

*CITY OF REDWATER, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2014*

*CITY OF REDWATER, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014*

CONTENTS

	Page
City Directory	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-9
Basic Financial Statements	
Government-Wide Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet - Governmental Fund Types	12
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund Types	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Statement of Net Position - Proprietary Fund	16
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund	17
Statement of Cash Flows - Proprietary Fund	18
Notes to the Financial Statements	19-33
Required Supplementary Information	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	34
TMRS Schedule of Funding Progress	35
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36-37
Schedule of Findings and Questioned Costs	38
Summary Schedule of Prior Audit Findings	39
Corrective Action Plan	40



CITY DIRECTORY

MAYOR

Robert Lorance

CITY COUNCIL

Paula Coggin
Tammy Cowdery
Chuck Bradford
Kevin Crites
Leo Whelchel

CITY OFFICIALS

Dessie Whelchel, City Secretary

Independent Auditor's Report

February 24, 2015

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

Members of the Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Redwater, Texas (the City) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Redwater, Texas as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and TMRS information on pages 4-9, page 34 and page 35 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2015, on our consideration of the City of Redwater, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Redwater, Texas' internal control over financial reporting and compliance.



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

February 24, 2015

City of Redwater, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2014

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

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

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

Overview of the Financial Statements

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

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

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

Notes to the Financial Statements

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

City Highlights

Net position balance at September 30, 2014 in the governmental activities (including the General Fund) decreased from \$805,533 to \$767,844. The business-type activities (consisting of the City's water and sewer) net position balance decreased from \$1,962,458 to \$1,737,187.

- For governmental activities, the total net investment in capital assets (after subtracting out debt owed on capital assets) decreased from \$567,991 to \$548,909.
- For business-type activities, the total of net investment in capital assets decreased from \$1,577,411 to \$1,469,361.
- For business-type activities, the City's long-term debt at September 30, 2014 decreased from \$1,379,000 to \$1,335,000.
- The most significant continuing revenue sources for governmental activities of the City consisted of \$52,146 in charges for services, \$48,123 in property tax and related revenues, \$29,207 in franchise fees, and \$49,762 in sales tax revenues.
- Charges for business-type activities of the enterprise fund totaled \$683,450.

Government-Wide Financial Analysis

Statement of Net Position

Included is a Statement of Net Position for the City of Redwater, Texas. The format allows the reader to view the overall financial position of the City.

City of Redwater, Texas Net Position

	Governmental Activities		Business-Type Activities		Component Unit	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 225,316	\$ 241,901	\$ 466,011	\$ 575,351	\$ 94,433	\$ 96,400
Capital assets, net	548,909	567,991	2,848,361	2,999,410	285,642	115,693
Total Assets	774,225	809,892	3,314,372	3,574,761	380,075	212,093
Other liabilities	6,381	4,359	242,185	233,304	8,114	12
Long-term liabilities	-	-	1,335,000	1,379,000	91,898	3,257
Total Liabilities	6,381	4,359	1,577,185	1,612,304	100,012	3,269
Net position						
Net investment in capital assets	548,909	567,991	1,469,361	1,577,411	185,642	112,436
Restricted	-	-	193,157	203,695	94,421	96,388
Unrestricted	218,935	237,542	74,669	181,352	-	-
Total Net Position, as Restated	\$ 767,844	\$ 805,533	\$ 1,737,187	\$ 1,962,458	\$ 280,063	\$ 208,824

Governmental Activities - Statement of Net Position

The major component of the current and other assets category consists of cash and cash equivalents of \$230,544. The balance in this category comprised of various receivables (amounts due) for taxes and for revenues due from intergovernmental agencies. The total for cash and cash equivalents reflects the City's past performance in meeting budgetary goals and the accumulation of resources for future needs of the City.

Capital assets totaling \$548,909 (net of accumulated depreciation) is the largest component of assets, and represents the City's investment in capital assets necessary to provide services to citizens of the City of Redwater, Texas. The major categories of fixed assets (land, buildings, machinery and equipment, vehicles, and parks) reflect the type services currently provided to the City's residents.

Business-Type Activities - Statement of Net Position

For business-type activities (utility fund), there are three major components of current assets. Unrestricted cash, cash equivalents and certificates of deposit, totaling \$20,524 at fiscal year-end, is available to support current operations, long-range improvement of the utility system, and future debt requirements. Restricted cash and cash equivalents totals \$311,888. Accounts and unbilled receivable balances of \$92,591 represent outstanding water and sewer billings at fiscal year-end.

Capital assets totaling \$2,848,361 (net of accumulated depreciation) represent the City's investment in equipment, vehicles, and systems and improvement for the water and sewer systems. Long-term debt outstanding consists of \$1,335,000 for notes payable to support operations of the utility system. Other liabilities at fiscal year-end consist primarily of accounts payable, accrued expenses and other liabilities, and customer meter deposits payable.

Net investment in capital assets is the major component of net position for business-type activities (enterprise fund) at a total of \$1,469,361. Net position restricted for debt service totaled \$193,157. The balance of \$74,669 comprises Unrestricted Net Position.

Statement of Activities

A Statement of Activities for the City of Redwater, Texas is presented below listing the major categories of revenues and expenses for the fiscal year ended September 30, 2014 and 2013. An explanation of the components of this statement is included immediately following the table.

