

Bryan W. Shaw, Ph.D., *Chairman*
Buddy Garcia, *Commissioner*
Carlos Rubinstein, *Commissioner*
Mark R. Vickery, P.G., *Executive Director*



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

September 2, 2011

Bridget Bohac, Chief Clerk
Office of the Chief Clerk
Texas Commission on Environmental Quality
P.O. Box 13087, MC-105
Austin, Texas 78711-3087

Re: TCEQ Docket No. 2011-1388-UCR. Consideration of a request for a Commission Order approving a contract designating service areas between the City of Bogata and Red River County WSC pursuant to Texas Water Code Section 13.248.

Dear Ms. Chao:

Transmitted herewith for filing with the Texas Commission on Environmental Quality ("Commission") are the following items as backup material for the September 21, 2011 agenda regarding the request described above:

1. Proposed Order, with the Texas Water Code Section 13.248 contract attached to it;
2. Interoffice Memorandum containing an Executive Summary;
3. Application for a Commission order approving a Texas Water Code Section 13.248 contract filed on June 21, 2011;
4. Interoffice Memorandum containing analysis of the City of Bogata's financial, managerial, and technical capability;
5. Map of the area covered by the Agreement; and
6. Map consent forms from the City of Bogata and Red River County WSC.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Aldredge".

James Aldredge, Staff Attorney
Environmental Law Division

ATTACHMENT

1

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY



AN ORDER APPROVING A CONTRACT DESIGNATING SERVICE AREAS BETWEEN THE CITY OF BOGATA AND THE RED RIVER COUNTY WATER SUPPLY CORPORATION PURSUANT TO TEXAS WATER CODE SECTION 13.248; TCEQ DOCKET NO. 2011-1388-UCR.

A request for a Commission Order approving a contract designating water service areas in Red River County between the City of Bogata (City) and Red River County Water Supply Corporation (WSC), CCN No. 10530, was presented to the Texas Commission on Environmental Quality (Commission) for approval pursuant to Texas Water Code Section 13.248 and Title 30 of the Texas Administrative Code, Section 291.117.

Effective July 26, 2010, the City and WSC executed an "Agreement" (Contract) to transfer retail water utility service area regarding their respective water service areas. The Contract addresses the transfer of the WSC's authority to provide water service to approximately 391 acres and provides that the City will be the sole provider of retail water service in that service area. The Contract is attached to this Order as Exhibit 1. This Order effects changes in CCN service areas as designated by the City and the WSC in the Contract.

Contracts between retail public utilities that designate areas to be served and customers to be served by those retail public utilities, when approved by the Commission after public notice and hearing, are valid and enforceable and are incorporated into the appropriate areas of public convenience and necessity. Texas Water Code Section 13.248.

The Commission held a hearing on the request at the September 21, 2011 agenda and found that the request had merit.

The City is capable of rendering continuous and adequate water service to every customer in the area covered by the Contract. The decertification of the WSC's authority to provide service in the affected area, which results in the City being the sole service provider remaining in the area, is necessary for the service, accommodation, convenience, or safety of the public.

NOW, THEREFORE, BE IT ORDERED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY that:

1. The provisions of the Contract addressing the transfer of a portion of WSC's CCN No. 10530, and designating that retail water service shall be provided by the City of Bogata in that area are hereby approved.

2. CCN No. 10530 in Red River County, held by the Red River County WSC, is hereby amended in accordance with the Contract.

3. The Executive Director is directed to redraw the maps of the CCN as provided in the Contract and as set forth on the map attached to this Order as Exhibit 2, and to amend the Commission's official water service area map for Red River County, Texas. The certificate amendment requested in this application are necessary for the service, accommodation, convenience, and safety of the public.

4. The Chief Clerk of the Texas Commission on Environmental Quality shall forward a copy of this Order to the parties.

5. If any provision, sentence, clause, or phrase of this Order is for any reason held to be invalid, the invalidity of any portion shall not affect the validity of the remaining portions of the Order.

Issue Date:

TEXAS COMMISSION ON
ENVIRONMENTAL QUALITY

For the Commission

AGREEMENT

This agreement is between Red River County Water Supply Corporation (RRCWSC) and the City of Bogata, Texas.

RRCWSC is currently the holder of CCN #10350. This Certificate of Convenience and Necessity provides that RRCWSC has the right to supply water to various parts of Red River County, Texas and, specifically, to that area outside the municipal jurisdiction of the City of Bogata, Texas. It is acknowledged that Rose Acre Farms intends to construct an egg farm facility on property that is currently owned by Steve Hageman, et al. The property intended for the Rose Acre Farms facility lies just outside of the city limits of Bogata, Texas and within the CCN #10350 held by RRCWSC.

The City of Bogata, Texas has agreed to provide water service to Rose Acre Farms at the location described above provided that RRCWSC will agree to a modification of CCN #10350.

RRCWSC does hereby agree to allow the City of Bogata, Texas to provide water service to Rose Acre Farms at the location described above. RRCWSC does hereby agree to request a modification of CCN #10350 under Texas Water Code §13.248 and in such a manner as to allow the City of Bogata, Texas to provide water service to Rose Acre Farms at the location described above. RRCWSC along with the City of Bogata agrees to take any and all actions that are necessary to accomplish the intent of this agreement which is to allow the City of Bogata, Texas to provide water service to Rose Acre Farms at the location described above.

Any application the Texas Commission on Environmental Quality (TCEQ) requires under the Texas Water Code and the TCEQ's rules for approval of the modification in RRCWSC's CCN shall be made no later than 30 days after Rose Acre Farms provides the City and RRCWSC the

surveyed legal description of the Rose Acre Farms property, unless otherwise agreed to in writing by the City of Bogata and RRCWSC. All additional filings required by the TCEQ will be made in a timely manner as requested by the TCEQ.

It is further agreed that the CCN modification shall be limited to the specific acreage on which the Rose Acre Farms is located and that an adequate legal description shall be attached to the request to modify the CCN that limits the modification to the specific acreage on which Rose Acre Farms is located, as well as any other information the TCEQ may request. The land along the route of the pipeline which is not on the Rose Acre Farms property and which is in RRCWSC's CCN, if any, shall not be included in the CCN modification, nor will RRCWSC cede that area to the City of Bogata, Texas. However, this shall not prevent the City of Bogata from providing Rose Acre Farms water service using the proposed water line passing through this area. Additionally, to the extent Rose Acre Farms purchases, within 20 years of the date of this agreement, additional property adjacent to or in close proximity to the original tract for the purposes of expanding its egg farm operations, and construction for such expansion begins on or before the 23-year anniversary date of this agreement, RRCWSC will expand its consent to allow the City of Bogata to serve Rose Acre Farms on those properties as well subject to the same terms of this agreement, including making any filings with the TCEQ required under the Texas Water Code and the TCEQ rules.

The City of Bogata, Texas will prepare the necessary TCEQ CCN modification documents for RRCWSC's approval. These documents will be executed by the appropriate officials of RRCWSC and forwarded to TCEQ for its approval. The City of Bogata will also prepare any notices to surrounding water systems to the extent required under the Texas Water Code prior to the change in the CCN.

The pipeline serving the farm shall not be used for any other purpose except to provide water service to Rose Acre Farms' property and no other connections except those required for flushing the line will be permitted on the pipeline.

The City of Bogata agrees that RRCWSC is voluntarily ceding a portion of its CCN in the interest of economic development and at the request of the City of Bogata and Rose Acre Farms. In the event Rose Acre Farms, or its successor, ceases to operate as a commercial egg farm facility on the site, then the City of Bogata or its successor, on request from RRCWSC or its successor agrees to take steps to restore the farm property to RRCWSC's CCN area (or the successor vehicle to CCN's). However, the ownership of the line itself will not revert to RRCWSC under this agreement.

In future dealings with TCEQ, or its successor, an application to expand its area of operations or CCN, the City of Bogata agrees to neither argue nor represent that the City of Bogata is already serving the site or has a waterline in the area and thus should be permitted to serve areas adjacent thereto. Provided, however, that nothing in this Agreement shall otherwise affect the City of Bogata's rights under Texas Water Code §13.255 or RRCWSC's rights under 7 U.S.C. §1926(b).

The parties acknowledge that this agreement may be subject to the approval of TCEQ and the U.S. Department of Agriculture, Rural Development Farm Service Agency ("Rural Development"), which has a lien on all property of RRCWSC and the power to consent or withhold consent to the proposed transfer of a portion of RRCWSC's certificated area of service. RRCWSC contemplates, based on its discussions with Rural Development, that Rural Development will approve a consensual release of a specific portion of RRCWSC's CCN to the City of Bogata for the use of Rose Acre Farms. RRCWSC agrees to complete and deliver to Rural Development it form

RD-465-1 "Application for Partial Release, Subordination, or Consent" and forward same to Rural Development. Should Rural Development deny the application, should TCEQ refuse to accept the CCN changes, and should there be no other way to legally accomplish the transfer contemplated herein, RRCWSC shall be under no further obligation under this agreement. However, RRCWSC will cooperate in all respects to legally effectuate the intent of this agreement and to insure that water can be supplied by the City of Bogata to Rose Acre Farms through a line built by the City and/or Rose Acre Farms.

This agreement prohibits Rose Acre Farms from reselling (or submetering) water without RRCWSC's consent. However, it is understood that for bio-security reasons there will be separate lines and/or meters on the property where the facility is located to comply with governmental regulations applicable to commercial egg farms. These additional lines and/or meters will be for industrial use only except that Rose Acre Farms may build up to five single family dwellings to house supervisory and/or security personnel.

It is acknowledged by both parties that more formal documents may need to be executed so as to allow the modification of the CCN as described above. Further, it may be necessary that a survey be performed. RRCWSC and the City of Bogata, Texas agree to take all steps necessary to secure the modification as described above. The costs incurred in securing such a modification shall be the responsibility of the City of Bogata and/or Rose Acre Farms.

This agreement is binding upon the parties, their successors, and assigns.

The parties represent that by signing below that they have the requisite authority to enter into this agreement.

AGREED and signed in duplicate originals
on the dates shown:

Manuel M. Cordero (Pres.)
Representative of RRCWSC

Date: 07-12-10

Vincent Lum
Mayor, Vincent Lum, City of Bogata, Texas

Date: 7/26/10

CITY OF BOGATA
P.O. BOX 400
BOGATA, TEXAS 75417
(903) 632-5315
(903) 632-4631-fax

July 27, 2010

Received by Red River County WSC, from the City of Bogata, an original copy of the agreement between them for amending Red River County WSC CCN allowing the City of Bogata to sell water to Rose Acre Farms.

Deanna Baird

7-27-10

ATTACHMENT

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indirectly to the public without first obtaining a CCN.¹ Conversely, a municipality is not required to obtain a CCN to provide retail water service.²

The Texas Water Code and TCEQ rules allow retail public utilities to enter into service area agreements and have the Commission affirm the agreements by amending the entities' respective CCNs.³ The request to approve a 13.248 agreement is not subject to the notice provisions of title 30, section 291.106 of the Texas Administrative Code, which apply to applications for new and amended CCNs. The Commission may approve the service area agreement pursuant to section 13.248 of the Texas Water Code with appropriate notice provided under the Open Meetings Act. The Executive Director has mailed notice of the hearing to the City and the WSC.

BASIS FOR STAFF RECOMMENDATION

The following items were considered in developing the staff's recommendation:

1. Request for a Commission Order approving the 13.248 agreement filed by the City of Bogata on June 21, 2011 (Application No. 37065-C);
2. Agreement between Red River County WSC, the City, executed on July 26, 2010;
3. Map of the service area subject to the 13.248 agreement submitted by the City of Bogata; and
4. Financial, managerial, and technical analysis of the City to operate in the affected area.

