503)</u>	<u>276,550</u>	<u>79,155</u>	<u>(52,290,858)</u>
Total capital assets, being depreciated, net	<u>64,738,288</u>	<u>(2,680,458)</u>	<u>(101,405)</u>	<u>1,725,361</u>	<u>63,681,786</u>
Business-type capital assets, net	<u>\$ 67,032,386</u>	<u>906,996</u>	<u>(101,405)</u>	<u>79,155</u>	<u>67,917,132</u>

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

Governmental activities	
General government	
Public safety	\$ 42,048
Public works	721,576
Parks and recreation	2,904,667
Health and welfare	444,463
Capital assets held by the City's internal service funds	
charged to the various functions based on their usage of the assets	16,525
Total depreciation expense - governmental activities	<u>\$ 4,129,279</u>
Business-type activities:	
Water and sewer	<u>\$ 2,764,503</u>
Total depreciation expense - business-type activities	<u>\$ 2,764,503</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, 2011 was as follows:

	<i>Balance October 1, 2010</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance Sept. 30, 2011</i>
Capital assets, being depreciated:				
Buildings	\$ 1,246,445			1,246,445
Improvements other than buildings	42,841			42,841
Machinery and equipment	12,827			12,827
Total capital assets, being depreciated	<u>1,302,113</u>	<u>-</u>	<u>-</u>	<u>1,302,113</u>
Less accumulated depreciation for:				
Buildings	(806,094)	(27,728)		(833,822)
Improvements other than buildings	(42,841)			(42,841)
Machinery and equipment	(10,529)	(1,282)		(11,811)
Total accumulated depreciation	<u>(859,464)</u>	<u>(29,010)</u>	<u>-</u>	<u>(888,474)</u>
Total capital assets, being depreciated, net	<u>\$ 442,649</u>	<u>(29,010)</u>	<u>-</u>	<u>413,639</u>

Activity for the Library for the year ended September 30, 2011 was as follows:

	<i>Balance October 1, 2010</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance Sept. 30, 2011</i>
Capital assets, being depreciated:				
Machinery and equipment	\$ 647,049	14,354	(23,336)	638,067
Total capital assets, being depreciated	<u>647,049</u>	<u>14,354</u>	<u>(23,336)</u>	<u>638,067</u>
Less accumulated depreciation for:				
Machinery and equipment	(535,570)	(29,117)	23,336	(541,351)
Total accumulated depreciation	<u>(535,570)</u>	<u>(29,117)</u>	<u>23,336</u>	<u>(541,351)</u>
Total capital assets, being depreciated, net	<u>\$ 111,479</u>	<u>(14,763)</u>	<u>-</u>	<u>96,716</u>

NOTE 7 - CONSTRUCTION PROJECTS

As of September 30, 2011, 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 9/30/2011</i>	<i>Required Future Financing</i>
Texas A&M East Approach	\$ 5,211,900	843,642	4,368,258
Lake Drive Overpass	1,037,020	991,054	45,966
Storm Water Utility	254,600	209,773	44,827
Morris Lane - Phase 2	4,600,000	143,228	4,456,772
Cowhorn Drain Restudy	168,000	153,009	14,991
City-wide Master Drain	540,500	460,451	80,049
Storm Water Design Manual	75,000	46,000	29,000
Convention Center Construction	6,211,044	1,453,910	4,757,134
Gibson Lane Extension	600,000	505,630	94,370
Texas A&M Phase 2	2,000,000	591,301	1,408,699
Texas A&M Phase 3	1,608,644	366,228	1,242,416
Texas A&M Phase 4	1,434,276	242,936	1,191,340
Arista Drainage Improvement	50,000	3,500	46,500
Wyatt Lane Drainage Improvement	5,739	1,800	3,939
Total	<u>\$ 23,796,723</u>	<u>6,012,462</u>	<u>17,784,261</u>

Business-type activities construction projects

The Texarkana Water Utilities completed numerous water and sewer line extension and other improvements during fiscal year 2011 using Utility materials, personnel and equipment, which were funded by various capital improvement funds. 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 \$2,703,693 were financed by Texas capital improvement funds during fiscal year 2011. One of the major projects, which started in 2010 and continued in 2011, was the Texas A&M lift station upgrade. Kampco Construction Company of Texarkana was the contractor for this project. As of September 30, 2011, a total of \$1,528,114 had been spent on the project, of which \$1,432,789 was spent in fiscal 2011. About \$100,000 remains to finish the project in fiscal 2012. A related project, the east approach to Texas A&M University water and sewer, was completed in 2011 for a total of \$437,910. The repair and maintenance of the two digester tanks at the Waggoner Creek Wastewater Plant was completed at a cost \$157,329, of which \$9,571 was paid in 2010 and \$121,868 was reimbursed by insurance. Other expenditures from the Texas capital improvement funds included the completion of the 2008 Annexation Water project for \$143,078; the Cowhorn Creek/Hampton Road Water Extension for \$54,385; the Gibson Lane Water Extension for \$44,023; the Convention Center Sewer Relocation for \$54,409; the Bender Road Lift Station Abandonment for \$39,213; the Waggoner Creek Wastewater Plant Air Line Replacement for \$49,821; the Mall Drive Sewer Extension for \$15,765; and the Highway 67 Water Line Replacement for \$11,869. The cost of the Wood Street building roof repairs was \$44,088 with \$24,984 being paid by the Texas Utility and \$15,404 paid by the Arkansas Utility. A total of \$57,968 was spent on engineering for the 2008 Annexation Sewer project. The estimated \$700,000 to \$800,000 remaining cost of construction will be paid out in 2012 and 2013. The Parcel Mapping Project cost

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

\$93,651. A total of \$191,794 was spent from the Texas capital improvement funds for numerous other small water and sewer line extensions and repairs, manhole repairs, tank cleanings and AC repairs.

A total of \$200,433 was spent from the Texas infrastructure funds of which \$105,640 went to the South Stateline Sewer Truck Main Replacement Project and the remaining \$94,793 went to manhole linings and sewer line replacement projects.

A total of \$220,866 was spent in fiscal 2011 from the South Regional wastewater depreciation funds with \$136,628 being contributed by the Texas Utility and \$84,238 coming from the Arkansas Utility. The largest projects included repair blowers for \$49,783; replace electric switch for \$31,090; replace screw conveyer & auger for \$26,954; and retube boiler for \$20,807. The balance of \$92,232 was for nine other projects including security enhancements, pump and motor repairs, BIO filter repairs, heating coil replacement, and other major repairs.

A total of \$351,160 was spent in fiscal 2011 from technology funds with \$234,179 contributed by the Texas Utility and \$116,981 coming from the Arkansas Utility. One project, the aerial digital imagery for \$45,525, was a 100% Texas project while all others were split between Texas and Arkansas. The largest projects included lease payments to Dell, Microsoft, and Cisco for \$16,064, \$53,258 and \$28,003, respectively; server upgrades and replacements for \$94,472 and portable and mobile radios for \$47,764. Other miscellaneous electronic equipment expenditures totaled \$76,074.

A total of \$473,375 was spent in fiscal 2011 from the equipment acquisition funds with \$292,830 contributed by the Texas Utility and \$180,545 coming from the Arkansas Utility. The largest purchases were 8 new pickups and crew trucks totaling \$241,130; one 6-yr dump truck for \$62,990; a valve insertion machine for \$46,969; a crawl camera for \$41,730; a used track-hoe for \$18,000; and a sewer pipe patch machine for \$19,199. Eight other smaller pieces of equipment were purchased for a total of \$43,357.

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of September 30, 2011 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	2009 Bond	\$ 20,986
General	Nonmajor governmental fund	754,417
General	Fleet internal service	154,813
General	Employee Benefit internal service	2,346
2009 Bond	General	127,063
Debt Service	General	30,982
Nonmajor governmental fund	General	61,576
Fleet internal service	General	145,585
Employee Benefit internal service	General	9,984
Texarkana, Texas Water Utilities	Nonmajor enterprise fund	284,167
Nonmajor enterprise fund	Texarkana, Texas Water Utilities	55
Total		<u>\$ 1,591,974</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Purpose:

\$20,986	To reimburse the General Fund for 2009 Bond fund legal fees.
\$102,330	To reimburse the General fund for expenditures paid for the Housing and Community Development fund (nonmajor governmental fund).
\$14,595	To reimburse the General fund for Theatre fund (nonmajor governmental fund) expenditures.
\$27,821	To reimburse the General fund for legal fees paid on behalf of Hotel/Motel fund (nonmajor governmental fund).
\$578,259	To reimburse the General fund for expenditures paid on behalf of Housing fund (nonmajor governmental fund).
\$23,456	To reimburse the General fund for expenditures paid for the Brownfield Grant fund (nonmajor governmental fund).
\$260	To reimburse the General fund for expenditures paid for the 2005 Bond fund (nonmajor governmental fund).
\$7,696	To reimburse the General fund for Theatre fund (nonmajor governmental fund) expenditures for computers.
\$154,813	To reimburse the General Fund for 2011 expenditures paid on behalf the Fleet Services fund (internal service fund).
\$2,346	To reimburse the General Fund for legal fees paid on behalf the Employee Benefit fund (internal service fund).
\$127,063	To reimburse the 2009 Bond fund for payments received by the General Fund.
\$30,982	The balance due to Debt Service fund for September property taxes received by the General Fund.
\$34,527	The balance due to the Economic Development fund (nonmajor governmental fund) for franchise fees received by the General fund.
\$27,049	The balance due to TIRZ #1 fund for property taxes received by the General Fund.
\$145,585	To reimburse Fleet Services (internal service fund) for fuel and maintenance expense by the General Fund.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

- \$9,984 To reimburse Employee Benefit (internal service fund) for insurance expenditures paid on behalf of the General Fund.
- \$272,498 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 \$118,528 at September 30, 2011, 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 Utility Fund \$11,669 for overpayments of capital contributions during fiscal 2010.
- \$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 - General	Component unit - Library	\$ 8,743
Primary government - Employee Benefit	Component unit - Health	963
Primary government - Employee Benefit	Component unit - Library	14,433
Component unit - Health	Primary government - General	3,169
Total		<u>\$ 27,308</u>

Purpose:

- \$8,743 To reimburse the General Fund for Library property insurance of \$8,437 and miscellaneous expenses of \$306.
- \$963 To reimburse the Employee Benefit fund (internal service fund) for Health (component unit) expenses.
- \$14,433 To reimburse the Employee Benefit fund (internal service fund) for Library (component unit) employee insurance.
- \$3,169 To reimburse Health (component unit) for General Fund expenses.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Interfund transfers:

<i>Transfer in:</i>	<i>Transfer Out:</i>				<i>Total</i>
	<i>General Fund</i>	<i>Nonmajor Governmental</i>	<i>Employee Benefit Internal Service</i>	<i>Texarkana, Texas Water Utilities</i>	
General fund	\$ -	174,205	200,000	268,900	643,105
Debt service	-	562,168			562,168
Nonmajor governmental funds	-	305,000			305,000
Fleet services (internal service)	23,747				23,747
Total transfers in	<u>\$ 23,747</u>	<u>1,041,373</u>	<u>200,000</u>	<u>268,900</u>	<u>1,534,020</u>

Transfers maybe used to (1) move revenues from the fund with collection authorization to another specific required fund, (2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, (3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grants, and other purposes.

Purpose:

- \$160,000 Transfers to the General Fund from the Hotel/Motel fund (nonmajor governmental fund) were made to cover expenses.
- \$10,000 Funds were transferred to the General Fund from the Economic Development fund (nonmajor governmental fund) to cover part of salary expenses.
- \$3,175 Funds were also transferred to the General Fund from the Theatre fund (nonmajor governmental fund).
- \$1,030 A transfer was made to close the Police Dog fund (nonmajor governmental fund) to the General Fund.
- \$250,000 Funds were transferred to the General Fund from the Texarkana, Texas Water Utilities for stormwater fees.
- \$18,900 Transfer of the City's administrative fees due under contracts between the City and International Paper Company water service contracts.
- \$562,168 Funds were transferred from the 2009 Bond fund to the Debt Service fund for debt service payments.
- \$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.
- \$200,000 Funds were also transferred from the Employee Benefit (internal service fund) to the General fund.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

\$23,747 Funds were also transferred from the General fund to the Fleet Services (internal service fund) for additions to capital assets.

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, 2011.

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 \$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 \$699,653 and \$694,304 for 2011 and 2010, respectively.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

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 to the Texarkana, Arkansas Water Utilities for water purchases of \$581,218 and \$486,883 for 2011 and 2010, 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 \$ 425,858 and \$436,271 for 2011 and 2010, 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

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Water Utilities for debt service of \$32,800 and \$30,741 for 2011 and 2010, 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.

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 2011 and 2010, the Texarkana, Texas Water Utilities made transfers to the Texarkana, Arkansas Water Utilities for debt service in the amounts of \$109,638 and \$109,640, 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.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

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.

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.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

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, 2011 and 2010 were \$0 and \$25,562, respectively.

Amortization of the deferred charges, which began in fiscal year ending September 30, 1987, the first full year of operations, was 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 \$183,642 and \$187,835 for fiscal year 2011 and 2010, 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.