City of Redwater, Texas Statement of Activities						
	Governmental Activities		Business-Type Activities		Component Unit	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues:						
Charges for Services	\$ 52,146	\$ 46,644	\$ 683,450	\$ 690,729	\$ -	\$ -
Capital Grants and Contributions	-	19,600	-	-	-	-
General Revenues:						
Property taxes	48,123	46,004	-	-	-	-
Franchise taxes	29,207	27,544	-	-	-	-
Sales and use taxes	49,762	37,064	-	-	24,881	18,532
Interest	249	319	290	361	56	52
Other income	1,224	1,805	5,691	3,560	7,000	-
Gain on sale of capital assets	-	-	-	-	40,150	-
Gain on trade of land	12,079	-	-	-	-	-
Total Revenues	<u>192,790</u>	<u>178,980</u>	<u>689,431</u>	<u>694,650</u>	<u>72,087</u>	<u>18,584</u>
Program Expenses:						
General Government	90,375	86,492	-	-	-	-
Streets	101,730	30,950	-	-	-	-
Parks	32,374	41,164	-	-	-	-
Economic Development	-	-	-	-	848	1,775
Public Safety	6,000	6,000	-	-	-	-
Water and Sewer	-	-	914,702	897,575	-	-
Total Expenses	<u>230,479</u>	<u>164,606</u>	<u>914,702</u>	<u>897,575</u>	<u>848</u>	<u>1,775</u>
Increase (Decrease) in Net Position	<u>(37,689)</u>	<u>14,374</u>	<u>(225,271)</u>	<u>(202,925)</u>	<u>71,239</u>	<u>16,809</u>

Government-Wide Review of Statement of Activities

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

Governmental Activities - Statement of Activities

As noted above, there are two categories of revenues on the Statement of Activities - program revenues and general revenues. Program revenues derive directly from the program itself or from parties outside the City's taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government's general revenues. Program revenues are further divided into charges for services, operating grants and contributions, and capital grants and contributions. For governmental activities, the major revenues for the City in the charges for services are \$25,601 for refuse income, \$6,000 for public safety activities and \$20,545 for miscellaneous charges in general and administrative activities.

General revenues include all revenues not required to be reported as program revenues. All taxes are to be reported by type tax. For the City of Redwater, Texas, the major tax revenues are property tax and related revenues of \$48,123, franchise fees of \$29,207 and sales tax revenues of \$49,762. The increase in sales tax in FY 2014 is a one-time payment resulting from an audit of the State Comptroller.

Program expenses are presented in the above Statement of Activities by function and total \$230,479 for the current fiscal year-end. Expenses increased due to major street repairs during the current year. Revenues less expenses presented in this statement total to a decrease in net position of \$37,689.

Business-Type Activities - Statement of Activities

Business-type activities provided by the City of Redwater, Texas consist of water and sewer. All revenues are in the category of program revenues, with the exception of interest income reported as general revenue. Program revenues for the current fiscal year in the charges for services subcategory consist of billings of \$683,450 for water and sewer.

The City reports the total amount of expenses for operation of the utility system as \$914,702 for the fiscal year ended September 30, 2014. The change in net position (revenues less expenses and transfers) for the current fiscal year was a decrease in net position of \$225,271. Water and sewer program expenses include \$208,982 of depreciation expense.

Governmental Funds

At year-end, the City's governmental funds reported combined fund balance of \$218,935 as unassigned. Under the modified-accrual basis for fund financial statements, the emphasis is on accounting for current financial resources of the City. Assets consist primarily of \$230,544 cash and cash equivalents. Liabilities for the City consist primarily of accounts payable, accrued expenses and other liabilities and due to the Proprietary Fund.

The fund reporting format presents in the Statement of Revenues, Expenditures, and Changes in Fund Balance all revenue types followed by the expenses of the City, also presented on a functional basis. However, for the fund financial statements, the City reports only current year capital expenditures and does not report depreciation on capital assets. Principal payments on loans are reported only as a current year expenditure and not the related long-term loan liability as in the government-wide financial statements. The major revenue sources are similar to the government-wide presentation above, with additional detail provided for services for which the City receives a fee or charge for services (refuse and rental fees). The General Fund reports a balance of (\$18,607) deficiency of revenues and other sources over expenditures and other uses. Fund balance at the end of the current fiscal year for the General Fund was \$218,935.

Proprietary Fund

The total amounts presented for the Proprietary Fund (utility funds for water and sewer services) are identical to the government-wide presentation. Statement of Revenues, Expenses, and Changes in Net Position, presents a more detailed listing of expenses than presented in the government-wide statements, pending implementation of financial reporting improvements to report activities of the water and sewer systems on a functional basis. The major operating expenses of these funds include \$138,020 for water contract, \$205,805 for salaries and wages, and \$208,982 for depreciation expense. Non-operating revenues and expenses include \$290 in interest income, \$59,926 reported for interest expense and fees on bonds, notes and capital leases payable.

Capital Assets and Long-Term Debt

Capital Assets

At the end of the fiscal year 2014, the governmental activities had \$548,909 (net of accumulated depreciation) invested in a broad range of capital assets. During 2014, land was traded between the City and Walmart. Walmart purchased 3.569 acres from the RIDC but did not require the use of the 1.567 acres behind the property. The 1.567 acres of land was then traded with the City for 0.333 acres on the east side of the City Hall property.

The business-type activities has \$2,848,361 (net of accumulated depreciation) invested in capital assets. Business-type activities capital assets additions during the year ended September 30, 2014 include enclosing a workshop, replacing a pump and motor for a well, and the purchase of a trimmer, Skytrack, and a vehicle.

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

Long-Term Debt

At year-end the City had \$1,335,000 in long-term notes payable in the business-type activities. More detailed information about the City's long-term liabilities is presented in Note F to the financial statements.

Budget and Actual Revenues and Expenditures

The City amended the General Fund budget during the year to increase revenues in total and decrease expenditures. The variance between budgeted and actual revenues for the General Fund is \$19,756. The variance between budgeted and actual expenditures for the General Fund is \$47,637.