STAFF RECOMMENDATION

Staff has confirmed that both the City of Bogata and Red River County WSC are retail public utilities properly authorized to provide retail water service. The area is being transferred because the prospective operator of an agricultural business on the land to be transferred has requested service from the City. Water Supply Division staff is satisfied that the City possesses the adequate financial, managerial, and technical capability to provide continuous and adequate service to the area being transferred. Therefore, based on the facts stated in the application and the supporting documentation submitted by the City, staff supports the request for a Commission Order approving a contract designating service areas between the City and Red River County WSC.

¹ Tex. Water Code Ann. § 13.242(a).

² A municipality is a "retail public utility" under section 13.002(19) of the Texas Water Code but is not a "utility" under section 13.002(23). Therefore, the section 13.242(a) requirement that a "utility" must obtain a CCN before providing retail water utility service does not apply to a municipality.

³ Tex. Water Code Ann. § 13.248; 30 Tex. Admin. Code § 291.117. Section 13.248 states, "Contracts between retail public utilities designating areas to be served and customers to be served by those retail public utilities, when approved by the commission after public notice and hearing, are valid and enforceable and are incorporated into the appropriate areas of public convenience and necessity."

STAFF CONTACTS

James Aldredge, Environmental Law Division (239-2496)

Elizabeth Flores, Water Supply Division (239-6846)

ATTACHMENT

3

HERRERA ♦ BOYLE PLLC

EF

June 21, 2011

Ms. Lisa Fuentes
Utilities Financial Review
Utilities and Districts Section, MC 153
Water Supply Division
TCEQ
Building F
12100 Park 35 Circle
Austin, TX 78753

RE: Application To Transfer A Portion of Certificated Area Served By The Red River WSC To The City of Bogata

Dear Ms. Fuentes:

Pursuant to TWC 13.248 and 30 TAC 291.117(a-b), this letter is to request your review and approval of a contract that would transfer an existing Certificate of Convenience and Necessity ("CCN") area.

The contract proposes to transfer a certain area of the CCN belonging to Red River Water Supply Corp. to the City of Bogata, Texas. This transfer would accommodate the business requirements of Rose Acre Farms, an agricultural business that plans to construct a commercial egg farm facility in the area if they are able to obtain water from the City of Bogata. Granting this request would allow Rose Acre Farms to proceed with its plans to build the facility and would result in employment opportunities and economic benefits affecting Red River County.

The affected area is limited to where Rose Acre Farms plans to build its facility. There are currently no customers receiving service from Red River Water Supply Corp. in the affected area. Red River Water Supply Corp. does not have any assets or facilities that would need to be transferred in the affected area.

In support of this application, please find enclosed the following:

- Attachment A: A list of public water systems affected by the transfer;
- Attachment B: A list of affected landowners;
- Attachment C: A copy of the contract signed between Red River WSC and the City of Bogata;

RECEIVED
TCEQ
WATER SUPPLY DIV.
JUN 21 11 31 AM '11

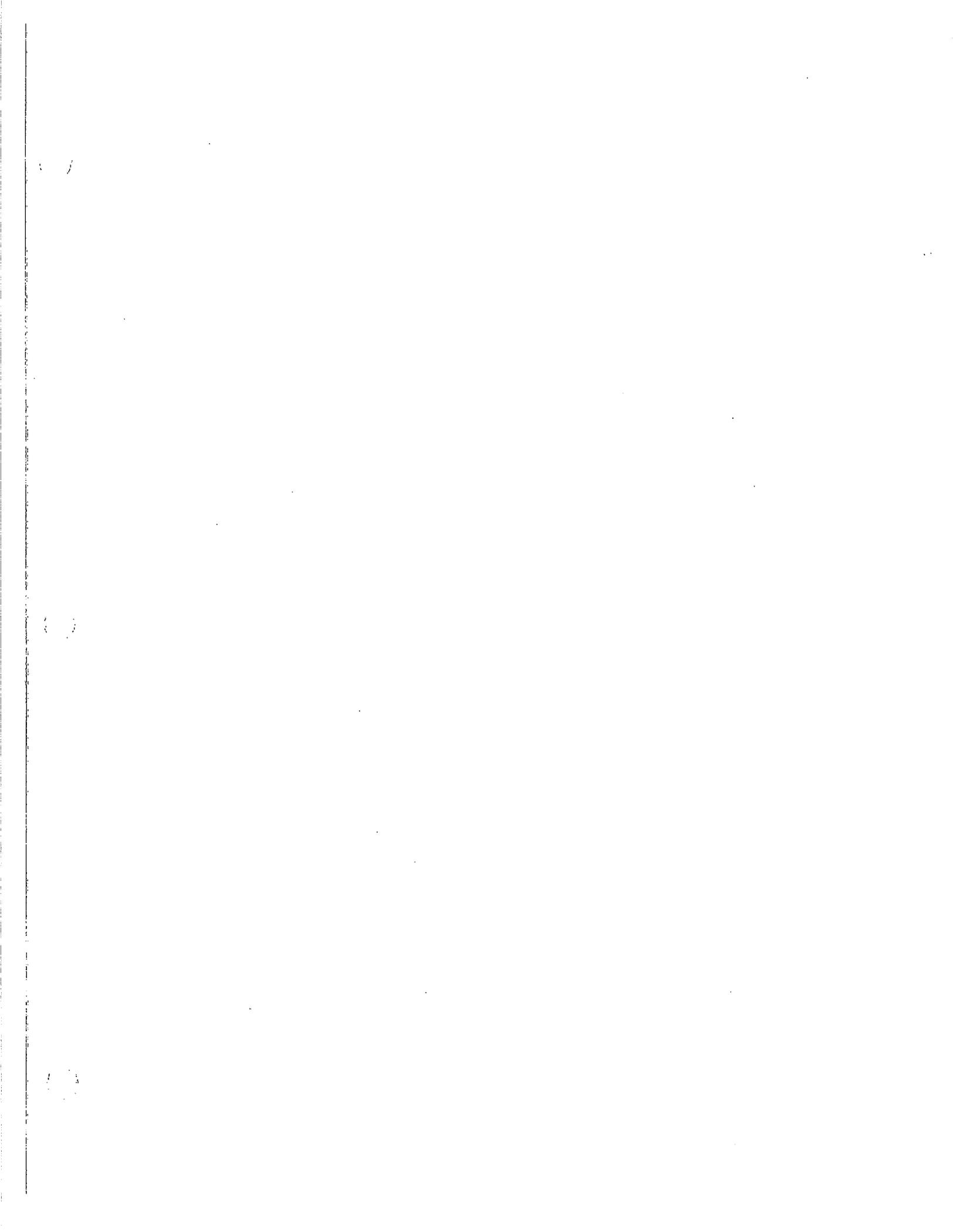
- Attachment D: A copy of the contract signed between the City of Bogata and Rose Acre Farms;
- Attachment E: Maps that identify the area to be transferred by acreage and tract numbers and names;
- Attachment F: Information sufficient to demonstrate the City of Bogata's financial, managerial, and technical ability to provide service in the area to be transferred;
- Attachment G: Letters of support from Rose Acre Farms and the only affected landowner; and
- A filing fee of \$100.

If you have any questions or concerns, or require any additional information, please do not hesitate to contact me.

Sincerely,



Alfred R. Herrera



ATTACHMENT A

LIST OF PUBLIC WATER SYSTEMS AFFECTED BY THE TRANSFER

List of Affected Water Systems:

- Red River Water Supply Corp.
- City of Bogata

ATTACHMENT B

LIST OF AFFECTED LANDOWNERS

List of Affected Customers:

- No current customers are receiving service within the CCN area to be transferred.

ATTACHMENT C

**COPY OF THE
CONTRACT SIGNED
BETWEEN RED RIVER
WSC AND THE CITY OF
BOGATA**

AGREEMENT

This agreement is between Red River County Water Supply Corporation (RRCWSC) and the City of Bogata, Texas.

RRCWSC is currently the holder of CCN #10350. This Certificate of Convenience and Necessity provides that RRCWSC has the right to supply water to various parts of Red River County, Texas and, specifically, to that area outside the municipal jurisdiction of the City of Bogata, Texas. It is acknowledged that Rose Acre Farms intends to construct an egg farm facility on property that is currently owned by Steve Hageman, et al. The property intended for the Rose Acre Farms facility lies just outside of the city limits of Bogata, Texas and within the CCN #10350 held by RRCWSC.

The City of Bogata, Texas has agreed to provide water service to Rose Acre Farms at the location described above provided that RRCWSC will agree to a modification of CCN #10350.

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Any application the Texas Commission on Environmental Quality (TCEQ) requires under the Texas Water Code and the TCEQ's rules for approval of the modification in RRCWSC's CCN shall be made no later than 30 days after Rose Acre Farms provides the City and RRCWSC the

surveyed legal description of the Rose Acre Farms property, unless otherwise agreed to in writing by the City of Bogata and RRCWSC. All additional filings required by the TCEQ will be made in a timely manner as requested by the TCEQ.

It is further agreed that the CCN modification shall be limited to the specific acreage on which the Rose Acre Farms is located and that an adequate legal description shall be attached to the request to modify the CCN that limits the modification to the specific acreage on which Rose Acre Farms is located, as well as any other information the TCEQ may request. The land along the route of the pipeline which is not on the Rose Acre Farms property and which is in RRCWSC's CCN, if any, shall not be included in the CCN modification, nor will RRCWSC cede that area to the City of Bogata, Texas. However, this shall not prevent the City of Bogata from providing Rose Acre Farms water service using the proposed water line passing through this area. Additionally, to the extent Rose Acre Farms purchases, within 20 years of the date of this agreement, additional property adjacent to or in close proximity to the original tract for the purposes of expanding its egg farm operations, and construction for such expansion begins on or before the 23-year anniversary date of this agreement, RRCWSC will expand its consent to allow the City of Bogata to serve Rose Acre Farms on those properties as well subject to the same terms of this agreement, including making any filings with the TCEQ required under the Texas Water Code and the TCEQ rules.

The City of Bogata, Texas will prepare the necessary TCEQ CCN modification documents for RRCWSC's approval. These documents will be executed by the appropriate officials of RRCWSC and forwarded to TCEQ for its approval. The City of Bogata will also prepare any notices to surrounding water systems to the extent required under the Texas Water Code prior to the change in the CCN.

The pipeline serving the farm shall not be used for any other purpose except to provide water service to Rose Acre Farms' property and no other connections except those required for flushing the line will be permitted on the pipeline.

The City of Bogata agrees that RRCWSC is voluntarily ceding a portion of its CCN in the interest of economic development and at the request of the City of Bogata and Rose Acre Farms. In the event Rose Acre Farms, or its successor, ceases to operate as a commercial egg farm facility on the site, then the City of Bogata or its successor, on request from RRCWSC or its successor agrees to take steps to restore the farm property to RRCWSC's CCN area (or the successor vehicle to CCN's). However, the ownership of the line itself will not revert to RRCWSC under this agreement.

In future dealings with TCEQ, or its successor, an application to expand its area of operations or CCN, the City of Bogata agrees to neither argue nor represent that the City of Bogata is already serving the site or has a waterline in the area and thus should be permitted to serve areas adjacent thereto. Provided, however, that nothing in this Agreement shall otherwise affect the City of Bogata's rights under Texas Water Code §13.255 or RRCWSC's rights under 7 U.S.C. §1926(b).

The parties acknowledge that this agreement may be subject to the approval of TCEQ and the U.S. Department of Agriculture, Rural Development Farm Service Agency ("Rural Development"), which has a lien on all property of RRCWSC and the power to consent or withhold consent to the proposed transfer of a portion of RRCWSC's certificated area of service. RRCWSC contemplates, based on its discussions with Rural Development, that Rural Development will approve a consensual release of a specific portion of RRCWSC's CCN to the City of Bogata for the use of Rose Acre Farms. RRCWSC agrees to complete and deliver to Rural Development its form

RD-465-1 "Application for Partial Release, Subordination, or Consent" and forward same to Rural Development. Should Rural Development deny the application, should TCEQ refuse to accept the CCN changes, and should there be no other way to legally accomplish the transfer contemplated herein, RRCWSC shall be under no further obligation under this agreement. However, RRCWSC will cooperate in all respects to legally effectuate the intent of this agreement and to insure that water can be supplied by the City of Bogata to Rose Acre Farms through a line built by the City and/or Rose Acre Farms.