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, 2011:

	<i>Texas Utility System</i>
Total minimum lease payments	\$ 63,136
Less: Unearned income	<u>(2,874)</u>
Net investment in direct financing leases	<u>\$ 60,262</u>

As of September 30, 2011, the minimum lease payments by years are as follows:

<i>Year Ended September 30</i>	<i>Texarkana, Texas Utility System</i>
2012	\$ 31,448
2013	<u>31,688</u>
	<u>\$ 63,136</u>

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

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

The gross amount of assets acquired in prior years under the capital lease were as follows:

<u>Asset Class</u>	<u>Amount</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, 2011:

<u>Ending September 30:</u>	<u>Governmental Activities</u>	<u>Enterprise Funds</u>
2012	\$ 99,276	598,952
2013	37,503	598,704
2014	20,656	596,483
2015		580,112
2016		639,738
2017-2021		3,140,906
2021-2025		2,108,133
Total minimum lease payments	<u>157,435</u>	<u>8,263,028</u>
Less:		
Unexpended funds		(755,904)
Amounts representing interest	<u>(8,898)</u>	<u>(2,009,340)</u>
Present value of minimum lease payments	<u>\$148,537</u>	<u>\$5,497,784</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 32% 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, 2011 are as follows:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

	<u>Rate of interest</u>	<u>Original Issue</u>	<u>Outstanding September 30, 2011</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	1,835,000
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	10,987,002
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	2,655,000
Total general obligation bonds		<u>\$ 26,208,526</u>	<u>15,477,002</u>

Annual requirements to amortize general obligation bonds outstanding at September 30, 2011 are as follows:

<u>Requirements Year Ending September 30</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,355,000	760,273	2,115,273
2017-2021	6,330,000	2,223,995	8,553,995
2022-2023	2,490,000	120,325	2,610,325
Subtotal	16,440,000	5,991,202	22,431,202
Less: Adjustment for future accretion of capital appreciation bonds	(962,998)		(962,998)
Total	<u>\$ 15,477,002</u>	<u>5,991,202</u>	<u>21,468,204</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, 2011 are as follows:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

	<u>Rate of interest</u>	<u>Original Issue</u>	<u>Outstanding September 30, 2011</u>
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	1,370,000
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	1,140,000
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	15,855,000
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	16,835,000
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%	<u>7,000,000</u>	<u>6,790,000</u>
Total certificates of obligation		<u>\$ 47,670,000</u>	<u>41,990,000</u>

Annual requirements to amortize certificates of obligations outstanding at September 30, 2011 are as follows:

<i>Requirements Year Ending September 30</i>	<i>Certificates of Obligation</i>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,105,000	1,535,011	3,640,011
2017-2021	11,095,000	6,244,037	17,339,037
2022-2026	13,185,000	3,542,043	16,727,043
2027-2030	<u>8,230,000</u>	<u>692,567</u>	<u>8,922,567</u>
Total	<u>\$ 41,990,000</u>	<u>18,928,512</u>	<u>60,918,512</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

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, 2011 are as follows:

	<u>Rate of interest</u>	<u>Original Issue</u>	<u>Outstanding September 30, 2011</u>
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>1,040,000</u>
Total tax notes		<u><u>\$ 1,200,000</u></u>	<u><u>1,040,000</u></u>

<u>Requirements Year Ending September 30</u>	<u>Principal</u>	<u>Tax Notes Interest</u>	<u>Total</u>
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><u>\$ 1,040,000</u></u>	<u><u>73,671</u></u>	<u><u>1,113,671</u></u>

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, 2011 are as follows:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

	<u>Rate of interest</u>	<u>Original Issue</u>	<u>Outstanding September 30, 2011</u>
Revenue bonds:			
Waterworks and Sanitary Sewer System Revenue Bonds, Series 1996-B used to finance the costs of making improvements and extensions to the water and sewer system - due serially in varying amounts from August 1, 1997 through August 1, 2016	2.60% - 4.45%	\$ 2,755,000	920,000
Waterworks and Sanitary Sewer System Revenue Refunding Bonds, Series 2002 net of bond discount and premium of \$15,519 - used to refund certain bonds which were issued to finance the costs of making improvements and extensions to the water and sewer system - due serially in varying amounts from February 1, 2003 through February 1, 2013.	3.10% - 4.65%	4,355,000	169,481
Waterworks and Sanitary Sewer System Revenue Bonds, Series 2004 net of bond premium of \$9,327 used to finance the costs of making improvements and extensions to the water and sewer system due serially in varying amounts from February 1, 2006 through February 1, 2020.	3.00% - 4.25%	2,500,000	1,839,327
Waterworks and Sanitary Sewer System Revenue Bonds, Series 2005 net of bond discount and premium of \$42,096 used to finance the costs of making improvements and extensions to the water and sewer system - due serially in varying amounts from February 1, 2007 through February 1, 2017.	3.10% - 4.65%	1,805,000	1,042,903
Total Texarkana, Texas Water Utilities		<u>\$ 11,415,000</u>	<u>3,971,711</u>

Annual requirements to amortize revenue bonds outstanding at September 30, 2011 are as follows:

<i>Requirements Year Ending September 30</i>	<i>Revenue Bonds</i>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	523,807	75,203	599,010
2017-2021	1,002,099	172,978	1,175,077
2022-2026	371,096	15,939	387,035
Total	<u>\$ 3,971,711</u>	<u>769,003</u>	<u>4,740,714</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended September 30, 2011:

	<i>Balance October 1, 2010</i>	<i>Additions</i>	<i>Retirements/ Deductions</i>	<i>Balance September 30, 2011</i>	<i>Long-term Balance</i>	<i>Due Within One Year</i>
Governmental activities:						
General obligation bonds	\$ 16,944,508	262,494	(1,730,000)	15,477,002	13,970,768	1,506,234
Less deferred charges:						
On refunding	(435,121)		66,692	(368,429)	(368,429)	
Total general obligation bonds	<u>16,509,387</u>	<u>262,494</u>	<u>(1,663,308)</u>	<u>15,108,573</u>	<u>13,602,339</u>	<u>1,506,234</u>
Certificates of obligation	43,535,000		(1,545,000)	41,990,000	40,310,000	1,680,000
Less deferred charges:						
For issuance premiums	203,873		(8,325)	195,548	195,548	
On refunding	(174,708)		11,034	(163,674)	(163,674)	
Total certificates of obligation	<u>43,564,165</u>	<u>-</u>	<u>(1,542,291)</u>	<u>42,021,874</u>	<u>40,341,874</u>	<u>1,680,000</u>
Tax Notes	1,160,000		(120,000)	1,040,000	860,000	180,000
Capital leases	254,195		(105,658)	148,537	54,093	94,444
Net pension and other postemploy- ment obligations	1,313,404	3,290,972	(2,504,803)	2,099,573	2,099,573	
Accrued compensated absences	<u>2,943,389</u>	<u>1,609,959</u>	<u>(1,253,757)</u>	<u>3,299,591</u>	<u>3,108,672</u>	<u>190,919</u>
Governmental activity Long-term liabilities	<u>\$ 65,744,540</u>	<u>5,163,425</u>	<u>(7,189,817)</u>	<u>63,718,148</u>	<u>60,066,551</u>	<u>3,651,597</u>
	<i>Balance October 1, 2010</i>	<i>Additions</i>	<i>Retirements/ Deductions</i>	<i>Total Balance September 30, 2011</i>	<i>Long-term Balance</i>	<i>Due Within One Year</i>
Business-type activities:						
Revenue bonds	\$ 4,545,000		(525,000)	4,020,000	3,470,000	550,000
Less deferred charges:						
For issuance premiums (discounts)	10,728		(1,069)	9,659	9,659	
On refunding	(76,850)		18,902	(57,948)	(57,948)	
Total revenue bonds	<u>4,478,878</u>	<u>-</u>	<u>(507,167)</u>	<u>3,971,711</u>	<u>3,421,711</u>	<u>550,000</u>
Capital leases	5,685,765	37,694	(225,675)	5,497,784	5,156,263	341,521
Net pension and other postemploy- ment obligations	408,989	908,518	(685,487)	632,020	632,020	
Accrued compensated absences	<u>383,164</u>	<u>285,198</u>	<u>(310,531)</u>	<u>357,831</u>	<u>328,547</u>	<u>29,284</u>
Business-type activity Long-term liabilities	<u>\$ 10,956,796</u>	<u>1,231,410</u>	<u>(1,728,860)</u>	<u>10,459,346</u>	<u>9,538,541</u>	<u>920,805</u>

The addition to the general obligation bond includes \$262,494 of accretion on capital appreciation bonds during the fiscal year ended September 30, 2011.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

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, \$36,163 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, 2011 is \$2,040,000.

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 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, 2011, the City contributed \$117,685 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 \$24,397,921 for major structures, primarily those used by the public and those located in a cluster to provide protection from catastrophic losses, as well as \$7,688,260 of contents coverage.

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.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

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:

	<u>Year Ended</u> <u>September 30, 2011</u>	<u>Year Ended</u> <u>September 30, 2010</u>
Unpaid claims, October 1	\$ 284,104	183,186
Incurred claims	1,993,842	2,321,371
Claim payments	<u>(1,993,842)</u>	<u>(2,220,453)</u>
Unpaid claims, September 30	<u>\$ 284,104</u>	<u>284,104</u>

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

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

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

contribution, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

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

	<u>Plan Year 2010</u>	<u>Plan Year 2011</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 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:

	<u>Plan No. 1</u>	<u>Plan No. 2</u>		<u>Plan No. 3</u>
	<u>City</u>	<u>City</u>	<u>Library</u>	<u>Utility</u>
Calculation of Net Pension Obligation:				
Annual required contribution (ARC)	\$ 1,271,416	1,342,981	61,958	795,113
Interest on NPO	32,300	32,550	1,502	21,841
Adjustment to the NPO	(26,675)	(26,932)	(1,242)	(18,103)
Annual pension cost (APC)	<u>1,277,041</u>	<u>1,348,599</u>	<u>62,218</u>	<u>798,851</u>
Contributions made	<u>(1,066,095)</u>	<u>(1,113,569)</u>	<u>(53,695)</u>	<u>(654,806)</u>
Increase (decrease) in NPO	210,946	235,030	8,523	144,045
NPO at the beginning of period	<u>430,668</u>	<u>431,800</u>	<u>22,231</u>	<u>300,773</u>
NPO at the end of period	<u><u>641,614</u></u>	<u><u>666,830</u></u>	<u><u>30,754</u></u>	<u><u>444,818</u></u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

THREE YEAR TREND INFORMATION

	<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Actual Contributions Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
Plan No. 1	9/30/2009	1,097,024	898,910	82%	198,114
	9/30/2010	1,204,136	971,582	81%	430,668
	9/30/2011	1,277,041	1,066,095	83%	641,614
Plan No. 2	9/30/2009	1,183,913	995,345	84%	188,568
	9/30/2010	1,338,876	1,073,413	80%	454,031
	9/30/2011	1,410,817	1,167,264	83%	697,584
Plan No. 3	9/30/2009	708,936	581,087	82%	127,849
	9/30/2010	813,891	640,967	79%	300,773
	9/30/2011	798,851	654,806	82%	444,818

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation date	12/31/2008	12/31/2009	12/31/2010 - prior to restructuring	12/31/2010 - restructured
Actuarial cost method	projected unit credit	projected unit credit	projected unit credit	projected unit credit
Amortization method	level percent of payroll	level percent of payroll	level percent of payroll	level percent of payroll
GASB 25 equivalent single amortization period				
Plan No. 1	29 years; closed period	28.2 years; closed period	27.2 years; closed period	27.2 years; closed period
Plan No. 2	29 years; closed period	28.1 years; closed period	27.1 years; closed period	27.2 years; closed period
Plan No. 3	29 years; closed period	28 years; closed period	27.1 years; closed period	27.2 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years	30 years
Asset valuation method	amortized cost	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial assumptions:				
Investment rate of return*	7.50%	7.50%	7.50%	7.00%
Projected salary increases*	varies by age and service	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%	3.00%
	2.10%	2.10%	2.10%	2.10%

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Funded Status and Funding Progress

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented 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	(1) 12/31/2010	\$ 13,833,698	\$ 24,035,171	57.6%	\$ 10,201,473	\$ 5,256,581	194.1%
	(2) 12/31/2010	26,309,455	33,755,169	77.9%	7,445,714	5,256,581	141.6%
Plan No. 2	(1) 12/31/2010	18,381,762	27,759,921	66.2%	9,378,159	7,899,368	118.7%
	(2) 12/31/2010	31,172,648	38,396,439	81.2%	7,223,791	7,899,368	91.4%
Plan No. 3	(1) 12/31/2010	8,538,342	14,441,074	59.1%	5,902,732	3,925,160	150.4%
	(2) 12/31/2010	13,561,710	18,621,242	72.8%	5,059,532	3,925,160	128.9%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

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

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

CITY OF 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, the most recent biennial actuarial valuation.

<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. Firefighters may retire at age 50 with 20 years of service. 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 19.5% effective October 2009.

Annual Pension Cost

For the fiscal year ending September 30, 2011, the City of Texarkana's annual pension cost (APC) was equal to the annual required contributions and was \$786,256. 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, 2011 were based on the results of the actuarial valuation 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>Year Ending</u>	<u>Pension Cost (APC)</u>	<u>of APC Contributed</u>	<u>a Percentage of Payroll</u>	<u>Pension Obligation</u>
9/30/2009	\$593,552	100%	14.66/ 15.00%	0
9/30/2010	781,461	100%	19.50%	0
9/30/2011	786,256	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	\$ 302,218	41,610
Amortization of unfunded actuarial accrued liability	207,617	45,113
Interest adjustment	20,393	
Annual required contribution	530,228	86,723
Interest on BOY net OPEB obligation	18,037	4,184
Annual required contribution adjustment	(18,207)	(6,049)
Annual OPEB cost	530,058	84,858
Contributions made	(189,865)	(5,872)
Increase (decrease) in OPEB obligation	340,193	78,986
OPEB at the beginning of period	450,936	108,216
OPEB at the end of period	<u>\$ 791,129</u>	<u>187,202</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, 2011 and the two preceding years were as follows:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

<u>Plan</u>	<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
City	9/30/2009	\$ 362,108	33.08%	\$ 242,312
	9/30/2010	376,044	44.52%	450,936
	9/30/2011	530,058	35.82%	791,129
TWU	9/30/2009	\$ 78,148	45.80%	\$ 42,353
	9/30/2010	84,497	34.46%	108,216
	9/30/2011	84,858	11.19%	187,202

Funding Status and Funding Progress

The funded status of the plans as of September 30, 2011 was as follows:

SCHEDULE OF FUNDING PROGRESS

<u>Plan</u>	<u>Fiscal Year Ended</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
City	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%
	9/30/2011	-	5,206,952	5,206,952	0%	13,155,949	40%
TWU	9/30/2009	\$ -	\$ 689,560	\$ 689,560	0%	6,203,946	11%
	9/30/2010	-	758,392	758,392	0%	4,214,181	18%
	9/30/2011	-	780,083	780,083	0%	6,101,086	13%

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	10/1/2010
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 3.5% for the FRRF plan)
Individual pay rate increases	4.00%
Inflation rate	3.00%
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, 2009 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 .030.</p>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Disability rate	None
Retirement rates	<p>The retirement rates for City and Police are based on the rates used in the 12/31/10 TMRS reports and was chosen based on the City and Police experience and long-term expectations. Retirement rates range from .06 to 1.</p> <p>The retirement rates for Firefighters are based on the rates used in the 12/31/09 FRRF reports and was chosen based on Firefighters experience and long-term expectations. Retirement rates range from .1 to 1.</p>
Mortality Rates	<p>Active mortality rates for the City are based on the rates used in the 12/31/09 TMRS report. Retired and survivor mortality rates are based on the rates used in the 12/31/09 TMRS report. These rates range from .0003 to 1 for males and .0002 to 1 for females.</p> <p>For Firefighter participants who are active, retire or survivor, mortality rates are those used in the FRRF 12/31/09 actuarial valuation. Specifically, the table used in the RP-2000 table, projected to year 2014 using Projection Scale AA.</p>
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:

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

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Inflation rate	2.75%
Disability rates	None assumed
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, 2011.

NOTE 23 – CLASSIFICATION OF GOVERNMENTAL FUND BALANCES

The table below presents a summary of the September 30, 2011, governmental fund balances by fund type and specific purpose.

