

*CITY OF REDWATER, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2017*

**CITY OF REDWATER, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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CITY DIRECTORY

MAYOR

Robert Lorange

CITY COUNCIL

Paula Coggin

Ronnie Bell

Chuck Bradford

Ronnie Starkey

Leo Whelchel

CITY OFFICIALS

Dessie Whelchel, City Secretary

Independent Auditor's Report

March 28, 2018

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, 2017, 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, 2017, 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 on pages 4-9, budgetary comparison information on page 36, TMRS schedule of changes in net pension (asset) liability and related ratios on page 37, and TMRS schedule of pension contributions on page 38 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 March 28, 2018, 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

March 28, 2018

City of Redwater, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

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, 2017 in the governmental activities (including the General Fund) increased from \$787,541 to \$798,883. The business-type activities (consisting of the City's water and sewer) net position balance decreased from \$1,545,575 to \$1,465,797.

- For governmental activities, the total net investment in capital assets (after subtracting out debt owed on capital assets) decreased from \$492,186 to \$451,126.
- For business-type activities, the total of net investment in capital assets decreased from \$1,181,611 to \$1,065,243.
- For business-type activities, the City's long-term debt at September 30, 2017 decreased from \$1,245,000 to \$1,198,000.
- The most significant continuing revenue sources for governmental activities of the City consisted of \$49,598 in charges for services, \$50,002 in property tax and related revenues, \$23,757 in franchise fees, and \$50,871 in sales tax revenues.
- Charges for business-type activities of the enterprise fund totaled \$838,925.

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	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 355,061	\$ 301,997	\$ 598,316	\$ 581,285	\$ 56,550	\$ 70,929
Capital assets, net	451,126	492,186	2,310,243	2,471,611	350,377	325,542
Total Assets	806,187	794,183	2,908,559	3,052,896	406,927	396,471
Deferred outflows of resources	3,417	3,817	19,068	21,201	-	-
Other liabilities	4,258	3,561	229,343	246,713	9,283	8,876
Long-term liabilities	-	-	1,198,000	1,245,000	65,288	74,559
Net pension liability (TMRS)	2,794	6,898	14,909	36,809	-	-
Total Liabilities	7,052	10,459	1,442,252	1,528,522	74,571	83,435
Deferred inflow of resources	3,669	-	19,578	-	-	-
Net position						
Net investment in capital assets	451,126	492,186	1,065,243	1,181,611	275,818	242,119
Restricted	-	-	167,171	181,544	56,538	70,917
Unrestricted	347,757	295,355	233,383	182,420	-	-
Total Net Position	\$ 798,883	\$ 787,541	\$ 1,465,797	\$ 1,545,575	\$ 332,356	\$ 313,036

Governmental Activities - Statement of Net Position

The major component of the current and other assets category consists of cash, cash equivalents, and certificates of deposit of \$385,965. The balance in this category comprised of various receivables (amounts due) for taxes and for revenues due from intergovernmental agencies. The total for cash, cash equivalents, and certificates of deposit reflects the City's past performance in meeting budgetary goals and the accumulation of resources for future needs of the City.

Capital assets totaling \$451,126 (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 \$147,799 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 \$293,158. Accounts and unbilled receivable balances of \$115,459 represent outstanding water and sewer billings at fiscal year-end.

Capital assets totaling \$2,310,243 (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 \$1,198,000 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 \$1,065,243. Net position restricted for debt service totaled \$167,171. The balance of \$233,383 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, 2017 and 2016. 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		
	2017	2016	2017	2016	2017	2016	
Revenues							
Program Revenues:							
Charges for Services	\$ 49,598	\$ 50,516	\$ 838,925	\$ 817,685	\$ -	\$ -	
General Revenues:							
Property taxes	50,002	50,049	-	-	-	-	
Franchise taxes	23,757	25,120	-	-	-	-	
Sales and use taxes	50,871	48,214	-	-	25,436	24,107	
Interest	523	571	343	359	35	34	
Other income	1,597	858	3,041	3,075	-	-	
Gain on sale of capital assets	-	-	-	-	-	-	
Gain on trade of land	-	-	-	-	-	-	
Total Revenues	176,348	175,328	842,309	821,119	25,471	24,141	
Program Expenses:							
General Government	88,324	89,611	-	-	-	-	
Streets	29,911	1,867	-	-	-	-	
Parks	40,771	44,020	-	-	-	-	
Economic Development	-	-	-	-	6,151	9,145	
Public Safety	6,000	6,000	-	-	-	-	
Water and Sewer	-	-	922,087	902,678	-	-	
Total Expenses	165,006	141,498	922,087	902,678	6,151	9,145	
Increase (Decrease) in Net Position	11,342	33,830	(79,778)	(81,559)	19,320	14,996	

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 \$30,224 for refuse income, \$6,000 for public safety activities and \$2,367 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 \$50,002, franchise fees of \$23,757 and sales tax revenues of \$50,871.