Economic Factors

The City of Redwater, Texas's management approach is conservative, yet accommodating to economic development. Whenever possible, the Mayor and City Council actively pursue grants and other funding to provide more and better services for the City while relying on existing revenues and living within the budget. The City of Redwater, Texas finances long-term projects only when necessary. The property tax rate for fiscal year ending September 30, 2015 remained the same at \$0.188931.

Requests for Information

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

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

CITY OF REDWATER, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 230,544	\$ 14,680	\$ 245,224	\$ -
Certificates of deposit	23,375	5,844	29,219	-
Accounts receivable (net)	8,572	-	8,572	-
Utility accounts receivable (net)	-	66,796	66,796	-
Unbilled receivables (net)	-	25,795	25,795	-
Prepaid insurance	546	3,275	3,821	-
Restricted assets - cash and cash equivalents	-	311,888	311,888	94,433
Interfund accounts	(37,733)	37,733	-	-
Due from RIDC	12	-	12	-
Capital assets (net of accumulated depreciation):				
Land	158,401	25,331	183,732	285,642
Buildings	87,700	40,427	128,127	-
Office furniture and equipment	17,965	23,504	41,469	-
Equipment and tools	88,050	316,754	404,804	-
Park facilities	606,156	-	606,156	-
Pumps and equipment	-	331,686	331,686	-
Line and storage	-	2,318,199	2,318,199	-
Water meters	-	151,165	151,165	-
Sewer system	-	2,472,718	2,472,718	-
Less accumulated depreciation	(409,363)	(2,831,423)	(3,240,786)	-
Total Assets	<u>\$ 774,225</u>	<u>\$ 3,314,372</u>	<u>\$ 4,088,597</u>	<u>\$ 380,075</u>
LIABILITIES				
Accounts payable	\$ 2,822	\$ 45,119	\$ 47,941	\$ -
Accrued expenses and other liabilities	3,559	16,963	20,522	-
Accrued interest payable	-	19,094	19,094	-
Contracts payable	-	17,372	17,372	-
Customer meter deposits	-	99,637	99,637	-
Due to General Fund	-	-	-	12
Noncurrent liabilities:				
Due within one year	-	44,000	44,000	8,102
Due in more than one year	-	1,335,000	1,335,000	91,898
Total Liabilities	<u>6,381</u>	<u>1,577,185</u>	<u>1,583,566</u>	<u>100,012</u>
NET POSITION				
Net investment in capital assets	548,909	1,469,361	2,018,270	185,642
Restricted for:				
Debt service	-	193,157	193,157	-
Economic development	-	-	-	94,421
Unrestricted	218,935	74,669	293,604	-
Total Net Position	<u>\$ 767,844</u>	<u>\$ 1,737,187</u>	<u>\$ 2,505,031</u>	<u>\$ 280,063</u>

The accompanying notes are an integral part of this statement.

*CITY OF REDWATER, TEXAS
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2014*

Functions/Programs	Program Revenues						Net (Expense) Revenue and Changes in Net Position			
	Expenses	Operating		Capital		Primary Government			Component Unit	
		Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total			
Primary government:										
Governmental activities:										
General and administrative	\$ 90,375	\$ 46,146	\$ -	\$ -	\$ (44,229)	\$ -	\$ (44,229)	\$ -		
Streets	101,730	-	-	-	(101,730)	-	(101,730)	-		
Parks	32,374	-	-	-	(32,374)	-	(32,374)	-		
Public Safety	6,000	6,000	-	-	-	-	-	-		
Total governmental activities	230,479	52,146	-	-	(178,333)	-	(178,333)	-		
Business-type activities:										
Water and sewer	914,702	683,450	-	-	-	(231,252)	(231,252)	-		
Total business-type activities	914,702	683,450	-	-	-	(231,252)	(231,252)	-		
Total primary government	\$ 1,145,181	\$ 735,596	\$ -	\$ -	\$ (178,333)	\$ (231,252)	\$ (409,585)	\$ -		
Component Unit:										
RIDC	848	-	-	-	-	-	-	(848)		
Total component unit	\$ 848	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (848)		
General revenues:										
Property taxes and related revenues					48,123	-	48,123	-		
Franchise fees					29,207	-	29,207	-		
Sales taxes					49,762	-	49,762	24,881		
Interest income					249	290	539	56		
Other income					1,224	5,691	6,915	7,000		
Gain on sale of capital assets					-	-	-	40,150		
Gain on trade of land					12,079	-	12,079	-		
Total general revenues					140,644	5,981	146,625	72,087		
Change in net position					(37,689)	(225,271)	(262,960)	71,239		
Net position at beginning of year					805,533	1,994,990	2,800,523	208,824		
Prior period adjustment (See Note I)					-	(32,532)	(32,532)	-		
Net position at end of year					\$ 767,844	\$ 1,737,187	\$ 2,505,031	\$ 280,063		

The accompanying notes are an integral part of this statement

**CITY OF REDWATER, TEXAS
GOVERNMENTAL FUND TYPES
BALANCE SHEET
SEPTEMBER 30, 2014**

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 230,544	\$ 230,544
Certificates of deposit	23,375	23,375
Receivables, net allowances	8,572	8,572
Prepaid insurance	546	546
Due from RIDC	12	12
Total Assets	\$ 263,049	\$ 263,049
 LIABILITIES AND FUND BALANCES		
Accounts payable	\$ 2,822	\$ 2,822
Accrued expenses and other liabilities	3,559	3,559
Due to Proprietary Fund	37,733	37,733
Total Liabilities	44,114	44,114
Unassigned Fund Balance	218,935	218,935
Total Fund Balances	218,935	218,935
Total Liabilities and Fund Balances	\$ 263,049	\$ 263,049

The accompanying notes are an integral part of this statement.