The classifications of nonspendable, restricted, committed, assigned and unassigned are the new fund balance classifications according to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which was implemented for fiscal year 2011. With the exception of nonspendable fund balances, fund balance is presented based on specific purpose as required by GASB 54. For the general fund, special revenue funds, debt service fund and capital projects funds, the specific purpose of the fund balance is determined by the governmental function for which the funds are restricted, committed, assigned or unassigned.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

	<u>General</u>	<u>2009 Bond Capital Projects</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:					
Nonspendable for:					
Noncurrent loans				638,311	638,311
Inventory	794				794
Investment in joint venture	92,463				92,463
Restricted					
Court security and technology	315,524				315,524
Police	182,115			13,007	195,122
Tourism				508,824	508,824
Health and welfare	2,250			25,390	27,640
Parks and recreation				24,520	24,520
Convention center				737,577	737,577
Debt service			670,992		670,992
Capital improvements		12,985,126		6,614,020	19,599,146
Committed					
Economic development				1,911,341	1,911,341
Assigned					
Police	2,915				2,915
Subsequent year expenditures	1,416,016				1,416,016
Theatre				653,499	653,499
Insurance	742,233				742,233
Energy conservation	11,298				11,298
Capital improvements				43,935	43,935
Unassigned					
General fund	2,785,910				2,785,910
Special revenue fund				(23,568)	(23,568)
Total Fund Balances	<u>\$ 5,551,518</u>	<u>12,985,126</u>	<u>670,992</u>	<u>11,146,856</u>	<u>30,354,492</u>

NOTE 24 - 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 and other matters pursuant to the terms of a 1985 water supply contract. The application of the City of Texarkana, Arkansas is pending. The federal judge has received evidence at a bench trial for a determination of whether matters alleged should be ordered to arbitration. The City of Texarkana, Texas has provided the federal court with evidence which it contends supports a determination that the application to compel arbitration should be denied. The City attorney asserts that it is premature at this time to evaluate the likelihood of an unfavorable outcome, and an estimate of the amount or range of potential loss cannot be made at this time. There appear to be no allegations or claims for damages asserted by the City of Texarkana, Arkansas, in its application.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

An inquiry has been made by an employee for the City as to whether she should be considered a civil service employee. She does not have Social Security or Medicare deducted from her paycheck. The City's Human Resources and Finance Departments have been investigating the matter. No litigation is pending and no formal claim or grievance has been filed. As the investigation is ongoing, the City attorney asserts that it is premature at this time to evaluate the likelihood of an unfavorable outcome, and an estimate of the amount or range of potential loss cannot be made at this time.

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, 2011, 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 25- 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. 60, *Accounting and Financial Reporting for Service Concession Arrangements* issued in November 2010 will be effective for the City for the year ending September 30, 2012. The objective of this 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

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

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.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued in June 2011 will be effective for the City for the year ending September 30, 2013. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net assets reporting requirements in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflow of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Terminations Provisions—An Amendment of GASB Statement No. 53*, issued June 2011 will be effective for the City for the year ending September 30, 2012. This statement's objective is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

NOTE 26 – SUBSEQUENT EVENTS

The City approved the application of different allocation ratios than those used in the fiscal year 2011 audit for shared costs of the Texarkana Water Utilities (business-type activities and enterprise fund) in the fiscal year 2012. The new funding ratio adopted will be 60.73% Texas and 39.27% Arkansas.

In preparing these financial statements, management of the City has evaluated events and transactions for potential recognition or disclosure through May 29, 2012, the date the financial statements were available to be issued.

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Required Supplementary Information

CITY OF TEXARKANA, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION - *Three Year Historical Trend* September 30, 2011

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>
12/31/2008	\$ 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%
(1) 12/31/2010	13,833,698	24,035,171	57.6%	10,201,473	5,256,581	194.1%
(2) 12/31/2010	26,309,455	33,755,169	77.9%	7,445,714	5,256,581	141.6%

- (1) Actuarial valuation performed under the original fund structure.
 (2) Actuarial valuation performed under the new fund structure.

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>
12/31/2008	\$ 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%
(1) 12/31/2010	18,381,762	27,759,921	66.2%	9,378,159	7,899,368	118.7%
(2) 12/31/2010	31,172,648	38,396,439	81.2%	7,223,791	7,899,368	91.4%

- (1) Actuarial valuation performed under the original fund structure.
 (2) Actuarial valuation performed under the new fund structure.

CITY OF TEXARKANA, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION - *Three Year Historical Trend* September 30, 2011

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>
12/31/2008	\$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%
(1) 12/31/2010	8,538,342	14,441,074	59.1%	5,902,732	3,925,160	150.4%
(2) 12/31/2010	13,561,710	18,621,242	72.8%	5,059,532	3,925,160	128.9%

- (1) Actuarial valuation performed under the original fund structure.
 (2) Actuarial valuation performed under the new fund structure.

CITY OF TEXARKANA, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION - Six Year Historical Trend September 30, 2011

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>Annual Contribution As a Fixed Percentage of Payroll</u>	<u>Annual Required Contribution (1)</u>	<u>Percentage Contributed</u>
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%	784,726	100%
2011	19.50%		100%

- (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.

TIRZ #1 Fund - This fund was established to facilitate a program of public improvements to allow and encourage the development and redevelopment of approximately 868 acres of land located in the north and west part of Texarkana through the use of tax dollars collected over a designated base amount.

Rotary Splash Park Fund - This fund was established to account for the activity related to the splash pad at Spring Lake Park.

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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.

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, 2011

	<i>Special Revenue Funds</i>		
	<u><i>Police Dog</i></u>	<u><i>Housing and Community Development</i></u>	<u><i>HOME</i></u>
ASSETS			
Cash	\$ -		25,511
Investments - certificates of deposit			
Receivables (net of allowance for uncollectible):			
Property taxes			
Other taxes			
Accounts			
Other government agencies		108,089	
Accrued interest			
Loans		85,362	182,640
Due from other funds			
House held for resale		46,000	
TOTAL ASSETS	<u>-</u>	<u>239,451</u>	<u>208,151</u>
LIABILITIES AND FUND BALANCES			
Accounts payable		10,560	
Contracts payable			
Accrued payroll		771	
Due to other funds		102,330	
Deferred revenue		108,089	
Unearned revenue		17,701	
Other liabilities and escrow deposits			4,329
TOTAL LIABILITIES	<u>-</u>	<u>239,451</u>	<u>4,329</u>
FUND BALANCES			
Nonspendable:			
Noncurrent loans			178,432
Restricted			25,390
Committed			
Assigned			
Unassigned			
TOTAL FUND BALANCE	<u>-</u>	<u>-</u>	<u>203,822</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>239,451</u>	<u>208,151</u>

Special Revenue Funds

<i>Teen Court</i>	<i>Theatre</i>	<i>Hotel/ Motel Tax</i>	<i>Housing</i>	<i>Economic Development</i>	<i>Law Enforcement Block Grant</i>	<i>Law Enforcement Programs</i>
	741,824	1,072,837	13,136	1,338,749 500,000		13,007
		245,006		43,072		
			15,849 1,010,566	833 34,527		
<u>-</u>	<u>741,824</u>	<u>1,317,843</u>	<u>1,039,551</u>	<u>1,917,181</u>	<u>-</u>	<u>13,007</u>
	66,024	142	1,413	5,840		
	22,301	27,821 43,479	578,259			
<u>-</u>	<u>88,325</u>	<u>71,442</u>	<u>579,672</u>	<u>5,840</u>	<u>-</u>	<u>-</u>
			459,879			
		1,246,401		1,911,341		13,007
	653,499					
<u>-</u>	<u>653,499</u>	<u>1,246,401</u>	<u>459,879</u>	<u>1,911,341</u>	<u>-</u>	<u>13,007</u>
<u>-</u>	<u>741,824</u>	<u>1,317,843</u>	<u>1,039,551</u>	<u>1,917,181</u>	<u>-</u>	<u>13,007</u>

(Continued)

CITY OF TEXARKANA, TEXAS

BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS September 30, 2011

	<i>Special Revenue Funds</i>				<i>Total Special Revenue</i>
	<i>JAG Recovery Act Grant</i>	<i>Brownfield Grant</i>	<i>TIRZ #1</i>	<i>Rotary Splash Park</i>	
ASSETS					
Cash		101	16,301	24,520	3,245,986
Investments - certificates of deposit					500,000
Receivables (net of allowance for uncollectible):					
Property taxes			585		585
Other taxes					245,006
Accounts					43,072
Other government agencies					108,089
Accrued interest					16,682
Loans					1,278,568
Due from other funds			27,049		61,576
House held for resale					46,000
TOTAL ASSETS	<u>-</u>	<u>101</u>	<u>43,935</u>	<u>24,520</u>	<u>5,545,564</u>
LIABILITIES AND FUND BALANCES					
Accounts payable					83,979
Contracts payable					
Accrued payroll		223			994
Due to other funds		23,446			754,157
Deferred revenue					151,568
Unearned revenue					17,701
Other liabilities and escrow deposits					4,329
TOTAL LIABILITIES	<u>-</u>	<u>23,669</u>	<u>-</u>	<u>-</u>	<u>1,012,728</u>
FUND BALANCES					
Nonspendable:					
Noncurrent loans					638,311
Restricted				24,520	1,309,318
Committed					1,911,341
Assigned			43,935		697,434
Unassigned		(23,568)			(23,568)
TOTAL FUND BALANCE	<u>-</u>	<u>(23,568)</u>	<u>43,935</u>	<u>24,520</u>	<u>4,532,836</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>-</u>	<u>101</u>	<u>43,935</u>	<u>24,520</u>	<u>5,545,564</u>

Capital Projects Funds

1998 Bond	2003 Bond	2005 Bond	2010 Bond	Total Capital Project	Total Nonmajor Governmental Fund
3,942	967,862	436,856 442,000	4,818,177	6,226,837 442,000	9,472,823 942,000
				-	585
	2,780			-	245,006
		26,244		2,780	45,852
		1,105		26,244	134,333
				1,105	17,787
				-	1,278,568
				-	61,576
				-	46,000
<u>3,942</u>	<u>970,642</u>	<u>906,205</u>	<u>4,818,177</u>	<u>6,698,966</u>	<u>12,244,530</u>
				-	83,979
		2,000	56,442	58,442	58,442
				-	994
		260		260	754,417
		26,244		26,244	177,812
				-	17,701
				-	4,329
<u>-</u>	<u>-</u>	<u>28,504</u>	<u>56,442</u>	<u>84,946</u>	<u>1,097,674</u>
				-	638,311
3,942	970,642	877,701	4,761,735	6,614,020	7,923,338
				-	1,911,341
				-	697,434
				-	(23,568)
<u>3,942</u>	<u>970,642</u>	<u>877,701</u>	<u>4,761,735</u>	<u>6,614,020</u>	<u>11,146,856</u>
<u>3,942</u>	<u>970,642</u>	<u>906,205</u>	<u>4,818,177</u>	<u>6,698,966</u>	<u>12,244,530</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, 2011

	<i>Special Revenue Funds</i>		
	<i>Police Dog</i>	<i>Housing and Community Development</i>	<i>HOME</i>
REVENUES:			
Property taxes	\$ -		
Taxes-other			
Franchise receipts			
Charges for services			
Grants and entitlements		348,279	
Investment earnings:			
Interest and dividends	2		
Intergovernmental			
Sale of capital assets			
Other		20,631	
Total revenues	<u>2</u>	<u>368,910</u>	<u>-</u>
EXPENDITURES:			
Current:			
General government		27,616	
Public safety			
Parks and recreation			
Health and welfare		270,776	131,632
Capital outlay		70,518	
Total expenditures	<u>-</u>	<u>368,910</u>	<u>131,632</u>
Excess (deficiency) of revenues over expenditures	<u>2</u>	<u>-</u>	<u>(131,632)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in			
Transfers out	(1,030)		
Total other financing sources (uses)	<u>(1,030)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(1,028)	-	(131,632)
Fund balances at beginning of year	<u>1,028</u>	<u>-</u>	<u>335,454</u>
Fund balances at end of year	<u>\$ -</u>	<u>-</u>	<u>203,822</u>

Special Revenue Funds

<i>Teen Court</i>	<i>Theatre</i>	<i>Hotel/ Motel Tax</i>	<i>Housing</i>	<i>Economic Development</i>	<i>Law Enforcement Block Grant</i>	<i>Law Enforcement Programs</i>
		1,199,011		390,881		
	83,601				67,213	
17 1,208	3,264	4,502	30,351	9,184		89 9,296
		780,731		1,886		
<u>1,225</u>	<u>86,865</u>	<u>1,984,244</u>	<u>30,351</u>	<u>401,951</u>	<u>67,213</u>	<u>9,385</u>
13,688				227,049		
	389,592	400,151	12,844		67,048	13,631
		10				
<u>13,688</u>	<u>389,592</u>	<u>400,161</u>	<u>12,844</u>	<u>227,049</u>	<u>67,048</u>	<u>13,631</u>
<u>(12,463)</u>	<u>(302,727)</u>	<u>1,584,083</u>	<u>17,507</u>	<u>174,902</u>	<u>165</u>	<u>(4,246)</u>
	305,000					
	(3,175)	(1,027,168)		(10,000)		
-	<u>301,825</u>	<u>(1,027,168)</u>	-	<u>(10,000)</u>	-	-
(12,463)	(902)	556,915	17,507	164,902	165	(4,246)
<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>
<u>-</u>	<u>653,499</u>	<u>1,246,401</u>	<u>459,879</u>	<u>1,911,341</u>	<u>-</u>	<u>13,007</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, 2011

Special Revenue Funds

	<i>JAG Recovery Act Grant</i>	<i>Brownfield Grant</i>	<i>TIRZ #1</i>	<i>Rotary Splash Park</i>	<i>Total Special Revenue</i>
REVENUES:					
Property taxes			43,906		43,906
Taxes-other					1,199,011
Franchise receipts					390,881
Charges for services					83,601
Grants and entitlements					415,492
Investment earnings:					
Interest and dividends			29		47,438
Intergovernmental					10,504
Sale of capital assets					780,731
Other				25,000	47,517
Total revenues	<u>-</u>	<u>-</u>	<u>43,935</u>	<u>25,000</u>	<u>3,019,081</u>
EXPENDITURES:					
Current:					
General government					268,353
Public safety	62	23,027			103,768
Parks and recreation				480	790,223
Health and welfare					415,252
Capital outlay					70,528
Total expenditures	<u>62</u>	<u>23,027</u>	<u>-</u>	<u>480</u>	<u>1,648,124</u>
Excess (deficiency) of revenues over expenditures	<u>(62)</u>	<u>(23,027)</u>	<u>43,935</u>	<u>24,520</u>	<u>1,370,957</u>
OTHER FINANCING SOURCES (USES):					
Transfers in					305,000
Transfers out					(1,041,373)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(736,373)</u>
Net change in fund balances	(62)	(23,027)	43,935	24,520	634,584
Fund balances at beginning of year	62	(541)			3,898,252
Fund balances at end of year	<u>-</u>	<u>(23,568)</u>	<u>43,935</u>	<u>24,520</u>	<u>4,532,836</u>