Program expenses are presented in the above Statement of Activities by function and total \$165,006 for the current fiscal year-end. Expenses decreased due to major street repairs during the prior year. Revenues less expenses presented in this statement total to an increase in net position of \$11,342.

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 \$838,925 for water and sewer. Revenues increased due to an increase in the number of customer accounts.

The City reports the total amount of expenses for operation of the utility system as \$922,087 for the fiscal year ended September 30, 2017. The change in net position (revenues less expenses and transfers) for the current fiscal year was a decrease in net position of (\$79,778). Water and sewer program expenses include \$187,041 of depreciation expense. Expenses increased in the current year due to the closing of the wells, which resulted in an increase in water purchases.

Governmental Funds

At year-end, the City's governmental funds, consisting of the General Fund and the Capital Projects Fund reported combined fund balances of \$58,247 committed for capital improvement projects and \$292,556 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 \$304,085 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 \$52,427 excess 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 \$292,556.

The Capital Projects Fund reports a balance of \$60 excess of expenditures and other uses over revenues and other sources. Fund balance at the end of the current fiscal year for the Capital Projects Fund is \$58,247.

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 \$190,981 for water contracts, \$199,952 for salaries and wages, and \$187,041 for depreciation expense. Non-operating revenues and expenses include \$343 in interest income and \$54,783 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 2017, the governmental activities had \$451,126 (net of accumulated depreciation) invested in a broad range of capital assets. During 2017, additions included a standing desk and a speed bump sign.

The business-type activities has \$2,310,243 (net of accumulated depreciation) invested in capital assets. During 2017, the City incurred \$15,678 of cost to complete a cycle stop valve installation and \$9,994 to purchase a SCADA system.

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

Long-Term Debt

At year-end the City had \$1,198,000 in long-term outstanding notes payable in the business-type activities. More detailed information about the City's long-term liabilities is presented in Note G 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 to increase expenditures. The variance between budgeted and actual revenues for the General Fund is \$3,148. The variance between budgeted and actual expenditures for the General Fund is \$21,895.

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. A major project for FY 2018 is the installation of automatic read meters. This will ensure accuracy in billing and increase efficiency of employees' time. The property tax rate adopted for fiscal year ending September 30, 2018 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, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 362,332	\$ 141,857	\$ 504,189	\$ -
Certificates of deposit	23,633	5,909	29,542	-
Accounts receivable (net)	7,290	-	7,290	-
Utility accounts receivable (net)	-	91,619	91,619	-
Unbilled receivables (net)	-	23,840	23,840	-
Prepaid insurance	760	2,967	3,727	-
Restricted assets - cash and cash equivalents	-	293,158	293,158	56,550
Interfund accounts	(38,966)	38,966	-	-
Due from RIDC	12	-	12	-
Capital assets (net of accumulated depreciation):				
Land	158,401	25,331	183,732	350,377
Buildings	87,700	39,427	127,127	-
Office furniture and equipment	26,914	15,650	42,564	-
Equipment and tools	88,050	290,230	378,280	-
Park facilities	620,970	-	620,970	-
Pumps and equipment	-	331,686	331,686	-
Line and storage	-	2,348,930	2,348,930	-
Water meters	-	152,684	152,684	-
Sewer system	-	2,466,555	2,466,555	-
Less accumulated depreciation	(530,909)	(3,360,250)	(3,891,159)	-
Total Assets	<u>\$ 806,187</u>	<u>\$ 2,908,559</u>	<u>\$ 3,714,746</u>	<u>\$ 406,927</u>
DEFERRED OUTFLOW OF RESOURCES				
Deferred Outflow Related to TMRS, net	<u>\$ 3,417</u>	<u>\$ 19,068</u>	<u>\$ 22,485</u>	<u>\$ -</u>
LIABILITIES				
Accounts payable	\$ 1,320	\$ 26,950	\$ 28,270	\$ -
Accrued expenses and other liabilities	2,938	12,478	15,416	-
Accrued interest payable	-	17,350	17,350	-
Refuse contract payable	-	16,928	16,928	-
Customer meter deposits	-	108,637	108,637	-
Due to General Fund	-	-	-	12
Noncurrent liabilities:				
Due within one year	-	47,000	47,000	9,271
Due in more than one year	-	1,198,000	1,198,000	65,288
Net pension liability (TMRS)	2,794	14,909	17,703	-
Total Liabilities	<u>7,052</u>	<u>1,442,252</u>	<u>1,449,304</u>	<u>74,571</u>
DEFERRED INFLOW OF RESOURCES				
Deferred Inflow Related to TMRS, net	<u>\$ 3,669</u>	<u>\$ 19,578</u>	<u>\$ 23,247</u>	<u>\$ -</u>
NET POSITION				
Net investment in capital assets	451,126	1,065,243	1,516,369	275,818
Restricted for:				
Debt service	-	167,171	167,171	-
Economic development	-	-	-	56,538
Unrestricted	347,757	233,383	581,140	-
Total Net Position	<u>\$ 798,883</u>	<u>\$ 1,465,797</u>	<u>\$ 2,264,680</u>	<u>\$ 332,356</u>