*CITY OF REDWATER, TEXAS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014*

Total Fund Balance - Governmental Funds \$ 218,935

Amounts reported for governmental activities in the statements of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. At the beginning of the year, cost of these assets was \$936,193 and the accumulated depreciation was \$368,202. In addition, long-term liabilities of \$0 are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position. 567,991

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 2014 capital outlays of \$23,172, less disposal of \$1,093, plus debt principal payments of \$0 is to increase net position. 22,079

The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position. (41,161)

Net Position of Governmental Activities \$ 767,844

The accompanying notes are an integral part of this statement.

*CITY OF REDWATER, TEXAS
GOVERNMENTAL FUND TYPES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2014*

	General Fund	Total Governmental Funds
Revenues		
Property taxes	\$ 48,123	\$ 48,123
Franchise taxes	29,207	29,207
Sales taxes	49,762	49,762
Intergovernmental	6,000	6,000
Refuse income	25,601	25,601
Rental income	9,000	9,000
Lease income	3,600	3,600
Interest	249	249
Miscellaneous	9,169	9,169
Total revenues	180,711	180,711
Expenditures		
Accounting and audit fees	3,110	3,110
Appraisal district fees	1,392	1,392
Beautification	488	488
Insurance	10,125	10,125
Legal and filing fees	752	752
Mileage, travel and training	4,445	4,445
Office supplies/postage	1,476	1,476
Repairs and maintenance	1,402	1,402
Retirement	1,070	1,070
Salaries & taxes-administration	37,662	37,662
Street repairs	101,730	101,730
Utilities	7,868	7,868
Miscellaneous	9,398	9,398
Park expense	2,400	2,400
Public safety	6,000	6,000
Capital outlay	10,000	10,000
Total expenditures	199,318	199,318
Excess (deficiency) of revenues over expenditures	(18,607)	(18,607)
Fund balance at beginning of year	237,542	237,542
Fund balance at end of year	\$ 218,935	\$ 218,935

The accompanying notes are an integral part of this statement.

*CITY OF REDWATER, TEXAS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2014*

Net changes in Fund Balances - Governmental Funds	\$ (18,607)
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements but they should be shown as increases in capital assets and reductions in long-term debt in the government wide financial statements. The net effect of including the 2014 capital outlays of \$23,172, less disposal of \$1,093, plus debt principal payments of \$0 is to increase net position.</p>	
	22,079
<p>The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.</p>	
	(41,161)

Change in Net Position in Governmental Activities	<u>\$ (37,689)</u>

The accompanying notes are an integral part of this statement.

*CITY OF REDWATER, TEXAS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2014*

	Water and Sewer	Totals
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 14,680	\$ 14,680
Certificates of deposit	5,844	5,844
Accounts receivable (net)	66,796	66,796
Unbilled receivables (net)	25,795	25,795
Prepaid Insurance	3,275	3,275
Due from General Fund	37,733	37,733
Total Current Assets	154,123	154,123
Restricted Assets:		
Cash and cash equivalents	311,888	311,888
Capital Assets:		
Land	25,331	25,331
Buildings	40,427	40,427
Furniture and fixtures	23,504	23,504
Equipment and tools	316,754	316,754
Pumps and treatment equipment	331,686	331,686
Lines and storage	2,318,199	2,318,199
Water meters	151,165	151,165
Sewer system	2,472,718	2,472,718
Less accumulated depreciation	(2,831,423)	(2,831,423)
Total Capital Assets, net of accumulated depreciation	2,848,361	2,848,361
Total Assets	\$ 3,314,372	\$ 3,314,372
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 45,119	\$ 45,119
Refuse contract payable	17,372	17,372
Accrued expenses and other liabilities	16,963	16,963
Customer meter deposits	99,637	99,637
Accrued interest payable	19,094	19,094
Bonds and notes payable, current portion	44,000	44,000
Total Current Liabilities	242,185	242,185
Noncurrent Liabilities:		
Bonds and notes payable, long-term, net	1,335,000	1,335,000
Total Noncurrent Liabilities	1,335,000	1,335,000
Total Liabilities	1,577,185	1,577,185
NET POSITION		
Net investment in capital assets	1,469,361	1,469,361
Restricted	193,157	193,157
Unrestricted	74,669	74,669
Total Net Position	\$ 1,737,187	\$ 1,737,187

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Water and Sewer	Totals
Operating Revenues:		
Charges for services	\$ 683,450	\$ 683,450
Other income	5,691	5,691
Total operating revenues	689,141	689,141
Operating Expenses:		
Accounting and audit	15,114	15,114
Bad debt expense	1,691	1,691
Chemicals	11,283	11,283
Depreciation	208,982	208,982
Equipment repairs and maintenance	330	330
Equipment supplies and tools	12,010	12,010
Fees and permits	8,850	8,850
Insurance - group health and workers compensation	44,479	44,479
Insurance - other	6,710	6,710
Lab services and testing	12,728	12,728
Legal and advertising	154	154
Maintenance contracts	2,077	2,077
Miscellaneous	10,847	10,847
Office supplies and expense	3,193	3,193
Postage	4,914	4,914
Refuse charges	1,288	1,288
Rent-building and equipment	9,000	9,000
Repairs and maintenance - water and sewer system	47,785	47,785
Retirement	6,086	6,086
Salaries and wages	205,805	205,805
Supplies-operating	15,883	15,883
Taxes-payroll	16,931	16,931
Telephone and radio	6,234	6,234
Utilities	37,478	37,478
Vehicle repairs and maintenance	2,857	2,857
Vehicle supplies	24,047	24,047
Water contracts	138,020	138,020
Total operating expenses	854,776	854,776
Operating income (loss)	(165,635)	(165,635)
Non-Operating Revenues (Expenses)		
Interest income	290	290
Interest expense and fees	(59,926)	(59,926)
Total nonoperating revenues (expenses)	(59,636)	(59,636)
Change in net position	(225,271)	(225,271)
Net position at beginning of year	1,994,990	1,994,990
Prior period adjustment (Note I)	(32,532)	(32,532)
Net position at end of year	\$ 1,737,187	\$ 1,737,187