Capital Projects Funds

1998 Bond	2003 Bond	2005 Bond	2010 Bond	Total Capital Projects	Total Nonmajor Governmental Fund
					43,906
				-	1,199,011
				-	390,881
				-	83,601
		171,552		171,552	587,044
				-	
119	4,859	6,327	31,563	42,868	90,306
				-	10,504
				-	780,731
				-	47,517
<u>119</u>	<u>4,859</u>	<u>177,879</u>	<u>31,563</u>	<u>214,420</u>	<u>3,233,501</u>
					268,353
					103,768
					790,223
					415,252
<u>26,048</u>	<u>122,493</u>	<u>702,091</u>	<u>1,298,132</u>	<u>2,148,764</u>	<u>2,219,292</u>
<u>26,048</u>	<u>122,493</u>	<u>702,091</u>	<u>1,298,132</u>	<u>2,148,764</u>	<u>3,796,888</u>
<u>(25,929)</u>	<u>(117,634)</u>	<u>(524,212)</u>	<u>(1,266,569)</u>	<u>(1,934,344)</u>	<u>(563,387)</u>
					305,000
					(1,041,373)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(736,373)</u>
(25,929)	(117,634)	(524,212)	(1,266,569)	(1,934,344)	(1,299,760)
<u>29,871</u>	<u>1,088,276</u>	<u>1,401,913</u>	<u>6,028,304</u>	<u>8,548,364</u>	<u>12,446,616</u>
<u>3,942</u>	<u>970,642</u>	<u>877,701</u>	<u>4,761,735</u>	<u>6,614,020</u>	<u>11,146,856</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, 2011

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variances with Final Budget Over (Under)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES:				
Investment earnings:				
Interest and dividends	\$ -		17	17
Intergovernmental		1,208	1,208	-
Total revenues	<u>-</u>	<u>1,208</u>	<u>1,225</u>	<u>17</u>
EXPENDITURES:				
Current:				
General government		14,103	13,688	415
Total expenditures	<u>-</u>	<u>14,103</u>	<u>13,688</u>	<u>415</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(12,895)</u>	<u>(12,463)</u>	<u>432</u>
OTHER FINANCING SOURCES				
Transfers in		417		(417)
Total other financing sources	<u>-</u>	<u>417</u>	<u>-</u>	<u>(417)</u>
Net change in fund balances	-	(12,478)	(12,463)	15
Fund balances at beginning of year	<u>12,463</u>	<u>12,463</u>	<u>12,463</u>	<u>-</u>
Fund balances at end of year	<u>\$ 12,463</u>	<u>(15)</u>	<u>-</u>	<u>15</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, 2011**

	<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	\$ 95,000	96,000	83,601	(12,399)
Investment earnings:				
Interest and dividends	5,200	3,435	3,264	(171)
Total revenues	<u>100,200</u>	<u>99,435</u>	<u>86,865</u>	<u>(12,570)</u>
EXPENDITURES:				
Current:				
Parks and recreation	<u>378,072</u>	<u>455,225</u>	<u>389,592</u>	<u>65,633</u>
Total expenditures	<u>378,072</u>	<u>455,225</u>	<u>389,592</u>	<u>65,633</u>
Excess (deficiency) of revenues over expenditures	<u>(277,872)</u>	<u>(355,790)</u>	<u>(302,727)</u>	<u>53,063</u>
OTHER FINANCING SOURCES/USES				
Transfers in	305,000	305,000	305,000	-
Transfers out			(3,175)	(3,175)
Total other financing sources/uses	<u>305,000</u>	<u>305,000</u>	<u>301,825</u>	<u>(3,175)</u>
Net change in fund balances	27,128	(50,790)	(902)	49,888
Fund balances at beginning of year	<u>654,401</u>	<u>654,401</u>	<u>654,401</u>	<u>-</u>
Fund balances at end of year	<u>\$ 681,529</u>	<u>603,611</u>	<u>653,499</u>	<u>49,888</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, 2011

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variances with Final Budget Over (Under)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES:				
Taxes-other	\$1,227,095	1,163,000	1,199,011	36,011
Investment earnings:				
Interest and dividends	5,700	4,075	4,502	427
Sale of capital assets		780,731	780,731	-
Total revenues	<u>1,232,795</u>	<u>1,947,806</u>	<u>1,984,244</u>	<u>36,438</u>
EXPENDITURES:				
Current:				
Parks and recreation	1,027,829	912,326	400,151	512,175
Capital outlay	<u>7,000,000</u>	<u>10,000</u>	<u>10</u>	<u>9,990</u>
Total expenditures	<u>8,027,829</u>	<u>922,326</u>	<u>400,161</u>	<u>522,165</u>
Excess (deficiency) of revenues over expenditures	<u>(6,795,034)</u>	<u>1,025,480</u>	<u>1,584,083</u>	<u>558,603</u>
OTHER FINANCING USES:				
Transfers out	(562,168)	(844,583)	(1,027,168)	(182,585)
Bond proceeds	<u>7,000,000</u>			<u>-</u>
Total other financing uses	<u>6,437,832</u>	<u>(844,583)</u>	<u>(1,027,168)</u>	<u>(182,585)</u>
Net change in fund balances	(357,202)	180,897	556,915	376,018
Fund balances at beginning of year	<u>689,486</u>	<u>689,486</u>	<u>689,486</u>	<u>-</u>
Fund balances at end of year	<u>\$ 332,284</u>	<u>870,383</u>	<u>1,246,401</u>	<u>376,018</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, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variances with Final Budget Over (Under)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES:				
Franchise receipts	\$ 451,400	380,000	390,881	10,881
Investment earnings:				
Interest and dividends	15,000	9,300	9,184	(116)
Other		1,886	1,886	-
Total revenues	<u>466,400</u>	<u>391,186</u>	<u>401,951</u>	<u>10,765</u>
EXPENDITURES:				
Current:				
General government	<u>408,300</u>	<u>284,795</u>	<u>227,049</u>	<u>57,746</u>
Total expenditures	<u>408,300</u>	<u>284,795</u>	<u>227,049</u>	<u>57,746</u>
Excess of revenues over expenditures	<u>58,100</u>	<u>106,391</u>	<u>174,902</u>	<u>68,511</u>
OTHER FINANCING USES:				
Transfers out			(10,000)	(10,000)
Total other financing uses	<u>-</u>	<u>-</u>	<u>(10,000)</u>	<u>(10,000)</u>
Net change in fund balances	58,100	106,391	164,902	58,511
Fund balances at beginning of year	<u>1,746,439</u>	<u>1,746,439</u>	<u>1,746,439</u>	<u>-</u>
Fund balances at end of year	<u>\$1,804,539</u>	<u>1,852,830</u>	<u>1,911,341</u>	<u>58,511</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, 2011**

	<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:				
Grants and entitlements	\$ 67,101	70,791	67,213	(3,578)
Total revenues	<u>67,101</u>	<u>70,791</u>	<u>67,213</u>	<u>(3,578)</u>
EXPENDITURES:				
Current:				
Public safety	70,956	70,626	67,048	3,578
Total expenditures	<u>70,956</u>	<u>70,626</u>	<u>67,048</u>	<u>3,578</u>
Net change in fund balances	(3,855)	165	165	-
Fund balances at beginning of year	<u>(165)</u>	<u>(165)</u>	<u>(165)</u>	<u>-</u>
Fund balances at end of year	<u>\$ (4,020)</u>	<u>-</u>	<u>-</u>	<u>-</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, 2011

	<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:				
Investment earnings:				
Interest and dividends	\$ 50	100	89	(11)
Intergovernmental	<u>10,250</u>	<u>10,796</u>	<u>9,296</u>	<u>(1,500)</u>
Total revenues	<u>10,300</u>	<u>10,896</u>	<u>9,385</u>	<u>(1,511)</u>
EXPENDITURES:				
Current:				
Public safety	<u>10,250</u>	<u>10,250</u>	<u>13,631</u>	<u>(3,381)</u>
Total expenditures	<u>10,250</u>	<u>10,250</u>	<u>13,631</u>	<u>(3,381)</u>
Net change in fund balances	50	646	(4,246)	(4,892)
Fund balances at beginning of year	<u>17,253</u>	<u>17,253</u>	<u>17,253</u>	<u>-</u>
Fund balances at end of year	<u>\$ 17,303</u>	<u>17,899</u>	<u>13,007</u>	<u>(4,892)</u>

CITY OF TEXARKANA, TEXAS

BROWNFIELD GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2011

	<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	<u>\$ 400,000</u>	<u>99,921</u>		<u>(99,921)</u>
Total revenues	<u>400,000</u>	<u>99,921</u>	<u>-</u>	<u>(99,921)</u>
EXPENDITURES:				
Current:				
Public safety	<u>400,000</u>	<u>99,380</u>	<u>23,027</u>	<u>76,353</u>
Total expenditures	<u>400,000</u>	<u>99,380</u>	<u>23,027</u>	<u>76,353</u>
Net change in fund balances	-	541	(23,027)	(23,568)
Fund balances at beginning of year	<u>(541)</u>	<u>(541)</u>	<u>(541)</u>	<u>-</u>
Fund balances at end of year	<u>\$ (541)</u>	<u>-</u>	<u>(23,568)</u>	<u>(23,568)</u>

CITY OF TEXARKANA, TEXAS

TIRZ #1 FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

For the Year Ended September 30, 2011

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variances with Final Budget Over (Under)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES:				
Property taxes	\$ 8,623	16,500	43,906	27,406
Investment earnings:				
Interest and dividends	-	25	29	4
Intergovernmental		9,000		(9,000)
Total revenues	<u>8,623</u>	<u>25,525</u>	<u>43,935</u>	<u>18,410</u>
EXPENDITURES:				
Current:				
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	8,623	25,525	43,935	18,410
Fund balances at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances at end of year	<u>\$ 8,623</u>	<u>25,525</u>	<u>43,935</u>	<u>18,410</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, 2011

	<i>Lake Texarkana Water Supply Corporation</i>	<i>International Paper Company Water System Contract Fund</i>	<i>Total</i>
ASSETS			
Current assets:			
Cash		33,464	33,464
Receivables (net of allowance for uncollectible):			
Accounts		74,580	74,580
Due from other funds		55	55
Total current assets	<u>-</u>	<u>108,099</u>	<u>108,099</u>
Noncurrent assets:			
Restricted assets:			
Cash	175,599	121,179	296,778
Investments	1,000,000		1,000,000
Receivables:			
Accounts		156,239	156,239
Accrued interest	687		687
Total noncurrent assets	<u>1,176,286</u>	<u>277,418</u>	<u>1,453,704</u>
TOTAL ASSETS	<u>1,176,286</u>	<u>385,517</u>	<u>1,561,803</u>
LIABILITIES			
Current liabilities:			
Accounts payable	2,355	47,087	49,442
Accrued liabilities		1,224	1,224
Due to other funds	11,669	272,498	284,167
Due to other governments	5,261		5,261
Total current liabilities	<u>19,285</u>	<u>320,809</u>	<u>340,094</u>
Noncurrent liabilities:			
Capital improvement deposits	1,157,001	64,708	1,221,709
Total noncurrent liabilities	<u>1,157,001</u>	<u>64,708</u>	<u>1,221,709</u>
TOTAL LIABILITIES	<u>1,176,286</u>	<u>385,517</u>	<u>1,561,803</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, 2011

	<i>Lake Texarkana Water Supply Corporation</i>	<i>International Paper Company Water System Contract Fund</i>	<i>Total</i>
OPERATING REVENUES			
Water sales	\$ -	989,408	989,408
Total operating revenues	<u>-</u>	<u>989,408</u>	<u>989,408</u>
OPERATING EXPENSES			
Contract water & sewer expense-International Paper	<u>-</u>	990,120	990,120
Total operating expense	<u>-</u>	<u>990,120</u>	<u>990,120</u>
Operating income (loss)	<u>-</u>	<u>(712)</u>	<u>(712)</u>
NONOPERATING REVENUES			
Interest revenue - investments	<u>-</u>	712	712
Total nonoperating revenues	<u>-</u>	<u>712</u>	<u>712</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, 2011

	<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	\$ -	994,707	994,707
Cash paid to suppliers		(871,783)	(871,783)
Cash paid to employees		(106,484)	(106,484)
Net cash used from operating activities	<u>-</u>	<u>16,440</u>	<u>16,440</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(216,512)		(216,512)
Capital improvement deposits received	1,030	557	1,587
Interest received on capital improvement deposits	6,894		6,894
Net cash used from capital and related financing activities	<u>(208,588)</u>	<u>557</u>	<u>(208,031)</u>
Cash flows from investing activities:			
Purchase of investments	(2,550,000)		(2,550,000)
Proceeds from sale and maturities of investments	2,902,057		2,902,057
Interest received on investments		712	712
Net cash provided from investing activities	<u>352,057</u>	<u>712</u>	<u>352,769</u>
Net increase (decrease) in cash	143,469	17,709	161,178
Cash, beginning of year	<u>32,130</u>	<u>136,934</u>	<u>169,064</u>
Cash, end of year	<u>\$ 175,599</u>	<u>154,643</u>	<u>330,242</u>

CITY OF TEXARKANA, TEXAS

COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS For the Year Ended September 30, 2011

	<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)	\$ -	(712)	(712)
Adjustments to reconcile operating income to net cash provided by operating activities:			
(Increase) decrease in assets:			
Accounts receivable		5,299	5,299
Due from other funds			-
Increase (decrease) in liabilities:			
Accounts payable		(4,818)	(4,818)
Accrued liabilities		230	230
Due to other funds		16,441	16,441
Other payables			-
Total adjustments	-	17,152	17,152
Net cash provided from operating activities	\$ -	16,440	16,440

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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.