This agreement prohibits Rose Acre Farms from reselling (or submetering) water without RRCWSC's consent. However, it is understood that for bio-security reasons there will be separate lines and/or meters on the property where the facility is located to comply with governmental regulations applicable to commercial egg farms. These additional lines and/or meters will be for industrial use only except that Rose Acre Farms may build up to five single family dwellings to house supervisory and/or security personnel.

It is acknowledged by both parties that more formal documents may need to be executed so as to allow the modification of the CCN as described above. Further, it may be necessary that a survey be performed. RRCWSC and the City of Bogata, Texas agree to take all steps necessary to secure the modification as described above. The costs incurred in securing such a modification shall be the responsibility of the City of Bogata and/or Rose Acre Farms.

This agreement is binding upon the parties, their successors, and assigns.

The parties represent that by signing below that they have the requisite authority to enter into this agreement.

AGREED and signed in duplicate originals
on the dates shown:

Manuel M. Cordero (Pres)
Representative of RRCWSC

Date: 07-12-10

Vincent Lum
Mayor, Vincent Lum, City of Bogata, Texas

Date: 7/26/10

CITY OF BOGATA
P.O. BOX 400
BOGATA, TEXAS 75417
(903) 632-5315
(903) 632-4631-fax

July 27, 2010

Received by Red River County WSC, from the City of Bogata, an original copy of the agreement between them for amending Red River County WSC CCN allowing the City of Bogata to sell water to Rose Acre Farms.

Deanna Baird

7-27-10

ATTACHMENT D

**COPY OF THE
CONTRACT SIGNED
BETWEEN THE CITY OF
BOGATA AND ROSE
ACRE FARMS**

AGREEMENT

This agreement is between Rose Acre Farms (Rose Acre) and the City of Bogata, Texas (the City). In consideration of Rose Acre's commitment to build a commercial egg farm in Red River County, Texas, which will result in job creation within the County, the City agrees to provide a daily supply of potable water to Rose Acre in accordance with the terms and conditions set out below.

A. Treated Water Supply

The City will make available to Rose Acre a supply of potable water meeting applicable purity standards in the State of Texas to be used at Rose Acre's proposed commercial egg farm located outside of the city limits of the City. The City agrees to provide the daily potable water needs of Rose Acre's commercial egg farm for a 20-year term. At the end of the 20 year term, Rose Acre will continue to purchase water and the City will continue to supply water under the terms provided herein unless and until both parties jointly agree to terminate this agreement. Any agreement to terminate shall be in writing and executed by Rose Acre and the City.

B. Rate

The City agrees to provide Rose Acre potable water at its commercial egg farm under the following monthly rate provisions:

\$21.50 for the first 2000 gallons used; or

If use is less than 50,000 gallons per month, then \$6.00 per thousand for each thousand gallons in excess of 2000 gallons; or

If use is 50,000 gallons or more per month, then \$0.50 per thousand for each thousand used in excess of 2000 gallons.

This 20-year rate period will commence on the date Rose Acre begins taking potable water

from the City at its egg farm. It is agreed that the rate will not be adjusted for production costs increase, if any, until the end of the year 2011. Thereafter, if "production costs" as that term is defined herein rises, then the rate Rose Acre Farms is paying for usage greater than 50,000 gallons shall rise accordingly for the following years:

"Production costs" are made up of the following:

- (a) electricity for the wells and pumps;
- (b) costs of chlorine or other chemicals for water treatment; and
- (c) repairs to the wells and pumps.

It is agreed between the parties that the current production costs for water for the City of Bogata is \$0.37 per thousand gallons.

Production costs per thousand gallons of water are calculated in the following manner:

1. First Step

(a) Calculate the average daily rate of water usage in terms of 1,000 gallons. To do so the total number of gallons supplied annually by the City of Bogata is divided by 365 to arrive at a "daily rate of water usage". (Total gallons in year ÷ 365 = daily rate of water usage).

(b) Divide the "daily rate of water usage" by 1,000.

(c) The result is the "daily rate of water usage" in 1,000 gallon terms.

2. Second Step

(a) Determine the "daily average cost". This is determined by adding the following:

- 1. Total electricity costs of the water wells and pumps for the year;
- 2. Total costs of chlorine or other chemicals for water treatment for the year;
- 3. Total repairs and maintenance to water wells and pumps for the year.

(b) The total of (a) is divided by 365 to arrive at "average daily cost".

3. Third Step

"Production costs" is determined dividing daily rate of water usage. (1,000 gallons) by the "average daily cost". The result is the "production costs". The formula is as follows:

$$\begin{array}{l} \text{Average daily rate} \div \text{average daily} = \text{production costs.} \\ \text{water usage (1,000 gallons)} \quad \text{costs} \end{array}$$

At the end of the year 2011, the production costs for the preceding year (2011) will be determined. The rate to be paid by Rose Acre Farms for usage of 50,000 gallons or more per day will rise in accordance with the increase in production costs, if any. For example, if at the end of year 2011 it is calculated that the production costs has increased from \$0.37 to \$0.39 per 1,000 gallons, then the rate paid by Rose Acre Farms beginning January 1, 2012 and thereafter would likewise increase by \$0.02. The resulting rate in this example would be \$0.52 per 1,000 gallons. The annual adjustment for products costs increase, if any, shall continue in a like manner for the remaining years of this agreement. Any adjustment for production costs shall be applied for the following years.

C. Cost of Capital Improvements

The City, at its expense, will provide a pipeline from its current municipal water system to Rose Acre's proposed office within the City's corporate limits and will place a meter at that location. This pipeline and meter will meet the engineered specifications determined necessary to provide a sufficient water supply to Rose Acre's commercial egg farm.

Rose Acre will pay all costs associated with constructing a pipeline from the meter location at its office within the City's corporate limits to its commercial egg farm, including storage tanks and

pressurization facilities.

This agreement is contingent on the City being able to obtain the CCN from the Red River County Water Supply Corporation.

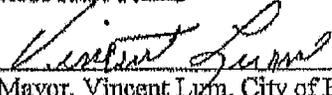
This agreement is binding upon the parties, their successors, and assigns.

The parties represent that by signing below that they have the requisite authority to enter into this agreement. Specifically, this agreement has been approved by the City Council of the City of Bogata, Texas.