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Water and Sewer	Totals
Cash Flows from Operating Activities		
Receipts from customers	\$ 707,569	\$ 707,569
Payments to suppliers	(440,358)	(440,358)
Payments to employees	(205,805)	(205,805)
	<u>61,406</u>	<u>61,406</u>
Net cash provided by operating activities		
Cash Flows from Capital and Related Financing Activities		
Capital assets purchased	(57,933)	(57,933)
Bonds and notes principal retirement	(43,000)	(43,000)
Bonds and notes interest and fees expense paid	(60,472)	(60,472)
	<u>(161,405)</u>	<u>(161,405)</u>
Net cash (used) by capital and financing activities		
Cash Flows from Investing Activities		
Interest reinvested in investments	(29)	(29)
Interest received	290	290
	<u>261</u>	<u>261</u>
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	(99,738)	(99,738)
Cash and cash equivalents at beginning of year	426,306	426,306
	<u>\$ 326,568</u>	<u>\$ 326,568</u>
Cash and cash equivalents at end of year		
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (165,635)	\$ (165,635)
Depreciation expense	208,982	208,982
Change in assets and liabilities:		
(Increase) decrease in receivables	10,700	10,700
(Increase) decrease in prepaid insurance	(3,275)	(3,275)
Increase (decrease) in accounts payable	(2,640)	(2,640)
Increase (decrease) in accrued expenses and other liabilities	5,546	5,546
Increase (decrease) in customer meter deposits	7,728	7,728
	<u>\$ 61,406</u>	<u>\$ 61,406</u>
Net cash provided by operating activities		

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Redwater, Texas (the City) was incorporated on October 20, 1941 and was reactivated in May of 1988 under the provision of the State of Texas. The City operates under a Council-Mayor form of government and provides the following services as authorized by its state statutes: public safety and general administrative services. The city owns and operates a water and sewer system.

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

In 2013, the City implemented GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. In 2014, the City implemented GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. These two statements:

- Classified items that are a consumption of net assets applicable to a future reporting period as deferred resource outflows,
- Classified items that are an acquisition of net assets applicable to a future reporting period as deferred resource inflows,
- Renamed all “Statement of Net Assets” to “Statement of Net Position”,
- Required all bond issuance costs to be recorded as expenses in the year the bonds were issued,
- Reclassified the effect of accounting changes adopted to conform to the provisions of Statement Number 63 retroactively in statements of net position and balance sheets, if practical, for all prior periods presented. In the period Statement Number 63 is first applied, the financial statements should disclose the nature of any reclassifications and its effect.
- Required reasons for not reclassifying statements of net position and balance sheet information for prior periods presented to be explained.

Reporting Entity

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

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014*

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

The component unit of the City is the Redwater Industrial Development Corporation (RIDC) was created May 12, 1999, exclusively for the purposes of and to act on behalf of the City for the promotion and development of commercial, industrial, and manufacturing enterprises, and to promote and encourage employment and the public welfare pursuant to the Development Corporation Act of 1979, under which it was formed.

Overview of Financial Statements

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

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

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

Fund Financial Statements

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

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

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

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014*

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

Water and Sewer Fund – The Water and Sewer Fund is used to account for operations for which a fee is charged to external users for goods or services and the activity a) is financed with debt that is solely secured by a pledge of the net revenues, b) has third party requirements that the cost of providing services, including capital costs, be recovered with fee and charges, or c) established fees and charges based on a pricing policy designed to recover similar costs.

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

Basis of Accounting and Measurement Focus

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

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

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

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

Budget and Budgetary Accounting

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

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

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Cash and Investments

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

Restricted Assets

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

The restricted assets at September 30, 2014 are as follow:

<u>Type of Restricted Asset</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Meter Deposits	\$ 99,637	\$ -
Maintenance Fund	79,361	-
Bond Reserve Fund	63,721	-
2003 Debt Service Fund	22,611	-
2005 Debt Service Fund	12,643	-
Maintenance Fund-Investments	33,915	-
Economic Development	-	94,433
Total Restricted Assets	<u>\$ 311,888</u>	<u>\$ 94,433</u>

Accounts Receivable

The accounts receivable at September 30, 2014 are as follow:

<u>Accounts Receivable</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Franchise tax	\$ 7,170	\$ -	\$ 7,170
Property tax	12,335	-	12,335
Interest	25	-	25
Customer billed	-	70,880	70,880
Allowance for doubtful accounts	(10,958)	(4,084)	(15,042)
Total Accounts Receivable, Net	<u>\$ 8,572</u>	<u>\$ 66,796</u>	<u>\$ 75,368</u>

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014*

Capital Assets

Capital Assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and in the fund financial statements for the proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date of donation. Repairs and maintenance are recorded as expenses. Improvements are capitalized. Interest has not been capitalized during the period of construction of capital assets. As of October 1, 2004, new infrastructure assets, such as roads, bridges, underground pipe (other than those related to utilities), traffic signals, etc., are required to be depreciated under GASB 34.