CITY OF TEXARKANA, TEXAS

COMBINING STATEMENT OF NET ASSETS INTERNAL SERVICE FUNDS September 30, 2011

	<i>Employee Benefit</i>	<i>Fleet Services</i>	<i>Total</i>
ASSETS			
Current assets:			
Cash	\$ 1,835,877	48,253	1,884,130
Receivables (net of allowance for uncollectible):			
Other government agencies	367		367
Due from other funds	9,984	145,585	155,569
Due from component units	15,396		15,396
Inventory		23,243	23,243
Total current assets	<u>1,861,624</u>	<u>217,081</u>	<u>2,078,705</u>
Noncurrent assets:			
Capital assets (net of accumulated depreciation)			
Buildings		104,151	104,151
Improvements other than buildings		25,157	25,157
Machinery and equipment		31,907	31,907
Licensed vehicles		23,178	23,178
Total capital assets (net of accumulated depreciation)	<u>-</u>	<u>184,393</u>	<u>184,393</u>
TOTAL ASSETS	<u>1,861,624</u>	<u>401,474</u>	<u>2,263,098</u>
LIABILITIES			
Current liabilities:			
Accounts payable	439,521	38,835	478,356
Accrued payroll		5,632	5,632
Due to other funds	2,346	154,813	157,159
TOTAL LIABILITIES	<u>441,867</u>	<u>199,280</u>	<u>641,147</u>
NET ASSETS			
Invested in capital assets		184,393	184,393
Unrestricted	1,419,757	17,801	1,437,558
TOTAL NET ASSETS	<u>\$ 1,419,757</u>	<u>202,194</u>	<u>1,621,951</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, 2011**

	<i>Employee Benefit</i>	<i>Fleet Services</i>	<i>Total</i>
OPERATING REVENUES			
Charges for services	\$ 4,467,974	1,514,175	5,982,149
Other		1,483	1,483
Total revenues	<u>4,467,974</u>	<u>1,515,658</u>	<u>5,983,632</u>
OPERATING EXPENSES			
Benefit payments	4,816,259		4,816,259
Cost of sales and service		1,478,656	1,478,656
Depreciation		16,525	16,525
Total expenditures	<u>4,816,259</u>	<u>1,495,181</u>	<u>6,311,440</u>
Operating income (loss)	<u>(348,285)</u>	<u>20,477</u>	<u>(327,808)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	11,189	347	11,536
Gain on sale of capital assets		24,100	24,100
Total nonoperating revenues (expenses)	<u>11,189</u>	<u>24,447</u>	<u>35,636</u>
Income (loss) before transfers	(337,096)	44,924	(292,172)
Transfers in		23,747	23,747
Transfers out	<u>(200,000)</u>		<u>(200,000)</u>
Change in net assets	(537,096)	68,671	(468,425)
Total net assets - beginning	<u>1,956,853</u>	<u>133,523</u>	<u>2,090,376</u>
Total net assets -ending	<u>\$ 1,419,757</u>	<u>202,194</u>	<u>1,621,951</u>

CITY OF TEXARKANA, TEXAS

COMBINING STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS For the Year Ended September 30, 2011

	<i>Employee Benefit</i>	<i>Fleet Services</i>	<i>Total</i>
Cash flows from operating activities:			
Cash received from users	\$ 1,434,849		1,434,849
Cash received from interfund services provided and used	2,993,310	1,513,628	4,506,938
Cash paid to suppliers	(4,686,161)	(1,236,412)	(5,922,573)
Cash paid to employees		(266,734)	(266,734)
Net cash provided (used) from operating activities	<u>(258,002)</u>	<u>10,482</u>	<u>(247,520)</u>
Cash flows from noncapital financing activities:			
Transfers from other funds		23,747	23,747
Transfers to other funds	(200,000)		(200,000)
Net cash provided from noncapital financing activities	<u>(200,000)</u>	<u>23,747</u>	<u>(176,253)</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets		(23,747)	(23,747)
Proceeds received from sale of capital assets		24,100	24,100
Net cash provided from capital and related financing activities	<u>-</u>	<u>353</u>	<u>353</u>
Cash flows from investing activities:			
Interest received from investment	11,189	349	11,538
Net cash provided (used) from investing activities	<u>11,189</u>	<u>349</u>	<u>11,538</u>
Net increase (decrease) in cash	(446,813)	34,931	(411,882)
Cash at beginning of year	2,282,690	13,322	2,296,012
Cash at end of year	<u>1,835,877</u>	<u>48,253</u>	<u>1,884,130</u>
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided by Operating Activities</u>			
Operating income (loss)	(348,285)	20,477	(327,808)
Adjustments to Reconcile Operating Income to Net Cash			
Provided by Operating Activities			
Depreciation		16,525	16,525
(Increase) decrease in assets:			
Due from other government agencies	289	16,362	16,651
Due from other funds	(30,475)	(18,432)	(48,907)
Due from component units	(9,629)	39	(9,590)
Increase (decrease) in liabilities:			
Accrued liabilities	108,224	14,759	122,983
Accrued payroll		(8,648)	(8,648)
Due to other funds	21,874	(30,600)	(8,726)
Total adjustments	<u>90,283</u>	<u>(9,995)</u>	<u>80,288</u>
Net cash provided by operating activities	<u>\$ (258,002)</u>	<u>10,482</u>	<u>(247,520)</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.

CITY OF TEXARKANA, TEXAS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUNDS

For the Year Ended September 30, 2011

	<i>Balance October 1, 2010</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance September 30, 2011</i>
POLICE EVIDENCE FUND				
Assets				
Cash	\$ 9,908	8,693	(200)	18,401
Total Assets	<u>9,908</u>	<u>8,693</u>	<u>(200)</u>	<u>18,401</u>
Liabilities				
Escrow Deposits	9,908	8,655	(162)	18,401
Total Liabilities	<u>9,908</u>	<u>8,655</u>	<u>(162)</u>	<u>18,401</u>
Net assets	<u>-</u>	<u>38</u>	<u>(38)</u>	<u>-</u>
DRUG ENFORCEMENT ESCROW FUND				
Assets				
Cash	60,279	10,914	(34,740)	36,453
Total Assets	<u>60,279</u>	<u>10,914</u>	<u>(34,740)</u>	<u>36,453</u>
Liabilities				
Escrow deposits	60,279	8,367	(32,193)	36,453
Total liabilities	<u>60,279</u>	<u>8,367</u>	<u>(32,193)</u>	<u>36,453</u>
Net assets	<u>-</u>	<u>2,547</u>	<u>(2,547)</u>	<u>-</u>
TOTAL ALL AGENCY FUNDS				
Assets				
Cash	70,187	19,607	(34,940)	54,854
Total assets	<u>70,187</u>	<u>19,607</u>	<u>(34,940)</u>	<u>54,854</u>
Liabilities				
Escrow deposits	70,187	17,022	(32,355)	54,854
Total liabilities	<u>70,187</u>	<u>17,022</u>	<u>(32,355)</u>	<u>54,854</u>
Net assets	<u>\$ -</u>	<u>2,585</u>	<u>(2,585)</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, 2011

Governmental funds capital assets:

Land	\$ 45,241,184
Buildings	25,340,117
Improvements other than buildings	6,218,676
Infrastructure	101,453,177
Machinery and equipment	2,602,201
Licensed vehicles	7,580,977
Construction in progress	6,012,462
Total governmental funds capital assets	<u>\$ 194,448,794</u>

Investments in governmental funds capital assets by source:

General fund	\$ 134,715,542
Special revenue funds	3,161,184
Capital projects funds	56,572,068
Total governmental funds capital assets	<u>\$ 194,448,794</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, 2011

Function and activity	<u>Land</u>	<u>Buildings</u>	<u>Improvements other than Buildings</u>	<u>Infrastructure</u>
General government				
Quality assurance				
Municipal court				
Finance administration				
Purchasing		177,404		
Accounting				
Building maintenance		1,900,832	133,102	
Other - unclassified	45,241,184			
Total general government	<u>45,241,184</u>	<u>2,078,236</u>	<u>133,102</u>	<u>-</u>
Public safety				
Police administration		12,069,245	167,089	
Patrol division				
Services division		38,524		
Criminal investigation				
Commercial vehicle enforcement				
Code enforcement				
Animal control				
Special operations				
Narcotics				
Fire administration				
Fire operations		1,630,761	136,236	12,493
Fire prevention				
Fire training		791,009		
Emergency management				
Total public safety	<u>-</u>	<u>14,529,539</u>	<u>303,325</u>	<u>12,493</u>
Public works				
Public works administration				
Engineering design				
Street maintenance		460,894	128,268	98,337,470
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>101,022,469</u>
Health and welfare				
Community development		6,500		
Environmental services				
Farmers' market				107,792
Total health and welfare	<u>-</u>	<u>6,500</u>	<u>-</u>	<u>107,792</u>

<i>Machinery and Equipment</i>	<i>Licensed Vehicles</i>	<i>Construction in Progress</i>	<i>Total</i>
16,958			16,958
70,567			70,567
318,923			318,923
112,968	8,402		298,774
11,635			11,635
			2,033,934
			45,241,184
<u>531,051</u>	<u>8,402</u>	<u>-</u>	<u>47,991,975</u>
6,000	52,632		12,294,966
143,248	1,037,016		1,180,264
11,017	236,896		286,437
30,452	286,514		316,966
5,795	51,625		57,420
	20,180		20,180
	100,027		100,027
15,188	25,650		40,838
14,150			14,150
	29,561		29,561
238,265	2,727,692		4,745,447
14,309	62,001		76,310
	17,424		808,433
201,843	60,942		262,785
<u>680,267</u>	<u>4,708,160</u>	<u>-</u>	<u>20,233,784</u>
7,490			7,490
109,228	61,690		170,918
740,047	2,002,279	4,558,552	106,227,510
	67,259		67,259
102,857	160,045		3,251,729
<u>959,622</u>	<u>2,291,273</u>	<u>4,558,552</u>	<u>109,724,906</u>
	16,600		23,100
11,271	32,829		44,100
			107,792
<u>11,271</u>	<u>49,429</u>	<u>-</u>	<u>174,992</u>

CITY OF TEXARKANA, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS SCHEDULE BY FUNCTION AND ACTIVITY September 30, 2011

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	243,274
Recreational programs		54,874	4,049,102	
Perot Theatre		3,055,705	51,468	
Senior citizens programs		103,800	70,084	
Beverly Center		125,960		
Library		2,621,241	46,228	67,149
Convention Center				
Total parks and recreation	<u>-</u>	<u>8,025,184</u>	<u>5,589,917</u>	<u>310,423</u>
Total governmental funds capital assets	<u>\$45,241,184</u>	<u>25,340,117</u>	<u>6,218,676</u>	<u>101,453,177</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>
256,607	523,713		4,460,233
69,419			4,173,395
87,526			3,194,699
			173,884
			125,960
6,438			2,741,056
		1,453,910	1,453,910
<u>419,990</u>	<u>523,713</u>	<u>1,453,910</u>	<u>16,323,137</u>
<u>2,602,201</u>	<u>7,580,977</u>	<u>6,012,462</u>	<u>194,448,794</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, 2011

Function and activity	<i>Governmental Funds Capital Assets 9/30/2010</i>	<i>Additions</i>
General government		
Quality assurance	16,958	
Municipal court	-	70,567
Finance administration	5,214	313,709
Purchasing	298,774	
Accounting	11,635	
Building maintenance	2,033,934	
Other - unclassified	46,036,843	
Total general government	<u>48,403,358</u>	<u>384,276</u>
Public safety		
Police administration	12,315,145	
Patrol division	1,048,871	366,247
Services division	286,486	38,524
Criminal investigation	348,092	
Commercial Vehicle Enforcement	51,625	5,795
Code Enforcement	20,180	
Animal control	100,027	
Special operations	40,838	
Narcotics	14,150	
Fire administration	-	29,561
Fire operations	4,696,166	76,350
Fire prevention	76,310	
Fire training	808,433	
Emergency management	156,928	105,857
Total public safety	<u>19,963,251</u>	<u>622,334</u>
Public works		
Public works administration	7,490	
Engineering design	113,742	70,735
Street maintenance	102,449,196	4,104,511
Inspection	78,640	
Sign and signal	3,237,491	24,922
Total public works	<u>105,886,559</u>	<u>4,200,168</u>
Health and welfare		
Community development	23,100	
Environmental services	23,659	20,441
Farmers' market	-	185
Total health and welfare	<u>46,759</u>	<u>20,626</u>

<u>Deductions</u>	<u>Transfers</u>	<i>Governmental Funds Capital Assets 9/30/2011</i>
		16,958
		70,567
		318,923
		298,774
		11,635
		2,033,934
<u>(795,659)</u>		<u>45,241,184</u>
<u>(795,659)</u>	<u>-</u>	<u>47,991,975</u>
		12,294,966
(20,179)		1,180,264
(234,854)		286,437
(38,573)		316,966
(31,126)		57,420
		20,180
		100,027
		40,838
		14,150
		29,561
(27,069)		4,745,447
		76,310
		808,433
		<u>262,785</u>
<u>(351,801)</u>	<u>-</u>	<u>20,233,784</u>
		7,490
(13,559)		170,918
(170,419)	(155,778)	106,227,510
(11,381)		67,259
(10,684)		<u>3,251,729</u>
<u>(206,043)</u>	<u>(155,778)</u>	<u>109,724,906</u>
		23,100
		44,100
	<u>107,607</u>	<u>107,792</u>
<u>-</u>	<u>107,607</u>	<u>174,992</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, 2011**

Function and activity	<i>Governmental Funds Capital Assets 9/30/2010</i>	<i>Additions</i>
Parks and recreation		
Parks maintenance	4,336,731	253,969
Recreational programs	4,168,394	5,001
Perot Theatre	3,122,549	72,150
Senior citizens programs	173,884	
Beverly Center	125,960	
Library	2,741,056	
Convention Center		1,298,132
Total parks and recreation	<u>14,668,574</u>	<u>1,629,252</u>
Total governmental funds capital assets	<u>188,968,501</u>	<u>6,856,656</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 9/30/2011</i>
(22,860)	(107,607)	4,460,233
		4,173,395
		3,194,699
		173,884
		125,960
		2,741,056
	155,778	1,453,910
<u>(22,860)</u>	<u>48,171</u>	<u>16,323,137</u>
<u>(1,376,363)</u>	<u>-</u>	<u>194,448,794</u>

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Component Units

CITY OF TEXARKANA, TEXAS

BALANCE SHEET COMPONENT UNITS September 30, 2011

	<i>Health</i>	<i>Public Library</i>
ASSETS		
Cash	\$ 190,037	615,815
Investments		512,980
Receivables (net of allowance for uncollectible):		
Accounts	6,100	
Other government agencies	125,472	10,173
Due from primary government	3,169	
Prepaid items		4,196
TOTAL ASSETS	<u>\$ 324,778</u>	<u>1,143,164</u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 25,357	6,824
Accrued payroll	13,624	7,646
Due to primary government	963	23,176
Deferred revenue	89,495	
TOTAL LIABILITIES	<u>129,439</u>	<u>37,646</u>
 Fund Balances:		
Nonspendable:		
Prepaid items		4,196
Permanent principal		10,000
Restricted		195,351
Committed	195,339	82,555
Assigned		144,993
Unassigned		668,423
TOTAL FUND BALANCES	<u>195,339</u>	<u>1,105,518</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 324,778</u>	<u>1,143,164</u>

CITY OF TEXARKANA, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE COMPONENT UNITS

For the Year Ended September 30, 2011

	<i>Health</i>	<i>Public Library</i>
REVENUES		
Charges for services	\$ 297,736	40,108
Grants and entitlements	744,222	33,482
Investment earnings:		
Interest and dividends	97	16,735
Net increase in fair value of investments		2,083
Intergovernmental	152,807	829,569
Other	1,567	25,602
Total revenues	<u>1,196,429</u>	<u>947,579</u>
EXPENDITURES		
Current:		
Culture and recreation		861,795
Health and welfare	1,219,717	
Capital outlay		8,846
Total expenditures	<u>1,219,717</u>	<u>870,641</u>
Net change in fund balance	<u>(23,288)</u>	<u>76,938</u>
Fund balance at beginning of year, as previously reported	218,627	998,036
Prior period adjustment		<u>30,544</u>
Fund balance at beginning of year, as restated	<u>218,627</u>	<u>1,028,580</u>
Fund balance at end of year	<u>\$ 195,339</u>	<u>1,105,518</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 Seven 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