Chips Everhart, Director of Environmental Affairs
Rose Acre Farms

Date: 8-19-10

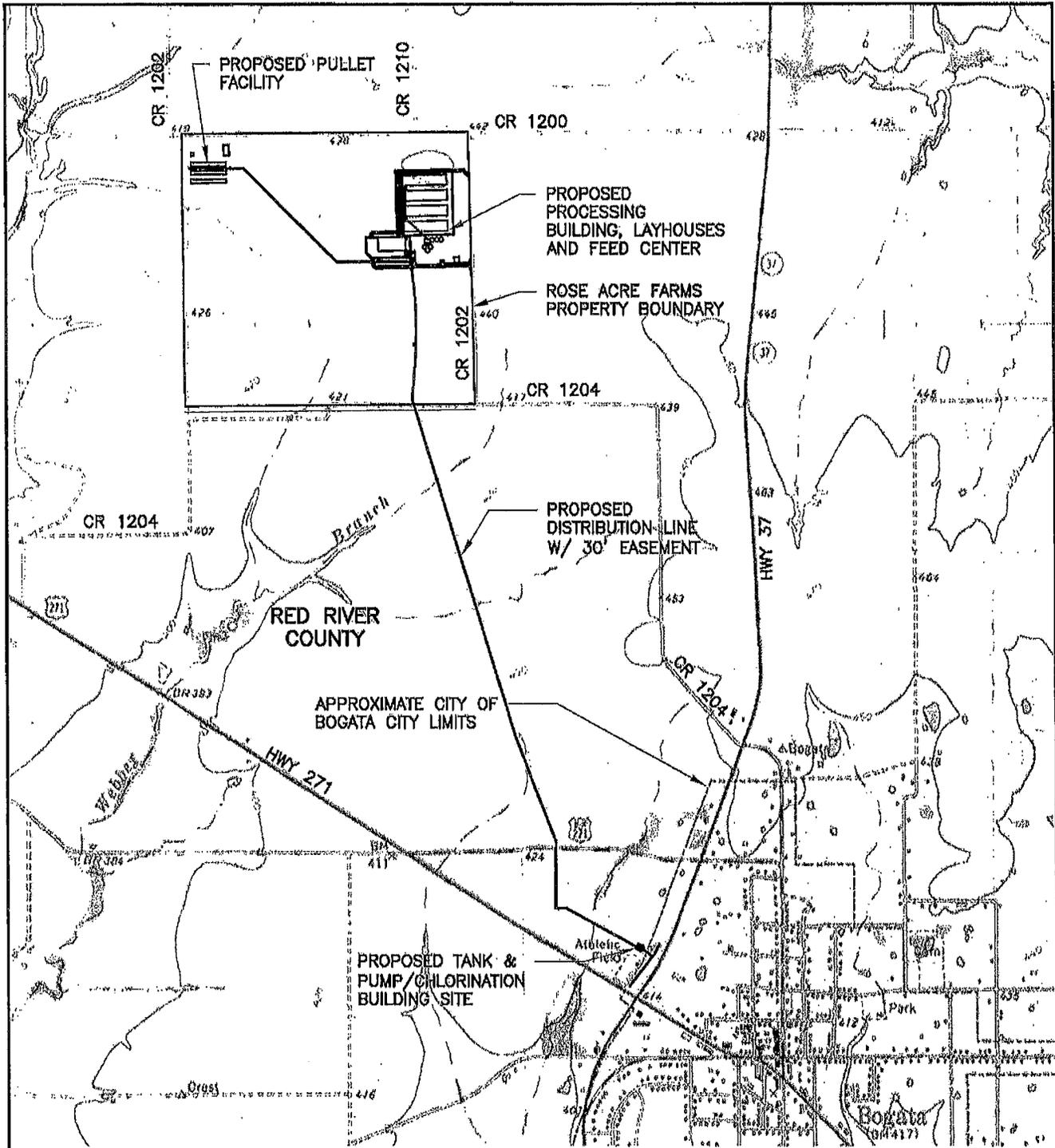


Mayor, Vincent Luna, City of Bogata, Texas

Date: 8/9/10

ATTACHMENT E

**MAPS THAT IDENTIFY
THE AREA TO BE
TRANSFERRED BY
ACREAGE AND TRACT
NUMBERS AND NAMES**



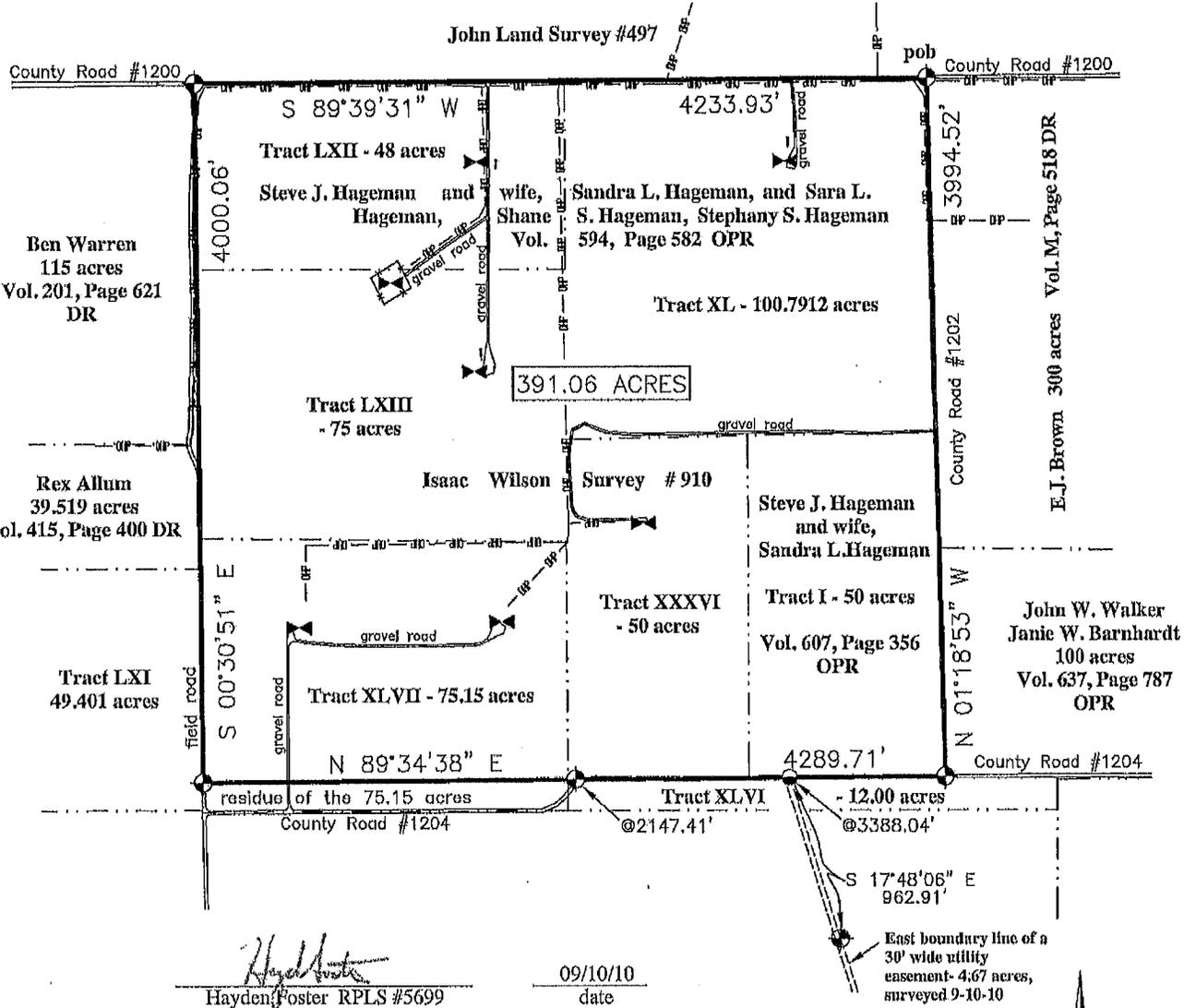
SOURCE: TOPOI SOFTWARE, NATIONAL GEOGRAPHIC SEAMLESS TOPOGRAPHIC MAPS ON CD-ROM, 2006. BOGATA, TX. QUADRANGLES, 1964.

ROSE ACRE FARMS
BOGATA
RED RIVER COUNTY, TEXAS

PROPOSED TRANSFER AREA MAP
USGS 7.5 MIN. QUADRANGLE



Enviro-Ag Engineering, Inc.
ENGINEERING CONSULTANTS
3404 Almay Boulevard
AMARILLO, TEXAS 79118
TEL (806) 363-6123 FAX (806) 363-4132



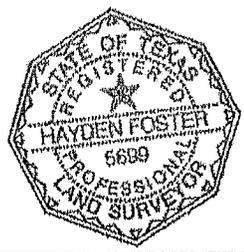
Hayden Foster
 Hayden Foster RPLS #5699

09/10/10
 date

East boundary line of a
 30' wide utility
 easement- 4.67 acres,
 surveyed 9-10-10

- = 1/2" capped iron pin found
- = 5/8" iron pin found
- = 1/2" rebar set
- = 3/8" iron pin found
- = iron pipe found
- = bois d'arc post found
- = post found
- = conc. highway marker found
- = 3/8" capped iron pin (HF 5699) set

- = survey line
- = easement/building line
- = overhead power line
- x = fence
- ⊙ = water meter
- ⊙ = gas meter
- ⊙ = telephone pedestal
- ⊙ = oil/gas well with storage tanks
- pob = point of beginning



I, Hayden Foster, Registered Professional Land Surveyor, No. 5699 do hereby certify that the plat and accompanying field notes represents an on the ground survey made under my direct supervision. Research of recorded documents was made only for the purpose of determining the boundary of this property and the adjoining parcels. Record documents other than those shown on this survey may exist and encumber this property. There doesn't appear to be any encroachments other than those shown hereon. Red River County did not participate in the Federal Emergency Management Agency's (FEMA) National Flood Insurance Program (NFIP) for this area. There is no 100-year flood zone designation. Reference Bearing = the center of County Road #1200 and depicted on this plat as South 89°39'31" West, Controlling Monuments are at the terminus of the Reference Bearing, Schedule B was not available at the time of this survey.

Field Notes – 391.06 Acres

Situated about 12.9 miles South 54° West from the City of Clarksville, in the County of Red River, State of Texas, a part of the Isaac Wilson Survey #910 and being all of a called 50 acre Tract I, conveyed to Steve J. Hageman and wife, Sandra L. Hageman by deed recorded in Vol. 607, Page 356 of the Official Public Records of said County and State and being all of a called 50 acre Tract XXXVI, all of a called 100.7912 acre Tract XL, part of a called 75.15 acre Tract XLVII, all of a called 48 acre Tract LXII and all of a called 75 acre Tract LXIII, conveyed to Steve J. Hageman and wife, Sandra L. Hageman, and Sara L. Hageman, Shane S. Hageman, Stephany S. Hageman by deed recorded in Vol. 594, Page 582 of said Official Public Records.

Beginning at a 3/8" capped iron pin (HF 5699) set at the Northeast corner of the 100.7912 acre tract and being in the center of the intersection of County Road #1200 and County Road #1202, said point being the Northwest corner of a called 300 acre tract conveyed to E.J. Brown by deed recorded in Vol. M. Page 518 of the Deed Records of said County and State.

Thence South 89°39'31" West along the center of County Road #1200 and along the North boundary line of the 100.7912 acre tract and the 48 acre tract a distance of 4233.93' to a 3/8" capped iron pin (HF 5699) set at the Northwest corner of the 48 acre tract and being the Northeast corner of a called 115 acre tract conveyed to Ben Warren by deed recorded in Vol. 201, Page 621 of said Deed Records;

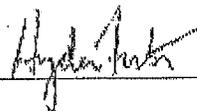
Thence South 0°30'51" East along a field road a distance of 4000.06' to a 3/8" capped iron pin (HF 5699) set in the center of said road and being in the West boundary line of the 75.15 acre tract;

Thence North 89°34'38" East passing a 3/8" capped iron pin (HF 5699) set at a distance of 2147.41' and continuing along County Road #1204 and passing a 1/2" rebar set at a distance of 3388.04' at the Northeast corner of a proposed utility easement and continuing on for a total distance of 4289.71' to a 3/8" capped iron pin (HF 5699) set in the intersection of County Road #1204 and County Road #1202, said point being the Southeast corner of the 50 acre Tract I and being in the North boundary line of a called 12.00 acre Tract XLVI conveyed to said Steve J. Hageman et ux, said point also being the Southwest corner of a called 100 acre tract conveyed to John W. Walker and Janie W. Barnhardt by deed recorded in Vol. 637, Page 787 of said Official Public Records;

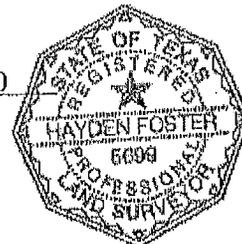
Thence North 1°18'53" West along said County Road #1202 a distance of 3994.52' to the point of beginning and containing 391.06 acres of land.

I, Hayden Foster, Registered Professional Land Surveyor, No. 5699 do hereby certify that the plat and accompanying field notes represents an on the ground survey made under my direct supervision. Research of recorded documents was made only for the purpose of determining the boundary of this property and the adjoining parcels. Record documents other than those shown on this survey may exist and encumber this property. There doesn't appear to be any encroachments other than those shown hereon. Red River County did not participate in the Federal Emergency Management Agency's (FEMA) National Flood Insurance Program (NFIP) for this area. There is no 100-year flood zone designation. Reference Bearing = the center of County Road #1200 and depicted on this plat as South 89°39'31" West. Controlling Monuments are at the terminus of the Reference Bearing. Schedule B was not available at the time of this survey. File #: 100801

Hayden Foster



date 09/10/10



ATTACHMENT F

**INFORMATION
SUFFICIENT TO
DEMONSTRATE THE
CITY OF BOGATA'S
FINANCIAL,
MANAGERIAL, AND
TECHNICAL ABILITY
TO PROVIDE SERVICE
IN THE AREA TO BE
TRANSFERRED**

**CITY OF BOGATA
128 N. MAIN STREET
P.O. BOX 400
BOGATA, TEXAS 75417
903-632-5315
903-632-4631 (fax)**

water/sewer rates for the City of Bogata as of 10-1-2010

	<u>WATER</u>	<u>SEWER</u>
base rate first 2,000 gallons	\$21.50	\$11.00
per thousand over 2,000 gallons	\$6.00	\$1.25
commercial rates using over 50,000 gallons/month – base rate for first 2,000 gallons	\$21.50	
per thousand over 2,000 gallons	\$0.50	



ARNOLD, WALKER, ARNOLD, & Co., P.C.
Certified Public Accountants and Consultants

Bob J. Arnold, C.P.A.
Lanny G. Walker, C.P.A.
Kris Arnold, C.P.A.
Andrew T. Arnold, C.P. A.
Melissa J. Godfrey, C.P.A.

MEMBER
American Institute Of
Certified Public Accountants
Texas State Society Of
Certified Public Accountants

November 15, 2010

City of Bogata
Bogata, Texas

We have audited the financial statements of the governmental activities, the business-type activities, if applicable, each major fund, and the aggregate remaining fund information of the City of Bogata for the year ended September 30, 2010, and have issued our report thereon dated November 15, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 17, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our audit planning letter given to you and dated November 11, 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Bogata are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the allowance for uncollectible taxes and the depreciable lives of fixed assets.

Management's estimate of the allowance for uncollectible taxes is based on historical collection rates. Management's estimates of the depreciable lives of assets is based upon a range of lives generally used by governmental entities. We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 15, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Council of the City of Bogata and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

DEC 03 2010

City of Bogata, Texas
Financial Statements
And Independent Auditor's Report
For the year ended September 30, 2010

City of Bogata, Texas
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 Year ended September 30, 2010

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**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION**

Independent Auditor's Report

**Honorable Mayor, and City Council
City of Bogata, Texas**

We have audited the accompanying financial statements of the government activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Bogata, Texas as of and for the year ended September 30, 2010, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bogata, Texas, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2010 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 compliance. The report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read 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 on pages 2 and 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

Arnold, Walker, Arnold & Co., P.C.
Arnold, Walker, Arnold & Co., P.C.

November 15, 2010

City of Bogata, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Bogata, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities and performance for the year ended September 30, 2010. The information presented here should be read in conjunction with the independent auditor's report and the City's financial statements.

FINANCIAL HIGHLIGHTS

The City's total combined net assets were \$2.9 million at September 30, 2010 which increased from the prior year by \$165 thousand. During the year, the City's revenues were \$1.0 million.

The total cost of all the City's activities was approximately \$849.

The general fund balance is \$114 thousand at September 30, 2010.