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

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

Long-Term Debt

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

Bond Issuance Costs

Bond and debt issuance costs are reported as expense in the year incurred.

Interfund Receivables and Payables

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

Interfund Transfers

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

Use of Estimates

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

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Fund Equity

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

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

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

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

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

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

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

Net Position

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

NOTE B – COLLATERALIZATION OF DEPOSITS

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

At September 30, 2014, the bank balances, including time deposits, were fully insured by FDIC at all financial institutions.

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014*

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

NOTE C – PROPERTY TAXES

Property taxes are levied by October 1 and may be paid without penalty until January 31. Penalty and interest are then added to payments received February 1 through June 30. An enforceable lien is attached when property taxes become delinquent. City property taxes are recognized as revenue in the accounting period when they become susceptible to accrual, i.e., when they become both measurable and available to pay liabilities of the current period. Only property taxes available within 60 days from the end of the fiscal period are subject to accrual. The City accrued \$1,377 of delinquent property taxes at September 30, 2014.

The Bowie County Appraisal District bills and collects property taxes for the city of Redwater. The State of Texas Constitution limits the City's ad valorem tax rate for all purposes to \$1.50 per one hundred dollars of assessed valuation. Ad valorem tax revenue during the year ended September 30, 2014, was levied using a rate of \$0.188931 per one hundred dollars of assessed valuation. Based on 100% of estimated market value, the City has a tax margin of \$1.311069 per \$100 and could raise an additional \$323,188 per year from the present assessed valuation of \$24,650,691 before the limit is reached. The amount assessed for the 2013 tax roll was \$46,579.

NOTE D – FINANCING AND RELATED INSURANCE ISSUES

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

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

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

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014*

NOTE E – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014, are as follows:

	Balance October 1, 2013	Additions	Deletions	Balance September 30, 2014
<u>Business-type activities - cost</u>				
Land	\$ 25,331	\$ -	\$ -	\$ 25,331
Buildings	37,858	2,569	-	40,427
Office furniture and equipment	23,504	-	-	23,504
Equipment and tools	282,352	44,791	10,389	316,754
Pumps and treatment	322,806	9,974	1,094	331,686
Lines and storage	2,318,199	-	-	2,318,199
Water meters	150,566	599	-	151,165
Sewer system	2,472,718	-	-	2,472,718
Total	<u>\$ 5,633,334</u>	<u>\$ 57,933</u>	<u>\$ 11,483</u>	<u>\$ 5,679,784</u>
	Balance October 1, 2013	Additions	Deletions	Balance September 30, 2014
<u>Business-type activities - accumulated depreciation</u>				
Building	\$ 28,969	\$ 1,427	\$ -	\$ 30,396
Office furniture and equipment	21,555	706	-	22,261
Equipment and tools	245,700	13,232	10,389	248,543
Pumps and treatment	157,713	17,481	1,094	174,100
Lines and storage	948,889	67,131	-	1,016,020
Water meters	136,331	9,835	-	146,166
Sewer system	1,094,767	99,170	-	1,193,937
Total	<u>\$ 2,633,924</u>	<u>\$ 208,982</u>	<u>\$ 11,483</u>	<u>\$ 2,831,423</u>
Total Business-type activities capital assets, net	<u>\$ 2,999,410</u>	<u>\$ (151,049)</u>	<u>\$ -</u>	<u>2,848,361</u>

Business-type activities - All depreciation expense of \$208,982 recorded in the business-type activities was charged to the Water and Sewer Fund. Business-type activities capital assets additions during the year ended September 30, 2014 totaled \$57,933, which included enclosing a workshop, replacing a pump and motor for a well, and the purchase of a trimmer, Skytrack, and a vehicle.

Business-type activities capital assets deletions include a vehicle and an old well pump.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Balance October 1, 2013	Additions	Deletions	Balance September 30, 2014
<u>Governmental activities -cost</u>				
Land	\$ 13,322	\$ 13,172	\$ 1,093	\$ 25,401
Park land	133,000	-	-	133,000
Buildings	87,700	-	-	87,700
Office furniture and equipment	17,965	-	-	17,965
Equipment and tools	88,050	-	-	88,050
Park facilities	596,156	10,000	-	606,156
Total	\$ 936,193	\$ 23,172	\$ 1,093	\$ 958,272
	Balance October 1, 2013	Additions	Deletions	Balance September 30, 2014
<u>Governmental activities -accumulated depreciation</u>				
Buildings	\$ 83,315	\$ 4,385	\$ -	\$ 87,700
Office furniture and equipment	17,965	-	-	17,965
Equipment and tools	28,459	6,802	-	35,261
Park facilities	238,463	29,974	-	268,437
Total	\$ 368,202	\$ 41,161	\$ -	\$ 409,363
<u>Total Governmental activities capital assets, net</u>	\$ 567,991	\$ (17,989)	\$ 1,093	\$ 548,909

Current year additions of \$23,172 included land and a new parking lot for the Redwater Ballfield.

During 2014, land was traded between the City and Walmart. Walmart purchased 3.569 acres from the RIDC but did not require the use of the 1.567 acres behind the property. The 1.567 acres of land was then traded with the City for 0.333 acres on the east side of the City Hall property.