<i>Fiscal Year</i>				
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
76,103,232	76,349,021	75,187,833	75,989,018	73,083,340
3,808,754	3,955,059	4,597,610	3,527,351	22,377,550
16,623,006	14,341,579	16,619,162	16,705,965	395,143
<u>96,534,992</u>	<u>94,645,659</u>	<u>96,404,605</u>	<u>96,222,334</u>	<u>95,856,033</u>
55,838,951	57,848,213	57,582,403	56,910,208	58,447,526
8,176,712	6,458,586	7,646,353	9,365,905	9,068,969
6,079,546	5,662,181	4,777,364	4,719,398	4,782,683
<u>70,095,209</u>	<u>69,968,980</u>	<u>70,006,120</u>	<u>70,995,511</u>	<u>72,299,178</u>
131,942,183	134,197,234	132,770,236	132,899,226	131,530,866
11,985,466	10,413,645	12,243,963	12,893,256	31,446,519
22,702,552	20,003,760	21,396,526	21,425,363	5,177,826
<u>166,630,201</u>	<u>164,614,639</u>	<u>166,410,725</u>	<u>167,217,845</u>	<u>168,155,211</u>

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Changes in Net Assets Last Seven Fiscal Years Schedule 2 (accrual basis of accounting)

	<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>	<u>2011</u>
6,612,065	7,494,737	6,677,826	6,009,327	5,523,459
13,517,972	13,812,910	16,495,996	17,460,252	17,142,327
5,956,957	5,682,854	6,755,059	7,271,760	7,117,788
2,632,806	2,926,214	2,755,050	2,906,975	3,027,226
1,260,117	1,391,078	1,724,892	1,630,227	1,659,584
1,954,819	1,947,304	1,868,860	2,246,394	2,747,460
<u>31,934,736</u>	<u>33,255,097</u>	<u>36,277,683</u>	<u>37,524,935</u>	<u>37,217,844</u>
13,931,868	15,361,311	16,166,206	16,154,126	15,592,718
<u>13,931,868</u>	<u>15,361,311</u>	<u>16,166,206</u>	<u>16,154,126</u>	<u>15,592,718</u>
<u>45,866,604</u>	<u>48,616,408</u>	<u>52,443,889</u>	<u>53,679,061</u>	<u>52,810,562</u>
1,081,360	966,780	978,806	1,057,194	957,111
1,506,126	1,839,093	2,148,979	1,735,896	1,619,345
496,407	607,380	572,359	678,445	645,522
1,616,829	1,476,933	2,513,783	1,552,787	1,133,876
	355,900		293,158	
<u>4,700,722</u>	<u>5,246,086</u>	<u>6,213,927</u>	<u>5,317,480</u>	<u>4,355,854</u>
13,453,857	13,988,748	15,184,072	15,259,196	16,030,015
879,848	41,822		199,074	
<u>14,333,705</u>	<u>14,030,570</u>	<u>15,184,072</u>	<u>15,458,270</u>	<u>16,030,015</u>
<u>19,034,427</u>	<u>19,276,656</u>	<u>21,397,999</u>	<u>20,775,750</u>	<u>20,385,869</u>

(Continued)

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Changes in Net Assets

Last Seven 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>

<i>Fiscal Year</i>				
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
(27,234,014)	(28,009,011)	(30,063,756)	(32,207,455)	(32,861,990)
401,837	(1,330,741)	(982,134)	(695,856)	437,297
<u>(26,832,177)</u>	<u>(29,339,752)</u>	<u>(31,045,890)</u>	<u>(32,903,311)</u>	<u>(32,424,693)</u>
10,689,899	11,456,172	13,346,908	13,584,920	13,655,104
12,861,211	13,045,922	13,392,204	13,148,821	13,800,353
2,160,078	2,230,071	2,196,103	2,197,528	2,070,004
892,562	1,261,153	1,183,855	1,379,404	1,278,680
1,425,700	663,762	198,386	243,935	211,155
62,273				
627,374	1,231,150	1,486,346	1,451,676	1,211,493
14,308	17,325	18,900	18,900	268,900
<u>28,733,405</u>	<u>29,905,555</u>	<u>31,822,702</u>	<u>32,025,184</u>	<u>32,495,689</u>
669,904	348,128	94,880	48,472	65,121
722,073	873,709	943,294	1,655,675	1,070,149
(14,308)	(17,325)	(18,900)	(18,900)	(268,900)
<u>1,377,669</u>	<u>1,204,512</u>	<u>1,019,274</u>	<u>1,685,247</u>	<u>866,370</u>
1,499,391	1,896,544	1,758,946	(182,271)	(366,301)
1,779,506	(126,229)	37,140	989,391	1,303,667
<u>3,278,897</u>	<u>1,770,315</u>	<u>1,796,086</u>	<u>807,120</u>	<u>937,366</u>

(Concluded)

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Program Revenues by Function/ Program

Last Seven Fiscal Years

Schedule 3

(accrual basis of accounting)

Function/ Program	Program Revenues	
	2005	2006
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.

Unaudited -see accompanying auditors' report

Program Revenues

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
1,231,574	1,565,525	1,436,165	1,385,662	1,049,720
2,019,494	2,153,738	2,991,916	2,604,636	2,112,675
444,022	671,838	446,057	509,842	223,836
199,088	167,696	238,500	296,044	315,563
806,544	687,289	1,101,289	521,296	654,060
<u>4,700,722</u>	<u>5,246,086</u>	<u>6,213,927</u>	<u>5,317,480</u>	<u>4,355,854</u>
<u>14,333,705</u>	<u>14,030,570</u>	<u>15,184,072</u>	<u>15,458,270</u>	<u>16,030,015</u>
<u>14,333,705</u>	<u>14,030,570</u>	<u>15,184,072</u>	<u>15,458,270</u>	<u>16,030,015</u>
<u><u>19,034,427</u></u>	<u><u>19,276,656</u></u>	<u><u>21,397,999</u></u>	<u><u>20,775,750</u></u>	<u><u>20,385,869</u></u>

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION
Fund Balances, Governmental Funds
Last Seven 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	985,581	732,852
Nonspendable		
Restricted		
Assigned		
Unassigned	1,977,402	1,985,615
Total General Fund	<u>\$ 3,295,734</u>	<u>3,103,125</u>
All Other Governmental Funds		
Reserved	\$ 24,685,615	21,604,607
Unreserved, designated for		
Convention center		
Unreserved		
Special revenue fund	246,959	564,945
Debt service fund	1,410,722	1,588,486
Capital projects fund	2,950,060	1,345,965
Nonspendable		
Special revenue fund		
Restricted		
Special revenue fund		
Debt service fund		
Capital projects fund		
Committed		
Special revenue fund		
Assigned		
Special revenue fund		
Unassigned		
Special revenue fund		
Total all other governmental funds	<u>\$ 29,293,356</u>	<u>25,104,003</u>

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

* The City implemented GASB Statement 54 in fiscal year 2011. Except for the unassigned category, conversion of prior year data to new categories is not possible at this time.

Unaudited -see accompanying auditors' report

<i>Fiscal Year</i>				
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>
425,905	491,130	372,368	379,637	
504,565	205,066	551,949	1,550,244	
				93,257
				499,889
				2,172,462
<u>2,990,900</u>	<u>3,595,302</u>	<u>4,245,301</u>	<u>3,371,709</u>	<u>2,785,910</u>
<u>3,921,370</u>	<u>4,291,498</u>	<u>5,169,618</u>	<u>5,301,590</u>	<u>5,551,518</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	
1,841,743	786,593	622,126	469,315	
				638,311
				1,309,318
				670,992
				19,599,146
				1,911,341
				697,434
				(23,568)
<u>17,960,605</u>	<u>12,214,151</u>	<u>10,271,007</u>	<u>30,013,704</u>	<u>24,802,974</u>

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION Changes in Fund Balances, Governmental Funds Last Seven 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
Investment earnings	10,828	1,557,036
Intergovernmental	475,944	213,570
Sale of capital assets	197,474	
Other	303,120	404,529
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	11.6%	14.6%

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

Unaudited -see accompanying auditors' report

<i>Fiscal Year</i>				
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
26,545,692	27,941,371	30,037,456	30,258,026	30,846,064
219,157	309,680	395,834	395,511	200,558
775,330	694,878	677,603	846,054	760,200
1,428,189	1,734,734	2,051,942	1,648,799	1,723,251
929,462	884,610	1,182,928	1,013,367	766,275
1,377,117	620,674	173,039	233,463	199,616
504,807	284,794	507,715	677,714	289,924
				780,731
602,235	1,021,179	935,364	467,527	335,346
<u>32,381,989</u>	<u>33,491,920</u>	<u>35,961,881</u>	<u>35,540,461</u>	<u>35,901,965</u>
6,240,999	7,171,027	6,326,081	5,638,878	5,167,206
12,823,379	13,615,418	15,178,168	16,291,717	15,479,970
3,806,711	3,467,370	4,036,371	4,004,301	4,077,566
2,151,789	2,496,629	2,159,831	2,282,880	2,342,064
674,659	613,902	1,497,632	1,419,374	1,483,147
410,378	612,979	9,609	16,448	11,134
9,738,050	7,960,625	3,650,301	6,115,692	6,859,040
2,798,292	2,583,789	2,685,087	2,552,290	3,472,228
1,588,909	1,573,889	1,502,725	1,897,567	2,415,565
	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>41,307,920</u>
<u>(7,851,177)</u>	<u>(6,616,528)</u>	<u>(1,083,924)</u>	<u>(5,073,216)</u>	<u>(5,405,955)</u>
555,206	408,440	488,197	593,911	1,510,273
(540,898)	(391,115)	(469,297)	(752,978)	(1,065,120)
	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>445,153</u>
<u>(7,588,250)</u>	<u>(5,399,203)</u>	<u>(1,065,024)</u>	<u>19,874,669</u>	<u>(4,960,802)</u>
14.4%	12.9%	12.5%	12.9%	17.1%

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION Tax Revenue by Source, Governmental Funds Last Seven 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
2011	13,666,358	13,800,353	2,070,004	1,309,349	30,846,064
Percentage change	0.44%	4.96%	-5.80%	0.31%	1.94%

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

Fiscal Year	Tax Roll Year	Personal Property Assessed Value	Real Property Assessed Value	Total Property Assessed Value	Tax Rate (1)	Total Tax Levy	Tax Distribution		
							General Fund	Debt Service	TIRZ #1
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	13,507,427	9,182,349	4,325,078	
2011	2010	366,108,919	2,104,527,844	2,470,636,763	0.5831	13,533,009	8,925,019	4,502,432	105,558

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>Total City Direct Rate</i>
	<i>General</i>	<i>General Obligation Debt Service</i>	<i>TIRZ #1</i>	
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	0.3964	0.1867		0.5831
2011	0.3846	0.194	0.0045	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>
1.5022	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
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

<i>Taxpayer</i>	<i>Rank</i>	<i>2011</i>	
		<i>2010 Assessed Valuation (1) (2)</i>	<i>Percentage of Total Assessed Valuation</i>
Christus Health ArkLaTex	1	\$ 115,333,270	5.31%
GG&A Central Mall Partners	2	32,621,506	1.50%
Arden Texarkana LLC ETAL	3	22,499,802	1.04%
AEP Southwestern Electric Power Co.	4	21,974,640	1.01%
WalMart Stores #01-2123	5	19,087,422	0.88%
Waggoner Creek Crossing LP	6	15,091,767	0.70%
Richmond Road Apartments LP	7	14,443,896	0.67%
Arklatex Real Estate LP	8	14,159,015	0.65%
Valor Telecom of Texas LP	9	13,774,740	0.63%
Orr, William Gregg	10	11,115,486	0.51%
Central Mall - Ed Warmack			
Candle Corporation of America			
Four States Regional Health Center			
WalMart Store Properties			
Alberton's Inc.			
Lowe's Properties			
Cowhorn Creek Properties, LLC			
Total principal taxpayers		<u>\$ 280,101,544</u>	<u>12.90%</u>

Notes:

(1) Net of exemptions

(2) Source - Bowie Central Appraisal District

Unaudited - see accompanying auditors' report

<i>2002</i>		
<i>Rank</i>	<i>2001 Assessed Valuation (1) (2)</i>	<i>Percentage of Total Assessed Valuation</i>
2	\$ 26,018,103	1.64%
6	14,101,306	0.89%
3	24,088,058	1.52%
1	26,432,959	1.66%
4	18,975,911	1.19%
7	13,905,978	0.88%
5	17,707,846	1.11%
8	9,056,895	0.57%
9	8,721,824	0.55%
10	7,320,445	0.46%
	<u>\$ 166,329,325</u>	<u>10.47%</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>
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%	153,616	7,072,077	99.66%
2004	2003	7,864,994	7,629,459	97.01%	201,524	7,830,983	99.57%
2005	2004	8,598,119	8,336,441	96.96%	226,151	8,562,592	99.59%
2006	2005	9,864,056	9,571,045	97.03%	236,391	9,807,436	99.43%
2007	2006	10,580,329	10,253,335	96.90%	255,169	10,508,504	99.32%
2008	2007	11,339,330	10,918,808	96.29%	235,088	11,153,896	98.36%
2009	2008	12,971,666	12,634,807	97.40%	392,913	13,027,720	100.43%
2010	2009	13,523,534	13,056,769	96.55%	205,755	13,262,524	98.07%
2011	2010	13,533,009	13,150,342	97.17%		13,150,342	97.17%

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>
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%
2011	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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Residential	1,010,504	1,091,067	936,885	1,029,450	1,020,361
Commercial	753,489	784,149	716,485	799,087	722,743
Member Cities	942,643	922,641	919,958	1,005,885	1,012,144
Wholesale	<u>631,607</u>	<u>622,003</u>	<u>633,148</u>	<u>726,797</u>	<u>752,482</u>
Total	<u>3,338,243</u>	<u>3,419,860</u>	<u>3,206,476</u>	<u>3,561,219</u>	<u>3,507,730</u>
Total Direct Rate					
per 1,000 Gallons					
Residential	2.27	2.27	2.27	2.35	2.43
Commercial	1.71	1.71	1.71	1.77	1.83
Member Cities	0.47	0.55	0.56	0.58	0.64