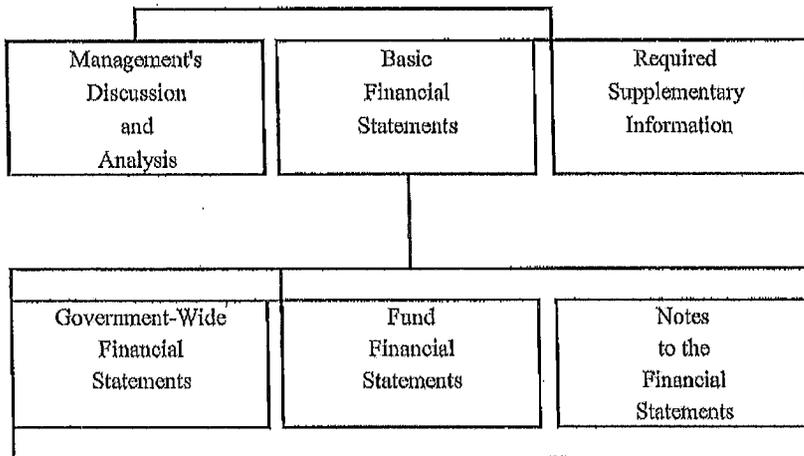
Approximately 93% of the taxes levied for 2009-10 were collected by September 30, 2010.

City of Bogata, Texas
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts--*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide information about the City's activities as a whole and present a longer-term view of the City's property and debt obligations. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer operations.
 - *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong. The City has no fiduciary funds.

Figure A-1. Required Components of the City's Annual Financial Report



Summary ↔ Detail

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

City of Bogata, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the City's Government-wide Fund Financial Statements

<i>Type of Statements</i>	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire City's government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses; self insurance	Instances in which the City is the trustee or agent for someone else's resources
<i>Required financial statements</i>	Statement of net assets	Balance sheet	Statement of net assets	Statement of fiduciary net assets
	Statement of activities	Statement of revenues, Expenditures & changes in fund balances	Statement of revenues, expenses and changes in fund net assets Statement of cash flows	Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon after	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

The City has no fiduciary funds.

City of Bogata, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net assets* and how they have changed. Net assets-the difference between the City's assets and liabilities-is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, consideration should be given to additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as public safety, highways, streets and bridges, judicial and general administration. Property taxes and charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*-not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

- *Governmental funds*-Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them.
- *Proprietary funds*-Services for which the City charges customers a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both long-term and short-term financial information. *Internal service funds* are used to report activities that provide supplies and services for the City's other programs and activities. The City has no internal service funds.

City of Bogata, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were approximately \$2.9 million at September 30, 2010.

Table A-1
The City's Net Assets
(in thousands of dollars)

	Governmental Activities		Business Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	254	207	424	457	678	664
Capital and non-current assets	1,021	924	1,579	1,423	2,600	2,347
TOTAL ASSETS	1,275	1,131	2,003	1,880	3,278	3,011
Long-term liabilities	249	266	-	-	249	266
Other liabilities	140	22	33	32	173	54
TOTAL LIABILITIES	389	288	33	32	422	320
Invested in capital assets net of related debt	772	657	1,579	1,423	2,351	2,080
Restricted	83	131	327	350	410	481
Unrestricted	31	55	64	75	95	130
TOTAL NET ASSETS	886	843	1,970	1,848	2,856	2,691

Net assets invested in capital assets net of related debt reflects the book value of the City's capital assets in excess of the debt which financed those assets. The \$95 thousand of unrestricted net assets represents resources available to fund the programs of the City for the next fiscal year.

The \$410 thousand is restricted as follows:

Restricted for debt service	15
Restricted for capital projects	395
Restricted for special revenue funds	<u>-</u>
	<u>410</u>

Net assets of the City increased approximately \$165 thousand.

City of Bogata, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in net assets.

The City's total revenues were \$1.0 million. 17% of this came from property taxes, 10% came from sales taxes and other taxes, and 38% came from charges for services.

The total cost of all programs was \$849 thousand. Approximately 22% of this was for public safety, 11% was for administrative, and 39% was for water and sewer.

Table A-2
The City's Changes in Net Assets
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
<u>Program Revenues</u>						
Charges for Services	99	112	291	277	390	389
Capital Grants and Contributions	137	52	204	-	341	52
<u>General Revenues</u>						
Property Taxes	169	169	-	-	169	169
Other taxes	103	108	-	-	103	108
Investment earnings	2	4	6	16	8	20
Other	2	5	1	1	3	6
Total Revenues	512	450	502	294	1,014	744
Expenses						
Administrative	95	75	-	-	95	75
Sanitation	74	53	-	-	74	53
Street	66	95	-	-	66	95
Fire	15	13	-	-	15	13
Law enforcement	140	101	-	-	140	101
Municipal court	33	31	-	-	33	31
Intergovernmental	16	-	-	-	16	-
Water and sewer	-	-	240	185	240	185
Debt service - interest	12	6	-	-	12	6
Depreciation	63	40	95	79	158	119
Total Expenses	514	414	335	264	849	678
Transfers in (out)	45	20	(45)	(20)	-	-
Increase (decrease) in Net Assets	43	56	122	10	165	66
Beginning Net Assets	843	787	1,848	1,838	2,691	2,625
Ending Net Assets	886	843	1,970	1,848	2,856	2,691

Table A-3 presents the cost of each of the City's largest functions as well as each function's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

Table A-3
Net Cost of Selected City Functions
(in thousands of dollars)

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Public safety (police and fire)	155	114	148	128
Street	66	95	66	108
Water and sewer	335	264	44	(13)

City of Bogata, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City reported fund balance in its governmental funds of approximately \$114 thousand at September 30, 2010. This balance is composed of the following in thousands

General	114
Special revenue	<u>-</u>
	<u>114</u>

The general fund balance decreased \$72 thousand. Revenues, exclusive of grants, were about the same as the prior year. Operating expenditures increased as compared to the prior year.

General Fund Budgetary Highlights

The budget was amended during the year. No significant increase or decrease to fund balance was budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table A-4
City's Capital Assets
(in thousands of dollars)

	Governmental		Business-Type	
	Activities		Activities	
	2010	2009	2010	2009
Land and construction in progress	139	2	220	16
Buildings and improvements	272	257	65	18
Machinery and equipment	613	667	147	102
Water and sewer system	-	-	3,467	3,512
Furniture and fixtures	23	23	-	-
Park	100	100	-	-
Streets	453	453	-	-
Totals at historical cost	<u>1,600</u>	<u>1,502</u>	<u>3,899</u>	<u>3,648</u>
Total accumulated depreciation	<u>(579)</u>	<u>(579)</u>	<u>(2,320)</u>	<u>(2,225)</u>
Net capital assets	<u>1,021</u>	<u>923</u>	<u>1,579</u>	<u>1,423</u>

Long-Term Debt

Table A-5
City's Long-Term Debt
(in thousands of dollars)

	Governmental		Business-Type	
	Activities		Activities	
	2010	2009	2010	2009
Notes payable	137	149	-	-
Bonds payable/Certificates of obligation	112	117	-	-
	<u>249</u>	<u>266</u>	<u>-</u>	<u>-</u>

City of Bogata, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2010/2011 budget and tax rates. Two factors considered were growth and economic conditions. Neither are projected to change significantly. As a result no significant changes were made to budgeted amounts for 2011 compared to 2010. The City continues to pursue grants to improve the City's water and sewer system and streets. No new governmental functions will be added. It is anticipated that the equity position of the City will remain about the same. The financial position of the City will remain at adequate levels to provide the services desired by the citizens of the City so that the City will remain an attractive place for people and businesses to locate.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the City Manager's Office.

BASIC FINANCIAL STATEMENTS

GOVERNMENT WIDE STATEMENTS

City of Bogata, Texas
STATEMENT OF NET ASSETS
As of September 30, 2010

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Current assets			
Cash and cash equivalents	23,359	62,889	86,248
Accounts receivable, net of allowances	148,181	34,345	182,526
Due from other funds	-	-	-
Total current assets	<u>171,540</u>	<u>97,234</u>	<u>268,774</u>
Restricted assets			
Cash and cash equivalents	82,284	327,011	409,295
Total restricted assets	<u>82,284</u>	<u>327,011</u>	<u>409,295</u>
Capital assets			
Land and construction in progress	138,582	15,636	154,218
Other capital assets, net of accumulated depreciation	882,275	1,563,159	2,445,434
Total capital assets	<u>1,020,857</u>	<u>1,578,795</u>	<u>2,599,652</u>
Total assets	<u>1,274,681</u>	<u>2,003,040</u>	<u>3,277,721</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	119,626	-	119,626
Deferred revenues	20,573	-	20,573
Due to other funds	-	-	-
Notes payable, current	12,312	-	12,312
Total current liabilities	<u>152,511</u>	<u>-</u>	<u>152,511</u>
Current liabilities payable from restricted assets			
Bond interest payable, current	-	-	-
Bonds and certificates payable, current	5,000	-	5,000
Total current liabilities payable from restricted assets	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Non-current liabilities			
Customer deposits	-	32,779	32,779
Bonds, notes and certificates payable, non-current	231,378	-	231,378
Total non-current liabilities	<u>231,378</u>	<u>32,779</u>	<u>264,157</u>
Total liabilities	<u>388,889</u>	<u>32,779</u>	<u>421,668</u>
NET ASSETS			
Invested in capital assets, net of related debt	772,167	1,578,796	2,350,963
Restricted for debt service	15,041	-	15,041
Restricted for special revenue funds	459	-	459
Restricted for capital projects	67,243	327,011	394,254
Unrestricted	30,882	64,454	95,336
Total net assets	<u>885,792</u>	<u>1,970,261</u>	<u>2,856,053</u>

The accompanying notes are an integral part of this statement.

City of Bogata, Texas
STATEMENT OF ACTIVITIES
For the year ended September 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Capital	Governmental Activities	Business-Type Activities	Total
			Grants and Contributions			
GOVERNMENTAL ACTIVITIES						
Administrative	95,445	-	-	(95,445)	-	(95,445)
Sanitation	73,605	84,591	-	10,986	-	10,986
Street	65,614	-	119,344	53,730	-	53,730
Fire	15,439	-	-	(15,439)	-	(15,439)
Law enforcement	139,699	-	6,506	(133,193)	-	(133,193)
Municipal court	32,985	13,964	-	(19,021)	-	(19,021)
Intergovernmental	16,602	-	11,591	(5,011)	-	(5,011)
Debt service-interest	11,770	-	-	(11,770)	-	(11,770)
Unallocated depreciation	63,064	-	-	(63,064)	-	(63,064)
Total Governmental Activities	<u>514,223</u>	<u>98,555</u>	<u>137,441</u>	<u>(278,227)</u>	<u>-</u>	<u>(278,227)</u>
BUSINESS-TYPE ACTIVITIES						
Water and sewer	335,282	291,118	204,041	-	159,877	159,877
Total Business-Type Activities	<u>335,282</u>	<u>291,118</u>	<u>204,041</u>	<u>-</u>	<u>159,877</u>	<u>159,877</u>
TOTAL PRIMARY GOVERNMENT	<u>849,505</u>	<u>389,673</u>	<u>341,482</u>	<u>(278,227)</u>	<u>159,877</u>	<u>(118,350)</u>
General Revenues						
Taxes						
Property taxes				168,583	-	168,583
Sales and other taxes				103,215	-	103,215
Grants and contributions, not restricted				-	-	-
Investment earnings				2,356	6,596	8,952
Miscellaneous				2,258	747	3,005
Total General Revenues				<u>276,412</u>	<u>7,343</u>	<u>283,755</u>
Other Sources (Uses)						
Transfers in (out)				45,000	(45,000)	-
Changes in Net Assets				43,185	122,220	165,405
Net Assets -- Beginning				<u>842,607</u>	<u>1,848,041</u>	<u>2,690,648</u>
Net Assets -- Ending				<u>885,792</u>	<u>1,970,261</u>	<u>2,856,053</u>

The accompanying notes are an integral part of this statement.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

City of Bogata, Texas
BALANCE SHEET
Governmental Funds
as of September 30, 2010

	General	Special Revenue	Other Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	22,900	-	459	23,359
Accounts receivable, net of allowances	28,837	119,344	-	148,181
Restricted assets:				
Cash and cash equivalents	82,284	-	-	82,284
Total Assets	<u>134,021</u>	<u>119,344</u>	<u>459</u>	<u>253,824</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued expenses	282	119,344	-	119,626
Deferred revenue	20,573	-	-	20,573
Due to other funds	-	-	-	-
Total Liabilities	<u>20,855</u>	<u>119,344</u>	<u>-</u>	<u>140,199</u>
Fund Balances				
Designated				
Reported in special revenue funds	-	-	459	459
Restricted for debt service	15,041	-	-	15,041
Restricted for capital projects	67,243	-	-	67,243
Unreserved and Undesignated				
Reported in the general fund	30,882	-	-	30,882
Total Fund Balances	<u>113,166</u>	<u>-</u>	<u>459</u>	<u>113,625</u>
Total Liabilities and Fund Balances	<u>134,021</u>	<u>119,344</u>	<u>459</u>	<u>253,824</u>

The accompanying notes are an integral part of this statement.