Governmental activities depreciation expense charged to program activities was:

General and administration	\$ 11,187
Parks	29,974
	\$ 41,161

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE F – LONG-TERM DEBT

Business-type activities long-term debt at September 30, 2014 is comprised of the following:

Water and Sewer Fund:

\$603,000 in Series 2003A Revenue Bonds, due in semiannual installments of varying amounts on each December 1 and June 1 through 2043 at an interest rate of 4.25%.	\$ 522,000
\$609,000 in Series 2003B Revenue Bonds, due in semiannual installments of varying amounts on each December 1 and June 1 through 2043 at an interest rate of 4.25%	527,000
\$470,000 in Series 2005 Certificates of Obligations, due in semiannual installments of varying amounts on each December 1 and June 1 through 2026, at interest rates of 3.40% to 4.10%	<u>330,000</u>
Total Water and Sewer Fund - Business-Type Activities	<u>\$ 1,379,000</u>

Business-type transactions long term debts for the year ended September 30, 2014 are summarized as follows:

Type of Debt	September 30, 2013	Additions	Retirements	September 30, 2014	Due within one year
Business-type Activities					
Revenue Bonds	\$ 1,067,000	-	18,000	\$ 1,049,000	19,000
Certificates of Obligations	<u>355,000</u>	<u>-</u>	<u>25,000</u>	<u>330,000</u>	<u>25,000</u>
	<u>\$ 1,422,000</u>	<u>\$ -</u>	<u>\$ 43,000</u>	<u>\$ 1,379,000</u>	<u>\$ 44,000</u>

The annual requirements to retire long-term debt as of September 30, 2014 follow:

Year Ending September 30,	2003 Series		2005 Series		Total
	Principal	Interest	Principal	Interest	
2015	19,000	44,583	25,000	12,700	101,283
2016	20,000	43,775	25,000	11,813	100,588
2017	20,000	42,925	25,000	10,900	98,825
2018	22,000	42,076	25,000	9,975	99,051
2019	22,000	41,140	30,000	9,038	102,178
2020-2024	128,000	190,570	160,000	27,604	506,174
2025-2029	156,000	161,075	40,000	1,810	358,885
2030-2034	193,000	124,908	-	-	317,908
2035-2039	240,000	80,113	-	-	320,113
2040-2043	229,000	24,820	-	-	253,820
Totals	<u>\$ 1,049,000</u>	<u>\$ 795,985</u>	<u>\$ 330,000</u>	<u>\$ 83,840</u>	<u>\$ 2,258,825</u>

*CITY OF REDWATER, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014*

NOTE G – EMPLOYEE RETIREMENT SYSTEMS

Plan Description

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

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

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

	Plan Year 2013	Plan Year 2014
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI Repeating	0% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost is \$7,156 and the net pension obligation is \$0.

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014*

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ Asset
2012	\$ 3,965	\$ 3,965	100%	\$ -
2013	\$ 4,833	\$ 4,833	100%	\$ -
2014	\$ 7,156	\$ 7,156	100%	\$ -

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations.

Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single			
Amortization Period	20.8 yrs; closed period	18.5 yrs; closed period	25.0 yrs; closed period
Amortization Period for new			
Gain / Losses	11 years	11 years	13 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.00%	7.00%	7.00%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.00%	0.00%	0.00%

Funded Status and Funding Progress

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

The funded status as of December 31, 2013, the most recent actuarial valuation date, is presented as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (1)	<u>Actuarial Accrued Liability (AAL)</u> (2)	<u>Funded Ratio</u> (3) (1) / (2)	<u>Unfunded AAL (UAAL)</u> (4) (2) - (1)	<u>Covered Payroll</u> (5)	<u>UAAL as a Percentage of Covered Payroll</u> (6) (4) / (5)
12/31/2013	\$130,892	\$155,263	84.3%	\$24,371	\$199,713	12.2%

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

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

Supplemental Death Benefits Fund

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

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

Your city offers supplemental death to:	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

Contributions

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

The City's contributions to the TMRS SDBF for the years ended 2014, 2013 and 2012 were \$399, \$288, and \$267.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE H – CONTRACTS AND PARTICIPATION AGREEMENT

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

The City incurred \$133,824 of expenditures for water under the water supply contract for the year ending September 30, 2014. The amount incurred is based on actual water consumption. Membership fees paid to Riverbend totaled \$4,196 for the year ending September 30, 2014.

NOTE I – PRIOR PERIOD ADJUSTMENT

The effect of GASB No. 65 on the City’s annual financial statements was to adjust capitalized bond issuance costs from previous years as a change in accounting principle and deduct it from beginning net position.

Beginning net position	\$ 1,994,990
Less reclassification of capitalized bond issuance costs, net per GASB # 65	<u>(32,532)</u>
Beginning net position, as restated	<u><u>\$ 1,962,458</u></u>

NOTE J – DISCLOSURES OF REDWATER INDUSTRIAL DEVELOPMENT CORPORATION

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

Cash and Deposits

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

At September 30, 2014, the bank balances, including time deposits, were fully insured by FDIC at all financial institutions.

Capital Assets

Capital asset activity for the year ended September 30, 2014, are as follows:

	Balance October 1, 2013	<u>Additions</u>	<u>Deletions</u>	Balance September 30, 2014
<u>Component unit-cost</u>				
Land	\$ 115,693	\$ 199,949	\$ 30,000	\$ 285,642
Total Component unit capital assets	<u>\$ 115,693</u>	<u>\$ 199,949</u>	<u>\$ 30,000</u>	<u>\$ 285,642</u>

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Current additions of \$199,949 included the purchase of 46.979 acres of land. Deletions consisted of 3.569 acres purchased by Walmart.

Long-Term Debt

On July 30, 1984, Redwater Industrial Development Corporation borrowed money from BancorpSouth for purchase of real estate in the amount of \$30,000. The note is payable in 120 monthly installments of \$293 at an interest rate of 2.95%. The note was paid in full during the year ended September 30, 2014.

On September 22, 2014, Redwater Industrial Development Corporation borrowed money from First National Bank of Hughes Springs for purchase of land in the amount of \$100,000. The note is payable in 120 monthly installments of \$1,036 at an interest rate of 4.5%.