Unaudited - see accompanying auditors' report

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
944,028	937,401	914,376	926,250	1,164,446
664,667	652,537	585,553	596,290	735,020
905,547	936,941	916,698	928,052	1,014,877
<u>723,824</u>	<u>683,562</u>	<u>676,645</u>	<u>717,840</u>	<u>683,856</u>
<u><u>3,238,066</u></u>	<u><u>3,210,441</u></u>	<u><u>3,093,272</u></u>	<u><u>3,168,432</u></u>	<u><u>3,598,199</u></u>
2.48	2.59	3.01	3.01	3.01
1.87	1.95	2.26	2.26	2.26
0.67	0.64	0.98	0.77	0.65

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Water and Sewer Rates - Texarkana, Texas Water Utilities

Last Ten Fiscal Years

Schedule 13

<u>Fiscal Year</u>	<u>Water</u>		<u>Sewer</u>	
	<u>Monthly Minimum 2000 Gals</u>	<u>Rate per 1000 Gals Over Minimum</u>	<u>Monthly Minimum 2000 Gals</u>	<u>Rate per 1000 Gals Over Minimum</u>
Residential				
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
2011	8.15	3.01	10.52	3.77
Commercial				
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
2011	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>2011</i>			<i>2002</i>		
	<i>Rank</i>	<i>Water & Sewer Revenue</i>	<i>Percentage of Total Water & Sewer Revenue</i>	<i>Rank</i>	<i>Water & Sewer Revenue</i>	<i>Percentage of Total Water & Sewer Revenue</i>
Federal Correctional Institute	1	\$ 643,054	5.16%	1	\$ 638,182	7.11%
Texarkana Housing Authority	2	302,255	2.42%	4	208,595	2.32%
Christus St Michael Hospital	3	247,537	1.98%	3	242,169	2.70%
Brighton Manor/ Woodlands Apts	4	204,279	1.64%	6	64,489	0.72%
Wadley Hospital	5	163,397	1.31%	2	253,596	2.83%
Texarkana Texas ISD	6	157,477	1.26%			
Civigenics Texas, Inc.	7	133,346	1.07%			
Texas A&M Texarkana	8	106,553	0.85%			
River Crossing Apartments	9	102,475	0.82%			
Texarkana College	10	83,594	0.67%			
Alcoa				5	68,611	0.76%
Bi State Justice Building				7	60,794	0.68%
Town North Apartments				8	45,056	0.50%
Summer Meadow Apts.				9	44,830	0.50%
I. P. Sawmill				10	35,721	0.40%
Totals		\$ 2,143,967	17.18%		\$ 1,662,043	18.52%

Unaudited -see accompanying auditors' report

CITY OF TEXARKANA, TEXAS

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

<i>Fiscal Year</i>	<i>Governmental Activities</i>				
	<i>General Obligation Bonds</i>	<i>Certificates of Obligation</i>	<i>Tax Notes</i>	<i>Installment loans</i>	<i>Capital Leases</i>
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
2010 (4)	16,509,387	43,564,165	1,160,000		254,195
2011	15,108,573	42,021,874	1,040,000		148,537

- (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>Total Primary Government</i>	<i>Percentage of Personal Income(2)</i>	<i>Per Capita(2)</i>
\$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	49,643,691	6.23%	1,391
4,478,878	5,685,765	71,652,390	7.77%	1,968
3,971,711	5,497,784	67,788,479	8.09%	1,862

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>
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
2011	36,411	2,170,196,575	62,142,158

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>
\$ 1,645,575	\$ 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
670,992	3,971,711	57,499,455	2.65	1,579

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CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Direct and Overlapping Governmental Activities Debt

September 30, 2011

Schedule 17

<i>Jurisdiction</i>	<i>Gross Bonded Debt (1)</i>	<i>Percentage of Debt Applicable to City of Texarkana</i>	<i>Amount Applicable to City of Texarkana</i>
Direct:			
City of Texarkana, Texas	\$ 62,142,158	100.00%	<u>\$ 62,142,158</u>
Overlapping:			
Texarkana Independent School District	41,864,462	90.00%	37,678,016
Bowie County	1,255,000	38.95%	488,823
Liberty-Eylau Independent School District	3,340,000	85.00%	2,839,000
	3,310,000	100.00%	3,310,000
Pleasant Grove School District	36,955,000	15.00%	<u>5,543,250</u>
Subtotal - Overlapping debt			<u>49,859,089</u>
Total direct and overlapping			<u><u>\$ 112,001,247</u></u>
Per capita overlapping debt			<u><u>\$ 3,076</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 Seven 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>2011</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>1,804,087,656</u>
<u>410,176,821</u>	<u>442,779,495</u>	<u>499,481,145</u>	<u>499,552,722</u>	<u>451,021,914</u>
20,625,223	-	(4)	16,509,387	15,108,573
<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,538,656)</u>	<u>(670,992)</u>
<u>20,625,223</u>	<u>-</u>	<u>(4)</u>	<u>14,970,731</u>	<u>14,437,581</u>
<u>389,551,598</u>	<u>442,779,495</u>	<u>499,481,149</u>	<u>484,581,991</u>	<u>436,584,333</u>

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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>
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
2011	16,204,481	11,025,853	5,178,628	698,252	7.42

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>
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
2011	36,411 (7)	38 (7)	23,007 (7)	7.9 (7)	837,707,877

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

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>2011</i>			<i>2002</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	6,000	1	10.42%	2,470	1	4.54%
Christus St. Michael Health Care	1,900	2	3.30%	1,200	5	2.21%
Cooper Tire & Rubber	1,860	3	3.23%	1,550	2	2.85%
Domtar (fr. Georgia Pacific)	1,150	4	2.00%	1,400	3	2.57%
Wal-Mart/Sam's	1,100	5	1.91%			
International Paper	925	6	1.61%	1,250	4	2.30%
Wadley Regional Medical Ctr	850	7	1.48%	980	6	1.80%
Texarkana Texas ISD	795	8	1.38%	800	7	1.47%
Texarkana AR ISD	785	9	1.36%	800	8	1.47%
Southern Refrigerated Transport	750	10	1.30%			
City of Texarkana, Texas	615		1.07%	466	9	0.86%
Alcoa Mill Products (fr. Alumax)	12		0.02%	365	10	0.67%
Total	16,742		29.08%	11,281		20.74%

Source:

Chamber of Commerce, Texas Workforce Commission LMI Tracer

Notes:

(1) MSA employment for 2011 is 57,600

(2) MSA employment for 2002 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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
General government				
Purchasing- General Services	4	4	4	4
Finance / Accounting	9	8	8	7
Building Maintenance	3	3	2	3
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	7.5	8	7	7
Quality Assurance	0	0	0	0
Marketing	0	0	0	0
Public safety				
Police Administration	4	3	3	4
Uniform Services- Patrol	65	62	61	69
Support Services	10	15	15	14
Criminal Investigation	16.5	17.5	19.5	19.5
CMV Enforcement Unit	0	0	0	0
Narcotics	4	4	4	4
Fire Administration	3	3	3	3
Fire Operations	71	72	69	72
Fire Prevention	3	3	3	5
Fire Training	2	2	2	2
Emergency Management	1	1	1	2
Public works				
Public Works Administration	3	3	3	3
Engineering	6	6	6	6
Engineering & Infrastructure Administration				
Street Maintenance	40.5	42.5	38	38
Building Inspection	7	7	6	6
Sign and Signal	6	6	6	6
P&Z/Comm & PW Administration	0	0	0	2
Code Enforcement	0	0	0	0
Health and welfare				
Community Development	6	6	6	4
Environmental Services				
Environmental Health Services	2	2	2	2
Demolition	4	4	4	4
Animal Control	2	2	2	2

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
4	4	4	3	3	3
7	7	6	5	6	6
3	3	3	3	3	3
3	3	1	1	1	1
3	3	1	1	2	2
		2	2	2	2
3	3	5	4	5	4
3.5	3.5	2.0	0	0	0
7	7	7.5	8.5	8	9
0	0	0	0	1	1
0	0	0	0	1	2
7	3	3	7	7	5
67	66	74	65	69	72
6	12	11	9	10	31.5
20.5	18.5	17.5	18.5	18.5	0
0	0	0	0	2	2
6	4	2	3	4	3
3	3	3	3	3	3
72	72	72	72	72	72
4	4	4	4	4	4
2	2	2	2	2	2
2	2	2	2	2	2
3	3	2	0	0	0
6	7	7	7	7	7
		2	2	2	2
38	38	38	38	38	38
6	7	7	7	7	7
6	6	6	6	6	6
2	2	0	2	2	2
0	0	0	3	3	3
4	4	3	3	3	3
		3	2	2	2
2	2	2	1	1	1
4	4	4	1	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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Parks and recreation				
Parks Administration	4	4	4	3
Parks Maintenance	27.5	24.5	26.5	26.5
Recreational Programs	14	5.5	7.5	7.5
Senior Citizen Programs	3	4	1.5	2.5
Community Center / Weed & Seed	2	2	2	2
Library	15	14	12.5	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	7	6	6	6
WIC	7	7	7	7
Reproductive	9	9	8	8
TB	2	2	1	1
Public Health Response	0	3	4	4
Tobacco	1	1	0	0
Central Records - Dispatch	54	52	53	53
MPO	2.5	2.5	2.5	2.5
Fleet	10	10	10	10
Total	<u>456</u>	<u>449</u>	<u>438.5</u>	<u>452.5</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.

Unaudited -see accompanying auditors' report

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
3	3	2	2	2	2
23	23	24	24	19	19
8	5.5	5.5	5.5	3.5	3.5
2	2.5	2.5	2.5	1	1
2	3	3	3	1	1
12.5	12.5	12.5	12.5	16	16
1.5	1.5	1	1	1	0
0.5	0.5	0.5	0.5	1	1
4	3	5	4	4	3.15
6	4	6	5	6	1.5
7	7	7	5	7	7
7	7	7	6	7	10.95
1	1	0	0	0	0
5	5	2	0	0	0
0	0	0	0	0	0
53	53	54	54	53	53
2.5	2.5	2.5	2.5	3	3
10	10	11	9	8	6
<u>444</u>	<u>439</u>	<u>443.5</u>	<u>423.5</u>	<u>432</u>	<u>431.6</u>

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Operating Indicators by Function/Program

Last Ten Fiscal Years

Schedule 23

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Function/Program</u>				
General government				
Birth certificate requests	5,187	5,041	5,404	5,713
Public safety				
Police				
Commissioned officers	92	90	87	93
Calls for service	38,514	40,249	40,024	42,392
Total citations issued	11,822	8,837	6,807	9,656
Custody arrests	3,073	2,728	2,768	2,898
Fire				
Firefighters	78	75	76	76
Responses- Fire	296	277	303	279
Responses- EMS/Rescue	439	478	420	951
Responses- Other	883	875	847	1,005
Inspections	3,672	3,756	3,812	4,197
Public works				
Street resurfacing (miles)	(1)	(1)	(1)	(1)
Building permits issued	650	688	652	611
Building permits (\$)	46,086,487	63,046,707	65,590,653	61,734,325
Water				
Average daily consumption (millions of gallons)	10.269	9.958	8.924	8.429
Raw water production (millions of gallons)	11.147	11.275	11.291	11.204
Wastewater				
Average daily sewage treatment (millions of gallons)				
South Regional Plant	11.236	9.987	8.597	8.782
Wagner Creek Plant	1.616	1.433	1.460	1.443

Source: Various City Departments

Notes:

(1) No information available

Unaudited -see accompanying auditors' report

<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
5,333	5,740	5,695	5,278	6,138	5,937
93	94	94	94	100	99
43,814	44,456	43,554	45,673	43,518	42,407
13,440	13,922	8,879	11,606	10,536	11,003
3,106	3,739	4,032	5,085	4,010	4,105
79	79	79	79	78	78
362	250	281	250	256	306
999	1,295	1,357	1,494	1,479	1,478
973	963	1,139	978	1,098	1,062
4,083	4,217	3,983	3,988	2,837	2,867
(1)	(1)	(1)	(1)	(1)	1.5
938	663	484	1,188	768	591
61,978,494	48,621,881	76,804,888	44,937,572	49,115,042	63,049,176
8.881	10.29	10.938	10.255	14.89	15.29
10.840	11.849	11.882	11.978	17.01	17.04
8.065	10.348	10.762	10.524	9.575	8.328
1.204	1.088	1.190	1.257	0.993	0.747

CITY OF TEXARKANA, TEXAS

STATISTICAL SECTION

Capital Asset Statistics by Function/ Program

Last Ten Fiscal Years

Schedule 24

<u>Function/Program</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
General Government				
Buildings	2	2	2	2
Public safety				
Police Stations	1	1	1	1
Number of vehicles	67	66	66	66
Fire Stations	5	5	5	5
Fire Apparatus	9	8	8	8
Other motorized vehicles	5	5	5	5
Public works				
Buildings	3	3	3	3
Streets (miles)	250	254	254	254
Paved alleys	5	5	5	5
Unpaved alleys	15	15	15	15
Storm sewers	29	29.5	29.5	29.5
Streetlights	3,150	(1)	(1)	(1)
Parks and recreation				
Parks	10	11	12	12
Park acreage developed	500	533	533	533
Park acreage partially developed	1,330	1,454	1,454	1,454
Playgrounds	18	19	20	20
Swimming pools	1	1	1	1
Tennis courts	4	6	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	5	5
Soccer fields	9	9	9	9
Restroom facilities	8	8	8	13
Boat ramp	1	1	1	1
Perot Theatre	1	1	1	1

Notes:

(1) No information available

Unaudited -see accompanying auditors' report

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
2	2	2	2	4	4
1	1	1	1	1	1
68	69	72	63	69	62
5	5	5	5	5	5
9	9	9	9	9	10
6	6	6	6	6	10
3	3	3	3	2	2
(1)	(1)	(1)	(1)	(1)	(1)
(1)	(1)	(1)	(1)	(1)	(1)
(1)	(1)	(1)	(1)	(1)	(1)
(1)	(1)	(1)	(1)	(1)	(1)
(1)	(1)	(1)	(1)	(1)	(1)
12	15	14	14	12	12
533	500	500	500	500	500
1,454	1,330	1,330	1,330	1,330	1,330
20	19	20	20	26	26
1	0	0	0	0	0
6	6	6	6	4	4
8	8	8	8	8	8
11	10	10	10	10	10
1	2	2	2	2	2
1	1	1	1	1	1
19	19	19	19	19	19
8	8	8	8	8	8
5	4	4	4	4	5
9	8	10	10	12	13
13	14	15	17	17	17
1	1	1	1	1	2
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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Library				
Number of libraries	1	1	1	1
Health and Welfare				
Buildings	1	1	1	1
Water				
Water mains (miles)	433	433	438	451
Water connections	13,310	13,511	12,890	12,708
Fire hydrants	1,415	1,415	1,761	1,807
Plant capacity (million gallons per day)	18	18	18	18
Wastewater				
Sanitary sewer mains (miles)	297	297	303	311
Sewer connections	11,665	11,724	11,954	12,051
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