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2017

Functions/Programs	Net (Expense) Revenue and Changes in Net Position										
	Program Revenues					Primary Government					Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities	Business-type Activities	Total			
Primary government:											
Governmental activities:											
General and administrative	\$ 88,324	\$ 43,598	\$ -	\$ -	\$ -	\$ (44,726)	\$ -	\$ (44,726)	\$ -	\$ -	
Streets	29,911	-	-	-	-	(29,911)	-	(29,911)	-	-	
Parks	40,771	-	-	-	-	(40,771)	-	(40,771)	-	-	
Public Safety	6,000	6,000	-	-	-	-	-	-	-	-	
Total governmental activities	165,006	49,598	-	-	-	(115,408)	-	(115,408)	-	-	
Business-type activities:											
Water and sewer	922,087	838,925	-	-	-	-	(83,162)	(83,162)	-	-	
Total business-type activities	922,087	838,925	-	-	-	-	(83,162)	(83,162)	-	-	
Total primary government	\$ 1,087,093	\$ 888,523	\$ -	\$ -	\$ -	(115,408)	\$ (83,162)	\$ (198,570)	\$ -	\$ -	
Component Unit:											
RIDC	6,151	-	-	-	-	-	-	-	(6,151)	(6,151)	
Total component unit	\$ 6,151	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(6,151)	(6,151)	
General revenues:											
Property taxes and related revenues						50,002	-	50,002	-	-	
Franchise fees						23,757	-	23,757	-	-	
Sales taxes						50,871	-	50,871	25,436	25,436	
Interest income						523	343	866	35	35	
Other income						1,597	3,041	4,638	-	-	
Total general revenues						126,750	3,384	130,134	25,471	25,471	
Change in net position						11,342	(79,778)	(68,436)	19,320	19,320	
Net position at beginning of year						787,541	1,545,575	2,333,116	313,036	313,036	
Net position at end of year						\$ 798,883	\$ 1,465,797	\$ 2,264,680	\$ 332,356	\$ 332,356	

The accompanying notes are an integral part of this statement

*CITY OF REDWATER, TEXAS
GOVERNMENTAL FUND TYPES
BALANCE SHEET
SEPTEMBER 30, 2017*

	General Fund	Capital Projects Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 304,085	\$ 58,247	\$ 362,332
Certificates of deposit	23,633	-	23,633
Receivables, net allowances	7,290	-	7,290
Prepaid insurance	760	-	760
Due from RIDC	12	-	12
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 335,780</u>	<u>\$ 58,247</u>	<u>\$ 394,027</u>
LIABILITIES			
Accounts payable	\$ 1,320	\$ -	\$ 1,320
Accrued expenses and other liabilities	2,938	-	2,938
Due to Proprietary Fund	38,966	-	38,966
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>43,224</u>	<u>-</u>	<u>43,224</u>
FUND BALANCES			
Committed Fund Balance:			
Capital Improvement Projects	-	58,247	58,247
Unassigned Fund Balance	292,556	-	292,556
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>292,556</u>	<u>58,247</u>	<u>350,803</u>
Total Liabilities and Fund Balances	<u>\$ 335,780</u>	<u>\$ 58,247</u>	<u>\$ 394,027</u>

The accompanying notes are an integral part of this statement.

*CITY OF REDWATER, TEXAS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017*

Total Fund Balance - Governmental Funds	\$350,803
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 \$981,683 and the accumulated depreciation was \$489,497. 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.	492,186
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 2017 capital outlays of \$352, plus debt principal payments of \$0 is to increase net position.	352
The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.	(41,412)
The net effect of including the beginning balance for pension assets (net of the liability) in the governmental activities is to (decrease) net position.	(3,081)
The net effect of change in pension liability and the net effect of the change in deferred outflows in the governmental activities is to increase net position.	35
	35
Net Position of Governmental Activities	\$ 798,883