Long-term debt transactions for the year ended September 30, 2014 are summarized as follows:

	Balance October 1, 2013	Additions	Retirements	Balance September 30, 2014	Due within one year
Note payable	\$ 3,257	\$ -	\$ 3,257	\$ -	\$ -
Note payable	-	100,000	-	100,000	8,102
	<u>\$ 3,257</u>	<u>\$ 100,000</u>	<u>\$ 3,257</u>	<u>\$ 100,000</u>	<u>\$ 8,102</u>

The annual requirements to retire long-term debt as of September 30, 2014 follow:

For the Year Ending:	Principal	Interest	Total
September 30, 2015	8,102	4,335	12,437
September 30, 2016	8,475	3,962	12,437
September 30, 2017	8,864	3,573	12,437
September 30, 2018	9,271	3,166	12,437
September 30, 2019	9,697	2,740	12,437
September 30, 2020-2024	55,591	6,594	62,185
	<u>\$ 100,000</u>	<u>\$ 24,370</u>	<u>\$ 124,370</u>

NOTE K – SUBSEQUENT EVENTS

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through February 24, 2015, which is the date the financial statements were available to be issued.

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

CITY OF REDWATER, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		GAAP Basis Actual Amount	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Property taxes	\$ 46,000	\$ 46,000	\$ 48,123	\$ 2,123
Franchise taxes	22,000	25,000	29,207	4,207
Sales taxes	48,000	50,000	49,762	(1) (238)
Intergovernmental	6,000	6,000	6,000	-
Refuse income	21,000	23,000	25,601	2,601
Rental income	9,000	-	9,000	9,000
Lease income	3,600	3,600	3,600	-
Interest	120	35	249	214
Miscellaneous	2,750	7,320	9,169	1,849
Total revenues	158,470	160,955	180,711	19,756
Expenditures				
Accounting and audit fees	3,000	3,200	3,110	90
Appraisal district fees	2,000	1,500	1,392	108
Beautification	1,000	1,000	488	512
Insurance	9,500	9,300	10,125	(825)
Legal and filing fees	500	500	752	(252)
Mileage, travel and training	5,000	5,500	4,445	1,055
Office supplies/postage	2,200	2,200	1,476	724
Repairs and maintenance	4,700	2,000	1,402	598
Retirement	850	1,160	1,070	90
Salaries & taxes-admin	35,000	37,600	37,662	(62)
Street repairs	120,000	120,000	101,730	18,270
Utilities	8,000	7,300	7,868	(568)
Miscellaneous	23,220	14,995	9,398	5,597
Park expense	6,000	16,000	(2) 2,400	13,600
Public safety	6,000	6,000	6,000	-
Public works	3,800	-	-	-
Capital outlay	-	-	10,000	(2) (10,000)
Animal control	700	700	-	700
Emergency management	2,000	2,000	-	2,000
Election	2,000	-	-	-
RIDC	16,000	16,000	-	* 16,000
Service charges	350	-	-	-
Total expenditures	251,820	246,955	199,318	47,637
Excess (deficiency) of revenues over expenditures	(93,350)	(86,000)	(18,607)	67,393
Fund balance at beginning of year	237,542	237,542	237,542	-
Fund balance at end of year	\$ 144,192	\$ 151,542	\$ 218,935	\$ 67,393

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

1) Sales tax revenue had increased \$19,838 in FY 2014 due to an audit collection.

2) There was an auditor adjusting entry to capitalize a parking lot at the City Ballfield.

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (1)	<u>Actuarial Accrued Liability (AAL)</u> (2)	<u>Funded Ratio</u> (3) (1) / (2)	<u>Unfunded AAL (UAAL)</u> (4) (2) - (1)	<u>Covered Payroll</u> (5)	<u>UAAL as a Percentage of Covered Payroll</u> (6) (4) / (5)
12/31/2011	87,739	105,360	83.3%	17,621	186,242	9.5%
12/31/2012	110,545	129,639	85.3%	19,094	190,623	10.0%
12/31/2013	130,892	155,263	84.3%	24,371	199,713	12.2%

CITY OF REDWATER, TEXAS
REPORT ON COMPLIANCE AND INTERNAL CONTROLS

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

Independent Auditor's Report

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

Members of the Council:

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Redwater, Texas, (the City) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 24, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Redwater, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wilf & Henderson, P.C.

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

February 24, 2015

*CITY OF REDWATER, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014*

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the City of Redwater, Texas was an unqualified opinion.
- b. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters required by the GAO's *Government Auditing Standards*.
- c. No instances of noncompliance material to the financial statements of the City of Redwater, Texas were disclosed during the audit.

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

No findings required to be reported.

*CITY OF REDWATER, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2014*

Prior Audit Findings Related to the Financial Statements Which Were Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

Finding 2013-1 – Bid Procedures

For the year ended September 30, 2013, the City did not properly follow bid procedures required by Texas Local Government Code §252.021 for the purchase of sirens for the city at a total cost of \$65,620. Texas Local Government Code §252.021 requires that a city may enter into a contract for an expenditure of more than \$50,000 only if it complies with certain procurement procedures. The City obtained quotes for the purchase of the sirens in 2011 in order to determine an estimate for the grant application for the project. Once the grant was approved in FY 2013, no formal bid procedures were followed for the purchase of the sirens. As a result, the City did not adhere to Texas Local Government Code §252.021. No similar finding was noted in the 2014 audit.

The responsible contact person is Robert Lorange, Mayor.

*CITY OF REDWATER, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2014*

There were no current year audit findings or questioned costs.