City of Bogata, Texas
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS**
 for the year ended September 30, 2010

Total Fund Balances - Governmental Funds	113,625
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,502,191 and the accumulated depreciation was \$579,027. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.	656,983
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2010 capital outlays and debt principal payments is to increase (decrease) net assets.	178,248
Loan proceeds.	-
The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	<u>(63,064)</u>
Net Assets, of Governmental Activities	<u><u>885,792</u></u>

The accompanying notes are an integral part of this statement.

City of Bogata, Texas
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES--GOVERNMENTAL FUNDS**
 for the year ended September 30, 2010

	General	Special Revenue	Other Funds	Total Governmental Funds
REVENUES				
Property taxes	168,583	-	-	168,583
Sales and other taxes	103,215	-	-	103,215
Trash collection	84,591	-	-	84,591
Intergovernmental	11,591	119,344	6,506	137,441
Interest	2,356	-	-	2,356
Municipal court	13,964	-	-	13,964
Miscellaneous	2,258	-	-	2,258
Total Revenues	<u>386,558</u>	<u>119,344</u>	<u>6,506</u>	<u>512,408</u>
EXPENDITURES				
Current				
Administrative	88,292	-	-	88,292
Sanitation	73,605	-	-	73,605
Street	57,842	-	-	57,842
Fire	15,439	-	-	15,439
Law enforcement	133,642	-	6,057	139,699
Municipal court	32,985	-	-	32,985
Intergovernmental	-	-	-	-
Capital outlay				
Administrative	7,153	-	-	7,153
Street	49,185	119,344	-	168,529
Library	16,602	-	-	16,602
Law enforcement	-	-	-	-
Debt service				
Principal	17,491	-	-	17,491
Interest	11,770	-	-	11,770
Total Expenditures	<u>504,006</u>	<u>119,344</u>	<u>6,057</u>	<u>629,407</u>
Excess (deficiency) of revenues over expenditures	<u>(117,448)</u>	<u>-</u>	<u>449</u>	<u>(116,999)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	45,000	-	-	45,000
Loan proceeds	-	-	-	-
Total Other Financing Sources (Uses)	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>45,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(72,448)</u>	<u>-</u>	<u>449</u>	<u>(71,999)</u>
Fund balance, October 1	<u>185,614</u>	<u>-</u>	<u>10</u>	<u>185,624</u>
Fund balance, September 30	<u>113,166</u>	<u>-</u>	<u>459</u>	<u>113,625</u>

The accompanying notes are an integral part of this statement.

City of Bogata, Texas
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
 for the year ended September 30, 2010

Total Net Change in Fund Balances - Governmental Funds	(71,999)
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-side financial statements. The net effect of removing the 2010 capital outlays and debt principal payments is to increase (decrease) net assets.</p>	
	178,248
Loan proceeds.	-
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.</p>	
	<u>(63,064)</u>
Change in Net Assets of Governmental Activities	<u>43,185</u>

The accompanying notes are an integral part of this statement.

City of Bogata, Texas
BUDGETARY COMPARISON SCHEDULE
 General Fund
 for the year ended September 30, 2010

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive or (Negative)
	Original	Final		
REVENUES				
Property taxes	167,190	167,190	168,583	1,393
Sales and other taxes	108,000	108,000	103,215	(4,785)
Trash collection	90,000	90,000	84,591	(5,409)
Intergovernmental	11,635	11,635	11,591	(44)
Interest	4,500	4,500	2,356	(2,144)
Municipal court	24,500	24,500	13,964	(10,536)
Miscellaneous	6,090	6,090	2,258	(3,832)
Total Revenues	<u>411,915</u>	<u>411,915</u>	<u>386,558</u>	<u>(25,357)</u>
EXPENDITURES				
Current				
Administrative	77,145	77,145	88,292	(11,147)
Sanitation	55,000	55,000	73,605	(18,605)
Street	74,725	74,725	57,842	16,883
Fire	15,626	15,626	15,439	187
Law enforcement	125,084	125,084	133,642	(8,558)
Municipal court	35,626	35,626	32,985	2,641
Intergovernmental	-	-	-	-
Capital outlay	-	75,000	72,940	2,060
Debt service	28,709	28,709	29,261	(552)
Total Expenditures	<u>411,915</u>	<u>486,915</u>	<u>504,006</u>	<u>(17,091)</u>
Excess (deficiency) of revenues over expenditures	-	(75,000)	(117,448)	(42,448)
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	-	-	45,000	(45,000)
Loan proceeds	-	-	-	-
Total Other Financing Sources (Uses)	-	-	45,000	(45,000)
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	(75,000)	(72,448)	(87,448)
Fund balance, October 1	185,614	185,614	185,614	-
Fund balance, September 30	<u>185,614</u>	<u>110,614</u>	<u>113,166</u>	<u>(87,448)</u>

The accompanying notes are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

City of Bogata, Texas
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
as of September 30, 2010

	Enterprise Fund	Total Proprietary Funds
ASSETS		
Current assets		
Cash and cash equivalents	62,889	62,889
Accounts receivable, net of allowances	34,345	34,345
Due from other funds	-	-
Total current assets	97,234	97,234
RESTRICTED ASSETS		
Cash and cash equivalents	327,011	327,011
CAPITAL ASSETS		
Land and construction in progress	15,636	15,636
Other capital assets, net of accumulated depreciation	1,563,159	1,563,159
Total capital assets	1,578,795	1,578,795
Total assets	2,003,040	2,003,040
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	-	-
Total current liabilities	-	-
Current liabilities payable from restricted assets		
Bond interest payable, current	-	-
Bonds payable, current	-	-
Total current liabilities payable from restricted assets	-	-
Non-current liabilities		
Customer deposits	32,779	32,779
Bonds payable, non-current	-	-
Total non-current liabilities	32,779	32,779
Total liabilities	32,779	32,779
NET ASSETS		
Invested in capital assets, net of related debt	1,578,796	1,578,796
Restricted for debt service	-	-
Restricted for capital projects	327,011	327,011
Unrestricted	64,454	64,454
Total net assets	1,970,261	1,970,261

The accompanying notes are an integral part of this statement.

City of Bogata, Texas
**STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS**
 for the year ended September 30, 2010

	Enterprise Fund	Total Proprietary Funds
OPERATING REVENUES		
Charges for sales and services	291,118	291,118
Other	747	747
Total Operating Revenues	<u>291,865</u>	<u>291,865</u>
OPERATING EXPENSES		
Personnel costs	115,158	115,158
Contractual expenses	44,634	44,634
Supplies and maintenance	80,175	80,175
Depreciation	95,315	95,315
Total Operating Expenses	<u>335,282</u>	<u>335,282</u>
Net operating income (loss)	<u>(43,417)</u>	<u>(43,417)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	6,596	6,596
Interest expense	-	-
Total nonoperating revenues (expenses)	<u>6,596</u>	<u>6,596</u>
Net income (loss) before other financing sources (uses)	<u>(36,821)</u>	<u>(36,821)</u>
OTHER FINANCING SOURCES (USES)		
Capital contributions, grants	204,041	204,041
Transfers to general fund	(45,000)	(45,000)
Total other financing sources (uses)	<u>159,041</u>	<u>159,041</u>
Changes in net assets	122,220	122,220
Net assets, beginning of year	<u>1,848,041</u>	<u>1,848,041</u>
Net assets, end of year	<u>1,970,261</u>	<u>1,970,261</u>

The accompanying notes are an integral part of this statement.

City of Bogata, Texas
STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS PROPRIETARY FUND
for the year ended September 30, 2010

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	292,520	292,520
Cash payments to suppliers for goods and services	(124,836)	(124,836)
Cash payments to employees for services and benefits	(115,158)	(115,158)
Net cash provided by operating activities	<u>52,526</u>	<u>52,526</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to general fund	(45,000)	(45,000)
Capital contributions, grants	204,041	204,041
Net cash (used in) noncapital financing activities	<u>159,041</u>	<u>159,041</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(250,871)	(250,871)
Principal paid on debt	-	-
Interest paid on debt (net)	-	-
Net cash (used in) capital and related financing activities	<u>(250,871)</u>	<u>(250,871)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	6,596	6,596
Net cash provided by investing activities	<u>6,596</u>	<u>6,596</u>
Net decrease in cash and cash equivalents	(32,708)	(32,708)
Cash and cash equivalents, beginning of year	422,608	422,608
Cash and cash equivalents, end of year	<u>389,900</u>	<u>389,900</u>
RECONCILIATION OF OPERATING INCOME		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	(43,417)	(43,417)
Adjustment to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	95,315	95,315
Increase in accounts receivable	-	-
Decrease in accounts payable and accrued expenses	-	-
Change in customer deposits	655	655
Net cash provided by operating activities	<u>52,553</u>	<u>52,553</u>

The accompanying notes are an integral part of this statement.

City of Bogata, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Bogata, Texas is a City government operating under the applicable laws and regulations of the State of Texas. It is governed by City Council elected by registered voters of the City. The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants.

A. REPORTING ENTITY

The City Council is elected by the public and it has the authority to make decisions and significantly influence operations. It has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the City's with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, charges for services, grants and other intergovernmental revenues. Business type activities include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include fees charges for water, sewer, and garbage service. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

City of Bogata, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. FUND ACCOUNTING

The City reports the following major governmental fund:

1. **The General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the City reports the following fund type:

Governmental Funds:

1. **Special Revenue Funds** – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund.