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, 2017

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 50,002	\$ -	\$ 50,002
Franchise taxes	23,757	-	23,757
Sales taxes	50,871	-	50,871
Intergovernmental	6,000	-	6,000
Refuse income	30,224	-	30,224
Rental income	9,000	-	9,000
Lease income	3,600	-	3,600
Interest	231	292	523
Miscellaneous	2,367	-	2,367
	<u>176,052</u>	<u>292</u>	<u>176,344</u>
Expenditures			
Accounting and audit fees	2,393	-	2,393
Appraisal district fees	1,371	-	1,371
Beautification	92	-	92
Election	-	-	-
Emergency management	923	-	923
Insurance	7,663	-	7,663
Legal and filing fees	58	-	58
Mileage, travel and training	2,193	-	2,193
Office supplies/postage	2,477	-	2,477
Repairs and maintenance	3,604	-	3,604
Retirement	1,759	-	1,759
Salaries & taxes-administration	44,378	-	44,378
Street repairs	29,911	-	29,911
Utilities	8,197	-	8,197
Miscellaneous	5,106	-	5,106
Park expense	7,500	-	7,500
Public safety	6,000	-	6,000
Capital outlay	-	352	352
	<u>123,625</u>	<u>352</u>	<u>123,977</u>
Excess (deficiency) of revenues over expenditures	52,427	(60)	52,367
Other Financing Sources (Uses)			
Operating transfers in (out)	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balance	52,427	(60)	52,367
Fund balance at beginning of year	240,129	58,307	298,436
Fund balance at end of year	<u>\$ 292,556</u>	<u>\$ 58,247</u>	<u>\$ 350,803</u>

The accompanying notes are an integral part of this statement.

*CITY OF REDWATER, TEXAS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2017*

Net changes in Fund Balances - Governmental Funds	\$ 52,367
<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 2017 capital outlays of \$352, plus debt principal payments of \$0 is to increase net position.</p>	
	352
<p>The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.</p>	
	(41,412)
<p>The net effect of change in pension liability and the net effect of the change in deferred outflows in the governmental activities is to increase net position.</p>	
	35
	35
Change in Net Position in Governmental Activities	\$ 11,342

The accompanying notes are an integral part of this statement.

*CITY OF REDWATER, TEXAS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2017*

	Water and Sewer	Totals
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 141,857	\$ 141,857
Certificates of deposit	5,909	5,909
Accounts receivable (net)	91,619	91,619
Unbilled receivables (net)	23,840	23,840
Prepaid Insurance	2,967	2,967
Due from General Fund	38,966	38,966
Total Current Assets	305,158	305,158
Restricted Assets:		
Cash and cash equivalents	293,158	293,158
Capital Assets:		
Land	25,331	25,331
Buildings	39,427	39,427
Furniture and fixtures	15,650	15,650
Equipment and tools	290,230	290,230
Pumps and treatment equipment	331,686	331,686
Lines and storage	2,348,930	2,348,930
Water meters	152,684	152,684
Sewer system	2,466,555	2,466,555
Less accumulated depreciation	(3,360,250)	(3,360,250)
Total Capital Assets, net of accumulated depreciation	2,310,243	2,310,243
Total Assets	\$ 2,908,559	\$ 2,908,559
DEFERRED OUTFLOW OF RESOURCES		
Deferred Outflow Related to TMRS, net	\$ 19,068	\$ 19,068
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 26,950	\$ 26,950
Accrued expenses and other liabilities	12,478	12,478
Accrued interest payable	17,350	17,350
Refuse contract payable	16,928	16,928
Customer meter deposits	108,637	108,637
Bonds and notes payable, current portion	47,000	47,000
Total Current Liabilities	229,343	229,343
Noncurrent Liabilities:		
Bonds and notes payable, long-term, net	1,198,000	1,198,000
Net pension liability (TMRS)	14,909	14,909
Total Noncurrent Liabilities	1,212,909	1,212,909
Total Liabilities	1,442,252	1,442,252
DEFERRED INFLOW OF RESOURCES		
Deferred Inflow Related to TMRS, net	\$ 19,578	\$ 19,578
NET POSITION		
Net investment in capital assets	1,065,243	1,065,243
Restricted	167,171	167,171
Unrestricted	233,383	233,383
Total Net Position	\$ 1,465,797	\$ 1,465,797

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, 2017*

	Water and Sewer	Totals
Operating Revenues:		
Charges for services	\$ 838,925	\$ 838,925
Other income	3,041	3,041
Total operating revenues	841,966	841,966
Operating Expenses:		
Accounting and audit	14,743	14,743
Bad debt expense	1,636	1,636
Chemicals	16,671	16,671
Contract labor	24,199	24,199
Depreciation	187,041	187,041
Equipment repairs and maintenance	2,815	2,815
Equipment supplies and tools	12,436	12,436
Fees and permits	4,473	4,473
Insurance - group health and workers compensation	33,430	33,430
Insurance - other	6,567	6,567
Lab services and testing	11,667	11,667
Maintenance contracts	2,397	2,397
Miscellaneous	7,347	7,347
Office supplies and expense	4,823	4,823
Postage	4,520	4,520
Refuse charges	2,899	2,899
Rent-building and equipment	9,000	9,000
Repairs and maintenance - water and sewer system	33,769	33,769
Retirement	8,421	8,421
Salaries and wages	199,952	199,952
Supplies-operating	13,829	13,829
Taxes-payroll	15,487	15,487
Telephone and radio	6,505	6,505
Utilities	32,123	32,123
Vehicle repairs and maintenance	2,661	2,661
Vehicle supplies	16,912	16,912
Water contracts	190,981	190,981
Total operating expenses	867,304	867,304
Operating income (loss)	(25,338)	(25,338)
Non-Operating Revenues (Expenses)		
Interest income	343	343
Interest expense and fees	(54,783)	(54,783)
Total nonoperating revenues (expenses)	(54,440)	(54,440)
Change in net position	(79,778)	(79,778)
Net position at beginning of year	1,545,575	1,545,575
Net position at end of year	\$ 1,465,797	\$ 1,465,797