Source: Various City of Texarkana, Texas departments

Unaudited -see accompanying auditors' report

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
1	1	1	1	1	1
1	1	1	1	1	1
448	460	462	473	479	484
12,813	12,893	13,032	12,951	12,937	12,962
1,846	1,906	1,963	2,013	2,051	2,079
18	18	18	18	18	18
315	323	329	330	328	340
12,166	12,364	12,512	12,418	12,436	12,435
18	18	20	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, 2011

PROGRAM	DESCRIPTION
Type of Report of Financial Statements	Unqualified Opinion
Significant Deficiencies in Internal Control	None
Material Weaknesses in Internal Control	Schedule of Findings Reference #11-1
Noncompliance Material to Financial Statements	None
Significant Deficiencies in Internal Controls over Major Programs	Schedule of Findings Reference # 11-2
Material Weaknesses Involving Significant Deficiencies over Major Programs	None
Type of Report on Compliance with Major Programs	Qualified Opinion
Findings for Federal Awards as Defined in OMB Circular A-133	Schedule of Findings Reference # 11-2, 11-3, & 11-4
Major Federal Programs	14.218 U. S. Department of Housing and Urban Development - Community Development Block Grant 20.507 U.S. Department of Transportation - Urban Transit Program 10.557 U. S. Department of Health – NSS – WIC Card Participation
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, 2011

Grant Title	CFDA Number	Grant Program/ Number	Grant Expenditures
U.S. Department of Housing and Urban Development			
<i>Passed Through the Texas Dept of Housing & Comm Affairs</i>			
Community Development Blk Grant-Entitlement(CDBG) Program Year 2010	14.218	B08-MC-48-1000	\$ 212,641
<i>Passed Through the Texas Dept of Housing & Comm Affairs</i>			
ARRA-Community Development Blk Grant- (CDBG-R) Program Year 2008	14.218	B09-MY-48-1000	<u>67,518</u>
TOTAL U.S. DEPT OF HOUSING & URBAN DEVELOPMENT			<u>280,159</u>
U.S. Department of Transportation			
Selective Traffic Enforcement Prog (STEP)	20.600	587XXF6013	11,984
Urban Transit Program	20.507	TX-90-X604	580,160
ARRA-Urban Transit Program	20.507	TX-96-X028	947,902
Urban Transit Program	20.507	URB0202	<u>235,134</u>
			<u>1,763,196</u>
Federal Transit Capital & Operating Assistance Formula Grant			
<i>Passed Through Texas Department of Transportation</i>	20.505	50-8xxf0017	141,388
<i>Passed Through Arkansas Highway Transportation Department</i>	20.505	50-8xxf0017	<u>59,554</u>
			<u>200,942</u>
TOTAL U.S. DEPT OF TRANSPORTATION			<u>1,976,122</u>
U.S. Department of Justice			
<i>Passed Through the Texas Governor's Office Criminal Justice Division</i>			
Law Enforcement Block Grant J.A.G.	16.738	2010-DJ-BX-0539	<u>67,048</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>67,048</u>
U. S. Department of Homeland Security			
2008 Homeland Security Grant	97.073	HS-050128	16,431
2008 Homeland Security Grant	97.053	HS-050128	8,168
<i>Passed Through Office of the Governor's</i>			
Emergency Management Performance Grant	97.042	10TX-EMPG-0208	<u>24,252</u>

(continued)

CITY OF TEXARKANA, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended September 30, 2011

Grant Title	CFDA Number	Grant Program/ Number	Grant Expenditures
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>48,851</u>
U.S. Department of Health			
<i>Passed Through Texas Department of State Health Services</i>			
Family Planning Services - Title X	93.217	2011-037068	13,997
Social Services Block Grant (title XX)	93.667	209-029349	34,012
Preventive Health and Health Serv Blk Grant	93.991	2011-036494	147,233
NSS-WIC Card Participation	10.557	2011-037230-001	<u>351,846</u>
TOTAL U.S. DEPARTMENT OF HEALTH			<u>547,088</u>
Corporation for National Security and Community Service			
<i>Retired Senior Volunteer Program</i>			
Greater Texarkana RSVP - Action	94.002	U-05SRWTX010	<u>44,765</u>
TOTAL CORP FOR NATIONAL SEC & COMMUNITY SERV			<u>44,765</u>
U.S. Department of Energy			
<i>Energy Efficiency</i>			
Energy Efficiency and Conservation Block Grant (EECBG)	81.128	EE001832	28,970
TOTAL U.S DEPARTMENT OF ENERGY			<u>28,970</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 2,993,003</u>

(concluded)

CITY OF TEXARKANA, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS September 30, 2011

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, 2011. 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, 2011, 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, 2010 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, 2011, which collectively comprise the City of Texarkana, Texas' basic financial statements and have issued our report thereon dated May 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 weaknesses.

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 # 11-1.

2001 MOORES LANE • TEXARKANA, TEXAS 75503 • (903) 823-2727 • FAX (903) 823-2734

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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 May 29, 2012.

City of Texarkana, Texas' response to the findings identified in our audit is described in the accompanying Schedule of Findings. 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.

Holliday, Lemons & Cox, P.C.

May 29, 2012

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HOLLIDAY, LEMONS, & COX, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON 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, 2011. 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.

As described in items 11-2 in the accompanying schedule of findings, the City of Texarkana, Texas did not comply with requirements regarding Reporting that are applicable to its Community Development Block Grant (American Recovery and Reinvestment Act-ARRA). As described in items 11-3, and 11-4 in the accompanying schedule of findings, the City of Texarkana, Texas did not comply with requirements regarding Period of Availability (Timeliness Test), and Real Property Acquisition that are applicable to its Community Development Block Grant (Entitlement Grant).

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Texarkana, Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended September 30, 2011.

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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 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.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

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.

A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 11-2 to be a significant deficiency.

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.

Holliday, Lemons & Cox, P.C.

May 29, 2012

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CITY OF TEXARKANA, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended September 30, 2011

Reference 10-1 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 11-1.

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CITY OF TEXARKANA, TEXAS

SCHEDULE OF FINDINGS - FINANCIAL STATEMENT AUDIT For the Year Ended September 30, 2011

Financial Policies, Procedures, and Application of Accounting Principles Reference 11-1

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) Fund balance for governmental funds was not categorized in accordance with Governmental Accounting Standards Board Statement No. 54 at year end prior to adjustments proposed by the auditors.
- (2) Receivables and allowance for doubtful accounts in the Public Health fund were not properly recorded prior to audit adjustments in the amount of \$14,750 and \$6,245, respectively.
- (3) A house and lot at 2209 West 9th Street was purchased through the Bowie County Sherriff's tax sale, for an amount totaling \$46,000, and was to be used for the Housing and Community Development program. This house was still in the City's possession at September 30, 2011 and was not properly recorded as housing inventory prior to audit adjustments.
- (4) The following payables were not recorded prior to audit adjustments:
 - A payable to the State Comptroller totaling \$113,486 for state criminal costs and fees collected through September 30, 2011.
 - A payable to Springbrook totaling \$101,497 for the final payment due on the accounting software.
 - A payable to Tyler Technologies Inc. totaling \$28,424 for the Incode software program.
 - A payable to Blue Advantage Administrators for September health claims for the Employee Benefit Fund totaling \$150,460.
 - Various contracts and retainage payables totaling over \$250,000 related to construction projects in progress at year end.
- (5) Several due to/from accounts were not in balance with their reciprocal account at year end. These include the following:
 - Two General fund due to/from accounts out of balance by \$145,585 and 36,772, respectively;
 - A due from account in the TIRZ #1 fund was out of balance by \$26,933;
 - A due to account in the Teen Court fund was out of balance by \$1,686.
- (6) Property tax receivables in the General fund, Debt Service fund and TIRZ #1 fund were not properly recorded prior to audit adjustments in the amounts of \$19,552, \$12,972 and \$6,577, respectively.
- (7) Allowance for forgivable loans receivable in the Housing and Community Development fund were not properly recorded prior to audit adjustments in the amount of \$75,701.

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CITY OF TEXARKANA, TEXAS

SCHEDULE OF FINDINGS - FINANCIAL STATEMENT AUDIT For the Year Ended September 30, 2011

Financial Policies, Procedures, and Application of Accounting Principles Reference 11-1 (Continued)

- (8) The restricted and nonspendable fund balance for several funds were not adjusted to the proper balance at year end prior to adjustments proposed by the auditors. Adjustments included the following:
- Restricted for Convention Center totaling \$487,511 in the Hotel/Motel Tax fund
 - Nonspendable noncurrent loans totaling \$34,543 in the Housing 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.

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

Management will review policies and procedures that relate to these types of transactions. Adjustments to policies and procedures will be made as necessary, and consideration will be given to writing new procedures if it is necessary to insure elimination of similar situations in the future.

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CITY OF TEXARKANA, TEXAS

SCHEDULE OF FINDINGS - MAJOR FEDERAL AWARDS PROGRAM AUDIT For the Year Ended September 30, 2011

Community Development Block Grant American Reinvestment and Recovery Act Reporting Reference 11-2

Condition

The City's Community Redevelopment and Grants Department did not file the Community Development Block Grant (American Reinvestment and Recovery Act-ARRA) quarterly report for the first quarter of 2011.

Criteria

Section 1512 of the Recovery Act requires that recipients of Recovery Act funding submit progress reports which are filed on a quarterly basis. Management is responsible for establishing and maintaining effective internal controls over grant reporting. The report for the quarter ended March 31, 2011 was due on April 10, 2011.

Cause

Internal controls were not in place or were not followed to ensure that the City was in compliance with grant requirements.

Effect

With the lack of filing the report on a timely basis, the City is not in compliance with grant reporting requirements.

Recommendation

Management should implement and monitor internal controls to help ensure compliance with reporting requirements. These reports should include accurate and complete information filed in a timely manner.

Views of Responsible Officials and Planned Corrective Actions

The City has hired a Grants Manager to oversee all grant compliance and administration responsibilities, and to insure that internal controls already in place are properly and consistently applied.

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CITY OF TEXARKANA, TEXAS

SCHEDULE OF FINDINGS - MAJOR FEDERAL AWARDS PROGRAM AUDIT For the Year Ended September 30, 2011

Community Development Block Grant-Entitlement Grant Period of Availability-(Timeliness Test) Reference 11-3

Condition

The City did not meet the timeliness requirements set by the grantor agency (U.S. Department of Housing and Urban Development) for the draw and use of grant funds.

Criteria

Per the U.S. Department of Housing and Urban Development, and under the provisions of 24 CFR 570.902, a CDBG grantee will be considered failing to carry out its CDBG activities in a timely manner if, sixty (60) days prior to the end of the current program year, the balance in the line of credit exceeds 1.5 times the annual entitlement grant . Management is responsible for establishing and maintaining effective internal controls to ensure that grant activities are carried out in a timely manner, to ensure compliance with grant requirements.

Cause

Per the City's Consolidated Annual Performance Evaluation Report (CAPER) for the program year ending September 30, 2011, a new court ruling (City of Dallas vs. Heather Stewart No. 09-2057) stated that the authority of administrative bodies appointed by City Councils (Buildings and Standards Commissions) to determine if property is substandard, and order condemnation of the same was a violation of the Texas Constitution and such authority was held only by Texas District Courts. This new ruling forced the City to reduce the scope of its planned demolition activities, thus delaying the disbursement of grant funds.

Effect

With the lack of drawing and disbursing grant funds on a timely basis, the City is not in compliance with grant timeliness requirements.

Recommendation

Management should ensure compliance with all applicable grant requirements.

Views of Responsible Officials and Planned Corrective Actions

The City has prepared and submitted a workout plan to the U.S. Department of Housing and Urban Development including a detailed timeline and expenditure plan. All CDBG activities are now on schedule and major goals listed in the PY11 Action plan and 2008-2012 Consolidated Plan will be achieved.

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CITY OF TEXARKANA, TEXAS

SCHEDULE OF FINDINGS - MAJOR FEDERAL AWARDS PROGRAM AUDIT For the Year Ended September 30, 2011

Community Development Block Grant-Entitlement Grant Real Property Acquisition Reference 11-4

Condition

The City purchased a house at 2209 West 9th Street for \$46,000 in December 2010 from the Bowie County District Clerk through the Sheriff's tax sale. Prior to the purchase, the City did not obtain an independent appraisal as well as a review appraisal of the house.

Criteria

Pursuant to the Community Development Block Grant general requirements, property acquired with federal funds by a non-federal entity must be appraised by a qualified independent appraiser as well as a review appraiser.

Cause

The house was initially built by the City in 2003 using Texas Department of Housing and Community Affairs grant funding. The house was to be sold by the County due to lack of tax payments by the owner. The City did not obtain the appraisals since they had originally built the house and believed the house to be still in good condition.

Effect

Since the City did not obtain the required appraisals, the City is not in compliance with grant requirements.

Recommendation

Management should adhere to all grant guidelines to ensure the City remains compliant to grant requirements. In unusual circumstances where compliance is not deemed applicable or necessary, management should obtain a waiver of written authorization from the grantor authority before risking noncompliance status.

Views of Responsible Officials and Planned Corrective Actions

The unit was built with HOME funds in 2003, and provided to the owner in the form of a grant. The owner resided in the unit for approximately one year. The City attempted to contact the owner and their next of kin from 2004 - 2010. Unable to establish contact the City secured the property to prevent vandalism. Since the unit was provided to the owner as a grant no lien existed therefore the City had no legal claim to the property. Property taxes went unpaid from 2004 – 2010, as a result the property became available through the Bowie County Sheriff's tax sale in December, 2010. In order to preserve the property as an affordable housing unit, per Texas Department of Housing and Community Affairs/ HUD HOME the program requirement prescribing

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CITY OF TEXARKANA, TEXAS

SCHEDULE OF FINDINGS - MAJOR FEDERAL AWARDS PROGRAM AUDIT For the Year Ended September 30, 2011

Community Development Block Grant-Entitlement Grant Real Property Acquisition Reference 11-4 (Continued)

a fifteen (15) year affordability period, as well as the City's rehousing agreement executed with the owner; the City elected to participate in the tax sale for the purpose of securing the property for continued use as an affordable housing unit.

Executing due diligence to ensure the City's bid was below market value City staff conducted the following evaluations:

- Formal inspection of the property to determine the condition and estimate of costs of needed repairs to place the property back in service as an affordable unit,
- review of the original construction cost to the property to ensure the City's bid was below the cost of construction, and
- review of the Bowie Central Appraisal District' September 15, 2010 certified appraised market value to ensure the purchase price did not exceed this appraisal.

The purchase price of the unit met each of the above tests.

The City has executed a contract for sale of the property to the Housing Authority of Texarkana, Texas for the entire price paid to Bowie County for the unit. The sale of this property to the Housing Authority accomplishes the following two objectives:

- Preserves the property as an affordable housing unit, per Texas Department of Housing and Community Affairs/ HUD HOME program requirements, and
- Fully reimburses the CDBG program funds to for use on other eligible program activities.

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