The City reports the following major proprietary fund:

1. **Enterprise Funds** -- The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The City's major Enterprise Fund is the water and sewer fund.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.
3. Capital assets, which include land, buildings, machinery and equipment and roads and bridges are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, machinery and equipment of the City and the component units are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	33-40
Vehicles	7
Machinery and Equipment	7
Streets	20-30
Water and sewer system	33-40

City of Bogata, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

4. Some cash and investments are restricted for future debt payments.
5. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
6. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
7. Investments are recorded at fair market value.
8. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

II. 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

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets at the Beginning of the year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of the Year	Change in Net Assets
Land	2,500	-	2,500	
Buildings and Improvements	257,063	-	257,063	
Machinery and equipment	667,004	-	667,004	
Furniture and fixtures	22,552	-	22,552	
Park	99,779	-	99,779	
Streets	453,293	-	453,293	
Accumulated depreciation	(579,027)	-	(579,027)	
Change in Net Assets	923,164	-	923,164	923,164
Long-term Liabilities at the Beginning of the year			Payable at the Beginning of the Year	
Notes and certificates payable			266,181	(266,181)
Change in Net Assets				
Net Adjustment to Net Assets				656,983

City of Bogata, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2010

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

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current year Capital Outlay</u>			
Capital outlay	<u>160,757</u>	<u>160,757</u>	<u>160,757</u>
Total Capital Outlay	<u>160,757</u>	<u>160,757</u>	<u>160,757</u>
 <u>Debt Principal Payments</u>			
Debt principal	<u>17,491</u>	<u>17,491</u>	<u>17,491</u>
Total Principal Payments	<u>17,491</u>	<u>17,491</u>	<u>17,491</u>
Total Adjustment to Net Assets		<u>178,248</u>	<u>178,248</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue fund and debt service fund. This budget is adopted on a basis consistent with generally accepted accounting principles. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

The budgets for the operating funds and proprietary fund operations are prepared on the cash and expenditures basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year the applicable purchase orders are expected to be issued. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

The City does not record encumbrances as part of its accounting records.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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

Additional Contractual provisions governing deposits and investments for the City are as follows:

City of Bogata, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2010

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

1. **Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's policy regarding types of deposits allowed and collateral requirements is that the funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping in an amount sufficient to protect the City's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Deposits of the City are insured or collateralized with securities held by the pledging financial institution's trust department or agent in the name of the City.

At September 30, 2010, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was approximately \$496,000. The City's cash deposits at September 30, 2010 and during the year ended September 30, 2010 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Guaranty Bond Bank
 - b. The market value of securities pledged as of the date of the highest combined balance on deposit was approximately \$790,000.
 - c. The highest combined balances of cash, savings, and time deposit accounts amounted to approximately \$616,000.
 - d. Total amount of FDIC coverage at the time of the highest combined balance was approximately \$250,000.
2. **Custodial Credit Risk – Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Positions in external investment pools are not subject to custodial credit risk. The City has no investments exposed to custodial credit risk at the end of the period.
 3. **Interest-rate Risk – Interest-rate risk** occurs when potential purchases of debt securities do not agree to pay face value for these securities if interest rates rise. The City does not purchase investments where the face value is not guaranteed.
 4. **Concentration Risk – Concentration risk** is defined as positions of 5 percent or more in the securities of a single issuer. Investments in external investment pools are not subject to concentration risk. The City is not exposed to any amounts of concentration risk.
 5. **Other Credit Risk Exposure –** The City has no investments in external investment pools.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The 2009 assessed valuation (net of exemptions) was approximately \$26,000,000 levied at a rate of \$0.65 per hundred dollar valuation. Property tax revenues of approximately \$169,000 were available.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are deposited into the general fund. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

City of Bogata, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2010

D. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2010, were as follows:

	Property Taxes	Charges for Services	Intergov- ernmental	Other	Total Receivables
Governmental Activities:					
General Fund	37,406	8,264	-	-	45,670
Special Revenue Fund	-	-	119,344	-	119,344
Total - Governmental Activities	<u>37,406</u>	<u>8,264</u>	<u>119,344</u>	<u>-</u>	<u>165,014</u>
Amounts not scheduled for collection during the subsequent year	<u>16,833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,833</u>
Business Type Activities:					
Major Enterprise Fund	-	42,968	-	-	42,968
Total-Business Type Activities	<u>-</u>	<u>42,968</u>	<u>-</u>	<u>-</u>	<u>42,968</u>
Amounts not scheduled for collection during the subsequent year	<u>-</u>	<u>8,623</u>	<u>-</u>	<u>-</u>	<u>8,623</u>

Payables at September 30, 2010, were as follows:

	Accounts	Salaries and Benefits	Intergov- ernmental	Other	Total Payables
Governmental Activities:					
General Fund	282	-	-	-	282
Special Revenue Fund	-	-	119,344	-	119,344
Total - Governmental Activities	<u>282</u>	<u>-</u>	<u>119,344</u>	<u>-</u>	<u>119,626</u>
Amounts not scheduled for payment during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business Type Activities:					
Major Enterprise Fund	-	-	-	-	-
Total-Business Type Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amounts not scheduled for payment during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

E. RESTRICTED ASSETS

Certain assets are restricted for debt service and for capital projects.

City of Bogata, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2010

F. CAPITAL ASSET ACTIVITY

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

	Primary Government				<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	
Governmental Activities:					
Land and improvements	2,500	-	-	-	2,500
Buildings and improvements	257,063	14,996	-	-	272,059
Machinery and equipment	667,004	9,679	(63,520)	-	613,163
Furniture and fixtures	22,552	-	-	-	22,552
Park	99,779	-	-	-	99,779
Streets	453,293	136,082	-	-	589,375
Totals at Historic Cost	<u>1,502,191</u>	<u>160,757</u>	<u>(63,520)</u>	<u>-</u>	<u>1,599,428</u>
Less Accumulated Depreciation for:					
Buildings and improvements	(29,078)	(7,654)	-	-	(36,732)
Machinery and equipment	(455,706)	(40,056)	63,520	-	(432,242)
Furniture and fixtures	(22,552)	-	-	-	(22,552)
Park	(28,233)	(3,628)	-	-	(31,861)
Streets	(43,458)	(11,726)	-	-	(55,184)
Total Accumulated Depreciation	<u>(579,027)</u>	<u>(63,064)</u>	<u>63,520</u>	<u>-</u>	<u>(578,571)</u>
Governmental Activities Capital Assets, Net	<u>923,164</u>	<u>97,693</u>	<u>-</u>	<u>-</u>	<u>1,020,857</u>
Business-Type Activities:					
Land and construction in progress	15,636	204,041	-	-	219,677
Building and improvements	18,375	46,830	-	-	65,205
Water and sewer system	3,466,738	-	-	-	3,466,738
Machinery and equipment	147,509	-	-	-	147,509
Totals at Historic Cost	<u>3,648,258</u>	<u>250,871</u>	<u>-</u>	<u>-</u>	<u>3,899,129</u>
Less Accumulated Depreciation for:					
Buildings and improvements	(12,323)	(1,722)	-	-	(14,045)
Water and sewer system	(2,128,797)	(88,423)	-	-	(2,217,220)
Machinery and equipment	(83,899)	(5,170)	-	-	(89,069)
Total Accumulated Depreciation	<u>(2,225,019)</u>	<u>(95,315)</u>	<u>-</u>	<u>-</u>	<u>(2,320,334)</u>
Business-Type Activities Capital Assets, net	<u>1,423,239</u>	<u>155,556</u>	<u>-</u>	<u>-</u>	<u>1,578,795</u>
Primary Government Capital Assets, net	<u>2,346,403</u>	<u>253,249</u>	<u>-</u>	<u>-</u>	<u>2,599,652</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	Business-Type Activities
Unallocated	Water and sewer
<u>63,064</u>	<u>95,315</u>

City of Bogata, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2010

G. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended September 30, 2010.

	Balance at 10/01/08	Issued	Retired	Balance at 9/30/09	Due Within One Year
Primary Government					
Governmental Activities:					
Notes payable	149,181	-	(12,491)	136,690	12,312
Series 2007, Certificates of obligation, 4.5%, serially	117,000	-	(5,000)	112,000	5,000
Total	<u>266,181</u>	<u>-</u>	<u>(17,491)</u>	<u>248,690</u>	<u>17,312</u>
Business-Type Activities:					
Debt	-	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary governmental debt	<u>266,181</u>	<u>-</u>	<u>(17,491)</u>	<u>248,690</u>	<u>17,312</u>

The annual requirements to amortize debt payable as of September 30, 2010, follow:

Years Ending 9/30	Governmental Activities			Years Ending 9/30	Business-Type Activities		
	Principal	Interest	Total		Principal	Interest	Total
2011	17,312	11,724	29,036	2010	-	-	-
2012	17,928	10,882	28,810	2011	-	-	-
2013	18,575	10,010	28,585	2012	-	-	-
2014	20,255	9,084	29,339	2013	-	-	-
2015	20,968	8,100	29,068	2014	-	-	-
2016-2020	101,652	23,328	124,980	2015-2019	-	-	-
2021-thereafter	52,000	7,335	59,335				
Totals	<u>248,690</u>	<u>80,463</u>	<u>329,153</u>	Totals	<u>-</u>	<u>-</u>	<u>-</u>

City of Bogata, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2010

H. RETIREMENT PLAN

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 800 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service at least since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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 (as of 3/1/10*):

Deposit Rate:	5%
Matching Ration (City to Employee):	1 to 1
A member is vested after:	5 years
Members can retire at certain ages, based on the years of service with the City.	
The Service Retirement Eligibilities for the city (expressed as years of service/age) are:	5 yrs/age 60; 20 yrs/any age

Contributions

Under the state law governing TMRS, the actuary annually determines the City's contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City's matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2009 valuation is effective for rates beginning in January 2010)

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2009
Actuarial Value of Assets	<u>116,139</u>
Actuarial Accrued Liability	59,924
Unfunded (Over-Funded) Actuarial Accrued Liability (UAAL)	(56,215)
Funded Ratio	193.80%
Annual Covered Payroll	195,210
UAAL as a Percentage of Covered Payroll	28.4%
Fiscal year ending	9/30/2010
Annual Pension Cost	<u>1,460</u>
Percentage of APC contributed	100%
Net pension obligation	0.00

The City of Bogata is one of over 800 municipalities having the benefit plan administered by TMRS. Each of the municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12/31/09 valuations are contained in the 2009 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

City of Bogata, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2010

I. CONTINGENCIES

Litigation

There is no significant litigation in progress as of September 30, 2010.

Federal Award Programs (Grants)

The City has received Federal and State Awards for specific purposes that are subject to review and audit by the grantor agencies. Such audits could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the appropriate agency. City management does not believe that any significant costs will be incurred by the City.

J. RESERVED FUND EQUITY

Reservations of fund equity show amounts that are legally restricted for specific purposes. The purpose for each is indicated by the account title on the balance sheet.

K. RISK MANAGEMENT

The City is exposed to various risks of loss to torts of theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2009/2010, the City purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

FEDERAL AWARDS SECTION



ARNOLD, WALKER, ARNOLD, & Co., P.C.
Certified Public Accountants and Consultants

Bob J. Arnold, C.P.A.
Lanny G. Walker, C.P.A.
Kris Arnold, C.P.A.
Andrew T. Arnold, C.P.A.
Melissa J. Godfrey, C.P.A.

MEMBER
American Institute Of
Certified Public Accountants
Texas State Society Of
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**

Mayor and City Council
City of Bogata
Bogata, Texas

Mayor and City Council:

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the City of Bogata as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 15, 2010. 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 Bogata's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Respectfully Submitted,

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

November 15, 2010

City of Bogata, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the City of Bogata was unqualified.
- b. Where applicable, a statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether they were material weaknesses. See II below, no material weaknesses.
- c. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee. None.
- d. Where applicable, a statement that reportable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses. N/A.
- e. The type of report the auditor issued on compliance for major programs. N/A.
- f. A statement as to whether the audit disclosed any audit findings which the auditor is required to report under Section .510(a). N/A.
- g. An identification of major programs: N/A.
- h. The dollar threshold used to distinguish between Type A and Type B programs. N/A.
- i. A statement as to whether the auditee qualified as a low risk auditee. N/A.