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, 2017*

	Water and Sewer	Totals
Cash Flows from Operating Activities		
Receipts from customers	\$ 832,967	\$ 832,967
Payments to suppliers	(502,557)	(502,557)
Payments to employees	(199,952)	(199,952)
Net cash provided by operating activities	<u>130,458</u>	<u>130,458</u>
Cash Flows from Capital and Related Financing Activities		
Capital assets purchased	(25,672)	(25,672)
Bonds and notes principal retirement	(45,000)	(45,000)
Bonds and notes interest and fees expense paid	(55,376)	(55,376)
Net cash (used) by capital and financing activities	<u>(126,048)</u>	<u>(126,048)</u>
Cash Flows from Investing Activities		
Certificates of deposit matured	5,894	5,894
Certificates of deposit purchased	(5,909)	(5,909)
Interest received	343	343
Net cash provided by investing activities	<u>328</u>	<u>328</u>
Net increase (decrease) in cash and cash equivalents	4,738	4,738
Cash and cash equivalents at beginning of year	<u>430,277</u>	<u>430,277</u>
Cash and cash equivalents at end of year	<u>\$ 435,015</u>	<u>\$ 435,015</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (25,338)	\$ (25,338)
Depreciation expense	187,041	187,041
Change in assets and liabilities:		
(Increase) decrease in receivables	(11,899)	(11,899)
(Increase) decrease in prepaid insurance	(379)	(379)
Increase (decrease) in accounts payable	(20,453)	(20,453)
Increase (decrease) in accrued expenses and other liabilities	(1,225)	(1,225)
Increase (decrease) in customer meter deposits	2,900	2,900
Increase (decrease) in pension plan liabilities and outflows	(189)	(189)
Net cash provided by operating activities	<u>\$ 130,458</u>	<u>\$ 130,458</u>

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, 2017*

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).

GASB Statement 68, *Accounting and Financial Reporting for Pensions*, issued June 2012 was adopted for the year ending September 30, 2015. The City participates in the Texas Municipal Retirement System. This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which:

- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

As of September 30, 2016, the City of Redwater, Texas retrospectively/prospectively applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

Reporting Entity

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

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

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017*

The component unit of the City is the Redwater Industrial Development Corporation (RIDC) and 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.

Capital Projects Fund - The Capital Projects Fund account was set up for expenditures related to capital asset acquisitions and other improvements in the City.

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.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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 are incurred. However, debt service expenditures, excepts for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences and arbitrage are recorded only when payment has matured and will be payable shortly after year-end.

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

Budget and Budgetary Accounting

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

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

Cash and Investments

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

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017*

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, 2017 are as follow:

<u>Type of Restricted Asset</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Meter Deposits	\$ 108,600	\$ -
Maintenance Fund	77,048	-
Bond Reserve Fund	63,817	-
2003 Debt Service Fund	23,089	-
2005 Debt Service Fund	11,978	-
Maintenance Fund-Investments	8,626	-
Economic Development	-	56,550
Total Restricted Assets	\$ 293,158	\$ 56,550

Accounts Receivable

The accounts receivable at September 30, 2017 are as follows:

<u>Accounts Receivable</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Franchise tax	\$ 6,519	\$ -	\$ 6,519
Property tax	13,756	-	13,756
Interest	13	-	13
Customer billed	-	94,335	94,335
Allowance for doubtful accounts	(12,998)	(2,716)	(15,714)
Total Accounts Receivable, Net	\$ 7,290	\$ 91,619	\$ 98,909

Capital Assets

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

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017*

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.

Pensions

In the government-wide financial statements and the proprietary fund types in the fund financial statement, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS’s Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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. Net position restricted for debt service consists of restricted cash accounts related to debt reduced by accrued interest payable.

NOTE B – COLLATERALIZATION OF DEPOSITS

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

At September 30, 2017, 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, 2017*

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 \$758 of delinquent property taxes at September 30, 2017.

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, 2017, 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 \$348,752 per year from the present assessed valuation of \$26,600,576 before the limit is reached. The amount assessed for the 2016 tax roll was \$50,262.

NOTE D – INTERFUND TRANSACTIONS

Interfund balances are as follows as of September 30, 2017:

	Receivables (Due From)	Payables (Due To)
General Fund:		
Proprietary Fund	-	(38,966)
Component Unit	12	-
Proprietary Fund:		
General Fund	38,966	-
Component Unit:		
General Fund	-	(12)
Total	38,978	(38,978)

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NOTE E – 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.