II. Findings Relating to the Financial Statements Which are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

None

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I. f Above

None

City of Bogata, Texas
SCHEDULE OF STATUS OF PRIOR FINDINGS
For the year ended September 30, 2010

None

City of Bogata, Texas
CORRECTIVE ACTION PLAN
For the year ended September 30, 2010

<u>ITEM #</u>	<u>CORRECTIVE ACTION PLAN</u>
N/A	None

City of Bogata
 FEDERAL PROGRAM PROJECT SCHEDULE
 PROJECTS THAT ENDED OR WERE IN OPERATION DURING
 the year ended September 30, 2010

Federal Grantor: U.S. Department of HUD
 Pass Through Grantor: Texas Department of Rural Affairs
 CFDA # 14.228
 Project # 729059
 Contract Period 9/15/09 – 9/14/11

	<u>Budget</u>	<u>Prior Year</u>	<u>Current Year</u>	<u>Total</u>
REVENUE	250,000	-	204,041	204,041
EXPENSES				
Sewer Facilities	190,965	-	149,662	149,662
Engineering	34,000	-	33,099	33,099
Administration	25,035	-	21,280	21,280
Total	250,000	-	204,041	204,041
EXCESS (DEFICIT) REVENUE OVER EXPENSES	-	-	-	-

City of Bogata
FEDERAL PROGRAM PROJECT SCHEDULE
PROJECTS THAT ENDED OR WERE IN OPERATION DURING
the year ended September 30, 2010

Pass Through Grantor: Texas Department of Agriculture
Texas Capital Fund
Project #728222
Contract Period 10/20/08 – 10/19/11

	<u>Budget</u>	<u>Prior Year</u>	<u>Current Year</u>	<u>Total</u>
REVENUE	150,000	-	119,344	119,344
EXPENSES				
Sidewalks & lightning	135,000	-	119,344	119,344
Engineering (*)	-	-	-	-
Administration	15,000	-	-	-
Total	150,000	-	119,344	119,344
EXCESS (DEFICIT) REVENUE OVER EXPENSES	-	-	-	-

(*) - City paid engineering

ATTACHMENT G

LETTERS OF SUPPORT FROM ROSE ACRE FARMS AND THE ONLY AFFECTED LANDOWNER

ROSE ACRE

Farms®

April 27, 2011

Alfred R. Herrera
Herrera & Boyle, PLLC
816 Congress Ave., Ste. 1250
Austin, Texas 78701

Dear Mr. Herrera:

Rose Acre Farms is planning to locate a farm near Bogata, Texas.

In order for this to be accomplished, one of the issues is affordable water.

We understand that the city of Bogata, Texas and the Red River Water Supply Corp. have entered into an agreement that would allow a certain area of the CCN belonging to Red River Water Supply Corp. to be given to the city of Bogata, Texas.

Our company is locating an office along Highway 37 in Bogata, Texas and would like to have one supplier for our water needs.

With this, Rose Acre Farms fully understands and agrees that the CCN of Red River Water Supply Corp. be amended to allow the city of Bogata, Texas to provide water to our farm near Bogata, Texas.

Thank you for your help in this matter.

Sincerely,



Chips Everhart
Director of Environmental Affairs
Rose Acre Farms

May 26th, 2011

Alfred R. Herrera
Herrera & Boyle, PLLC
816 Congress Ave., Ste 1250
Austin, Texas 78701

Dear Mr. Herrera:

It is our understanding that Rose Acre Farms is planning to locate a farm near Bogata, Texas.

Critical to this enterprise is the ability to obtain affordable water.

It is our understanding that the city of Bogata, Texas and Red River Water Supply Corp. have entered into an agreement that would allow a small area of the CCN belonging to Red River Water Supply Corp. to be given to the city of Bogata, Texas.

I am a neighboring property owner of this site as we farm many acres and operate a grain storage facility near this proposed site. I understand that Rose Acre Farms will locate an office along Highway 37 in Bogata, Texas. This transfer of the CCN would allow Rose Acre Farms to have one supplier for their water needs.

To that, I fully understand and do agree that the CCN of Red River Water Supply Corp. be amended to allow the city of Bogata, Texas to provide water to Rose Acre Farms site in and near Bogata, Texas.

Thank you for your consideration.

Sincerely,



Mr. Steve J. Hageman
147 Dupham Ranch Rd.
Sulphur Bluff, TX 75481-5107

ATTACHMENT

4

TCEQ Interoffice Memorandum

To: Environmental Law Division **Date:** August 4, 2011

Thru: Elizabeth Flores/Lisa Fuentes

From:  Debi Loockerman C.P.A.

Subject: Contract Service Agreement Pursuant to Texas Water Code Section 13.248, from the City of Bogata, P0566, to Transfer a Portion of Certificate of Convenience and Necessity (CCN) No. 10530 from Red River County Water Supply Corporation (Red River WSC) in Red River County; Application No. 37065-C

CN: 600627939; RN: 101384352 (transferee/City of Bogata)
CN: 600632137; RN: 101185031 (transferor/Red River WSC)

In my opinion, the City of Bogata has demonstrated adequate financial, managerial and technical capability to provide service to the area contracted for release and transfer. These conclusions are based on information provided by the applicant prior to this date and may not reflect any changes in the applicant's status subsequent to this date.

Background

Red River WSC and City of Bogata (Bogata) entered into an agreement as of July 26, 2010 to transfer the acreage outside the City currently within Red River WSC's certificated area which contains Rose Acre Farm so that Bogata may serve the planned egg farm. Because Red River WSC is simply releasing the CCN area to Bogata for provision of water service, no compensation or payment is mentioned.

Bogata provides service to more than 580 connections according to the TCEQ Water Utilities Database (WUD). The water system is ranked superior. WUD indicated that a notice of enforcement is pending for Bogata, however, telephone conversations with the Enforcement Division, indicated that the notice of enforcement was resolved and closed on December 23, 2009.

I have reviewed an unqualified auditor's opinion and attached financial statements for Garden Ridge for the fiscal year ended September 30, 2010. The balance sheet for the water system showed total assets of \$2,003,040, no long-term debt, and net assets (equity) of \$1,970,261. The city as a whole has a debt to net asset (equity) ratio of \$231,378 to \$885,792, or 0.26:1. A ratio of less than 1:1 is preferred when analyzing financial capability of water and wastewater entities to provide requested service.

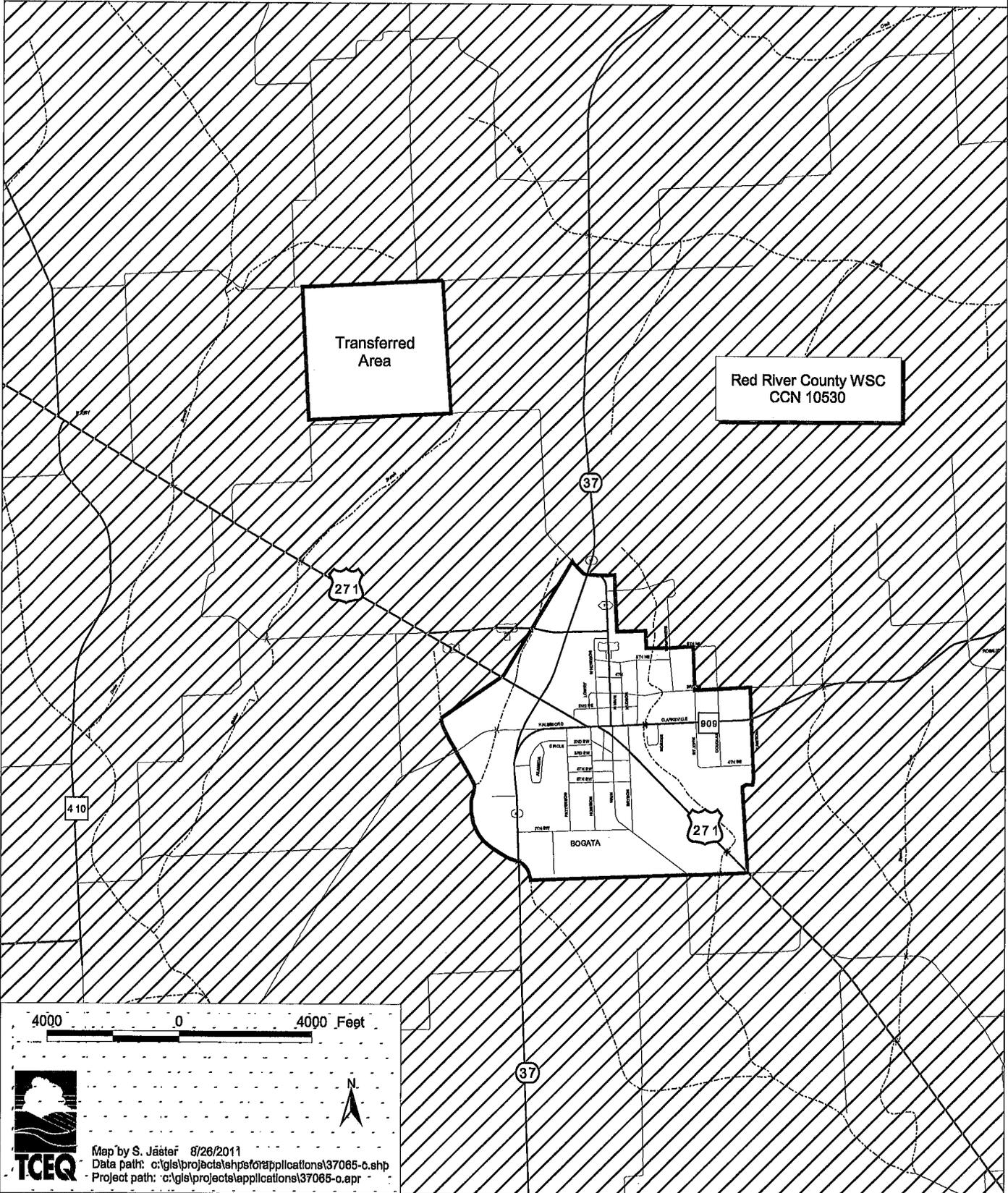
The statement of revenues and expenses for the water utility showed a net operating loss of \$43,417 before transfers of \$45,000 after covering depreciation expense of \$95,315 and no interest expense. The utility operations fund has no debt, therefore there is no debt service or debt service coverage.

This information supports a finding of adequate financial and managerial capability to provide service to the area contracted for transfer.

ATTACHMENT

5

City of Bogata / Red River County Water Supply Corporation
Application No. 37065-C (13.248 Contract Service Agreement
to Transfer a Portion of Red River County WSC, CCN No. 10530
to the City of Bogata and Decertify CCN Area)
Red River County



Map by S. Jaster 8/26/2011
Data path: c:\gis\projects\shpsforapplications\37065-c.shp
Project path: c:\gis\projects\applications\37065-c.apr

ATTACHMENT

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MAP CONSENT FORM

Applicant's Name: City of Bogata and Red River County WSC (13.248 Agreement)
Application Nos.: 37065-C

- I concur with the recommendation contained in the staff letter transmitted on August 31, 2011.
- I do not concur with and intend to respond to the recommendation contained in the staff letter transmitted on August 31, 2011.

I am authorized by the City of Bogata to sign this form.

Signature: Vincent Lumm

Printed Name: VINCENT LUMM

Relationship to Applicant: MAYOR

Date signed: 9/1/11

Fax, or email to:
Elizabeth Flores
Utilities & Districts Section, MC 153
Water Supply Division
Texas Commission on Environmental Quality
P.O. Box 13087
Austin, TX 78711-3087
Fax: (512) 239-6972
Elizabeth.Flores@tceq.texas.gov

MAP CONSENT FORM

Applicant's Name: City of Bogata and Red River County WSC (13.248 Agreement)
Application Nos.: 37065-C

- I concur with the recommendation contained in the staff letter transmitted on August 31, 2011.
- I do not concur with and intend to respond to the recommendation contained in the staff letter transmitted on August 31, 2011.

I am authorized by the City of Bogata to sign this form.

Signature: Wendell Davis

Printed Name: Wendell Davis

Relationship to Applicant: Red River County Water Supply Corporation

Date signed: September 1, 2011

Fax, or email to:
Elizabeth Flores
Utilities & Districts Section, MC 153
Water Supply Division
Texas Commission on Environmental Quality
P.O. Box 13087
Austin, TX 78711-3087
Fax: (512) 239-6972
Elizabeth.Flores@tceq.texas.gov