NOTE F – CAPITAL ASSETS

Governmental activities capital asset activity for the year ended September 30, 2017, are as follows:

	Balance October 1, 2016	Additions	Deletions	Balance September 30, 2017
<u>Governmental activities-cost</u>				
Land	\$ 25,401	\$ -	\$ -	\$ 25,401
Park land	133,000	-	-	133,000
Buildings	87,700	-	-	87,700
Office furniture and equipment	26,562	352	-	26,914
Equipment and tools	88,050	-	-	88,050
Park facilities	620,970	-	-	620,970
Total	<u>\$ 981,683</u>	<u>\$ 352</u>	<u>\$ -</u>	<u>\$ 982,035</u>
	Balance October 1, 2016	Additions	Deletions	Balance September 30, 2017
<u>Accumulated depreciation</u>				
Buildings	\$ 87,700	\$ -	\$ -	\$ 87,700
Office furniture and equipment	18,942	1,442	-	20,384
Equipment and tools	48,865	6,698	-	55,563
Park facilities	333,990	33,272	-	367,262
Total	<u>\$ 489,497</u>	<u>\$ 41,412</u>	<u>\$ -</u>	<u>\$ 530,909</u>
 <u>Total Governmental activities capital assets, net</u>	 <u>\$ 492,186</u>	 <u>\$ (41,060)</u>	 <u>\$ -</u>	 <u>\$ 451,126</u>

Current year additions of \$352 included a standing desk and a speed bump sign.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Governmental activities depreciation expense charged to program activities was:

General and administration	\$ 8,140
Parks	33,272
	\$ 41,412

Business-type activities capital asset activity for the year ended September 30, 2017, are as follows:

	Balance October 1, 2016	Additions	Reclassification/ Deletions	Balance September 30, 2017
<u>Business-type activities - cost</u>				
Land	\$ 25,331	\$ -	\$ -	\$ 25,331
Buildings	39,427	-	-	39,427
Office furniture and equipment	15,650	-	-	15,650
Equipment and tools	290,230	-	-	290,230
Pumps and treatment	331,686	-	-	331,686
Lines and storage	2,318,200	9,994	20,736	2,348,930
Water meters	152,684	-	-	152,684
Sewer system	2,466,555	-	-	2,466,555
Construction in progress	5,058	15,678	(20,736)	-
Total	\$ 5,644,821	\$ 25,672	\$ -	\$ 5,670,493
	Balance October 1, 2016	Additions	Deletions	Balance September 30, 2017
<u>Accumulated depreciation</u>				
Building	\$ 32,458	\$ 1,337	\$ -	\$ 33,795
Office furniture and equipment	15,191	252	-	15,443
Equipment and tools	250,999	11,196	-	262,195
Pumps and treatment	206,674	14,534	-	221,208
Lines and storage	1,133,782	59,916	-	1,193,698
Water meters	148,231	899	-	149,130
Sewer system	1,385,874	98,907	-	1,484,781
Total	\$ 3,173,209	\$ 187,041	\$ -	\$ 3,360,250
<u>Total Business-type activities capital assets, net</u>	\$ 2,471,612	\$ (161,369)	\$ -	\$ 2,310,243

Business-type activities - All depreciation expense of \$187,041 recorded in the business-type activities was charged to the Water and Sewer Fund. The City completed installation of a cycle stop valve at a total cost of \$20,736. The City also purchased a SCADA system to monitor the water system.

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017*

NOTE G – LONG-TERM DEBT

Business-type activities long-term debt at September 30, 2017 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%.	\$ 493,000
\$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%	497,000
\$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 3.70% to 4.10%	<u>255,000</u>
Total Water and Sewer Fund - Business-Type Activities	<u><u>\$ 1,245,000</u></u>

Business-type transactions long term debts for the year ended September 30, 2017 are summarized as follows:

Type of Debt	September 30, 2016	Additions	Retirements	September 30, 2017	Due within one year
Business-type Activities					
Revenue Bonds	\$ 1,010,000	-	20,000	\$ 990,000	22,000
Certificates of Obligations	280,000	-	25,000	255,000	25,000
	<u>\$ 1,290,000</u>	<u>\$ -</u>	<u>\$ 45,000</u>	<u>\$ 1,245,000</u>	<u>\$ 47,000</u>

The annual requirements to retire long-term debt as of September 30, 2017 follow:

Year Ending September 30,	2003 Series		2005 Series		Total
	Principal	Interest	Principal	Interest	
2018	22,000	42,076	25,000	9,975	99,051
2019	22,000	41,140	30,000	9,038	102,178
2020	24,000	40,205	30,000	7,898	102,103
2021	24,000	39,185	30,000	6,742	99,927
2022	26,000	38,676	30,000	5,572	100,248
2023-2027	145,000	173,572	110,000	9,206	437,778
2028-2032	177,000	140,336	-	-	317,336
2033-2037	220,000	99,240	-	-	319,240
2038-2042	270,000	48,240	-	-	318,240
2043	60,000	2,594	-	-	62,594
Totals	<u>\$ 990,000</u>	<u>\$ 665,264</u>	<u>\$ 255,000</u>	<u>\$ 48,431</u>	<u>\$ 1,958,695</u>

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017*

NOTE H – DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Redwater participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the city are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees of the City of Redwater are eligible for retirement at age 60 with 5 years of service or at any age with 20 years of service. Employees contribute to the fund at the rate of 7%. The City matches dollar for dollar. The City match vests after 5 years of service.

Employees covered by benefit terms:

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	2
Active employees	8
Total	10

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Redwater were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Redwater was 3.39% and 4.35% for the calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$10,180 and were equal to the required contributions.

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017*

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male's rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation.

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017*

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension (Asset) Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2016	\$ 232,976	\$ 189,268	\$ 43,708
Changes for the year:			
Service cost	23,487	-	23,487
Interest	15,329	-	15,329
Change of benefit terms	-	-	-
Difference between expected and actual experience	(28,094)	-	(28,094)
Change of assumptions	-	-	-
Contributions - employer	-	7,852	(7,852)
Contributions - employee	-	16,214	(16,214)
Net investment income	-	12,813	(12,813)
Benefit payments, including refunds to employees	(35,241)	(35,241)	-
Administrative expense	-	(144)	144
Other changes	-	(8)	8
Net changes	<u>(24,519)</u>	<u>1,486</u>	<u>(26,005)</u>
Balance at 12/31/2017	<u>\$ 208,457</u>	<u>\$ 190,754</u>	<u>\$ 17,703</u>

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension (asset) liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	<u>Discount Rate (5.75%)</u>	<u>Discount Rate (6.75%)</u>	<u>Discount Rate (7.75%)</u>
City's net pension (asset) liability	\$ 49,502	\$ 17,703	\$ (8,770)

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017 the city recognized pension expense of \$9,547.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 897	\$ 23,217
Changes in actuarial assumptions	6,214	-
Difference between projected and actual investment earnings	7,604	30
Contributions subsequent to the measurement date	7,770	-
	<u>\$ 22,485</u>	<u>\$ 23,247</u>

\$7,770 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Net deferred outflows (inflows) of resources</u>
2017	\$ (431)
2018	(430)
2019	(796)
2020	(3,246)
2021	(3,629)
Thereafter	-
Total	<u>\$ (8,532)</u>

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017*

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 2016</u>	<u>Plan Year 2017</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 2017, 2016, and 2015 were \$571, \$488, and \$422.

NOTE I – 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 depends on the use of their wells for a portion of the City’s water supply. During the year ending September 30, 2017, the wells were closed down due to the cost of repairing and maintaining them. The wells are no longer cost effective to operate.

The City incurred \$182,163 of expenditures for water under the water supply contract for the year ending September 30, 2017. The amount incurred is based on actual water consumption. Membership fees paid to Riverbend totaled \$8,818 for the year ending September 30, 2017.

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017*

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, 2017, 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, 2017, are as follows:

	Balance October 1, 2016	Additions	Deletions	Balance September 30, 2017
<u>Component unit-cost</u>				
Land	\$ 325,542	\$ 24,835	\$ -	\$ 350,377
<u>Total Component unit capital assets</u>	<u>\$ 325,542</u>	<u>\$ 24,835</u>	<u>\$ -</u>	<u>\$ 350,377</u>

Additions are due to improvements to the land. The costs include a survey of the land and preliminary cost of constructing a road.

On October 12, 2017, a loan of \$200,000 was obtained by RIDC for construction of a road at the 991 property. A construction contract in the amount of \$107,038 was signed with Hart Construction LLC to complete the contract.

Long-Term Debt

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%.

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017*

Long-term debt transactions for the year ended September 30, 2017 are summarized as follows:

	Balance October 1, 2016	Additions	Retirements	Balance September 30, 2017	Due within one year
Note payable	\$ 83,423	\$ -	\$ 8,864	\$ 74,559	\$ 9,271
	<u>\$ 83,423</u>	<u>\$ -</u>	<u>\$ 8,864</u>	<u>\$ 74,559</u>	<u>\$ 9,271</u>

The annual requirements to retire long-term debt as of September 30, 2017 follow:

For the Year Ending:	Principal	Interest	Total
September 30, 2018	9,271	3,166	12,437
September 30, 2019	9,697	2,740	12,437
September 30, 2020	10,142	2,295	12,437
September 30, 2021	10,608	1,829	12,437
September 30, 2022	11,096	1,341	12,437
September 30, 2023-2024	23,745	1,129	24,874
	<u>\$ 74,559</u>	<u>\$ 12,500</u>	<u>\$ 87,059</u>

NOTE K – SUBSEQUENT EVENTS

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through March 28, 2018, 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, 2017

	Budgeted Amounts		GAAP	Variance with
	Original	Final	Basis	Final Budget
			Actual	Favorable
			Amount	(Unfavorable)
Revenues				
Property taxes	\$ 50,000	\$ 50,000	\$ 50,002	\$ 2
Franchise taxes	28,000	28,000	23,757	(4,243)
Sales taxes	48,000	50,000	50,871	871
Intergovernmental	6,000	6,000	6,000	-
Refuse income	28,000	30,000	30,224	224
Rental income	9,000	9,000	9,000	-
Lease income	3,600	3,600	3,600	-
Interest	-	250	231	(19)
Miscellaneous	3,310	2,350	2,367	17
	175,910	179,200	176,052	(3,148)
Expenditures				
Accounting and audit fees	3,000	3,000	2,393	607
Appraisal district fees	1,500	1,500	1,371	129
Beautification	500	300	92	208
Election	2,000	-	-	-
Emergency management	160	2,000	923	1,077
Insurance	8,291	9,800	7,663	2,137
Legal and filing fees	500	500	58	442
Mileage, travel and training	3,000	3,950	2,193	1,757
Office supplies/postage	3,250	3,250	2,477	773
Repairs and maintenance	7,800	4,300	3,604	696
Retirement	1,800	1,800	1,759	41
Salaries & taxes-admin	43,600	45,200	44,378	822
Street repairs	1,000	40,000	29,911	10,089
Utilities	3,300	8,600	8,197	403
Miscellaneous	12,060	7,320	5,106	2,214
Park expense	40,000	8,000	7,500	500
Public safety	6,000	6,000	6,000	-
Capital outlay	1,500	-	-	-
Service charges	1,000	-	-	-
	140,261	145,520	123,625	21,895
Excess (deficiency) of revenues over expenditures	35,649	33,680	52,427	18,747
Other Financing Sources (Uses)				
Operating transfers in (out)	116,825	100,000	-	(100,000)
Total other financing sources (uses)	116,825	100,000	-	(100,000)
Net change in fund balance	152,474	133,680	52,427	(81,253)
Fund balance at beginning of year	240,129	240,129	240,129	-
Fund balance at end of year	\$ 392,603	\$ 373,809	\$ 292,556	\$ (81,253)

*CITY OF REDWATER
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Years (will ultimately be displayed)*

	<i>FY 2015</i>	<i>FY 2016</i>	<i>FY 2017</i>
	Plan Year 2014	Plan Year 2015	Plan Year 2016
Total Pension Liability			
Service cost	\$ 22,059	\$ 23,032	\$ 23,487
Interest (on the Total Pension Liability)	11,628	13,953	15,329
Change of benefit terms	-	-	-
Difference between expected and actual experience	954	636	(28,094)
Change of assumptions	-	9,284	-
Benefit payments, including refunds to employees	(356)	(3,477)	(35,241)
Net Change in Total Pension Liability	34,285	43,428	(24,519)
Total Pension Liability - Beginning	155,263	189,548	232,976
Total Pension Liability - Ending (a)	<u>189,548</u>	<u>232,976</u>	<u>208,457</u>
Plan Fiduciary Net Position			
Contributions - employer	7,179	8,184	7,852
Contributions - employee	15,746	16,604	16,214
Net investment income	7,870	248	12,813
Benefit payments, including refunds to employees	(356)	(3,477)	(35,241)
Administrative expense	(82)	(151)	(144)
Other changes	(7)	(8)	(8)
Net Change in Plan Fiduciary Net Position	30,350	21,400	1,486
Plan Fiduciary Net Position - Beginning	137,518	167,868	189,268
Plan Fiduciary Net Position - Ending (b)	<u>\$ 167,868</u>	<u>\$ 189,268</u>	<u>\$ 190,754</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 21,680</u>	<u>\$ 43,708</u>	<u>\$ 17,703</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	88.56%	81.24%	91.51%
Covered Employee Payroll	\$ 225,867	237,198	231,627
Net Pension Liability as a Percentage of Covered Employee Payroll	9.60%	18.43%	7.64%

CITY OF REDWATER
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
SCHEDULE OF CONTRIBUTIONS
Last 10 Years (will ultimately be displayed)

	2015	2016	2017	2018
Actuarially Determined Contribution	\$ 7,917	\$ 7,906	\$ 9,772	
Contributions in relation to the actuarially determined contribution	\$ (7,917)	\$ (7,906)	\$ (9,772)	
Contribution deficiency (excess)	\$ -	\$ -	-	
Covered employee payroll	\$ 234,435	\$ 232,172	\$ 237,688	
Contributions as a percentage of covered employee payroll	3.38%	3.41%	4.11%	

Notes to Schedule of Contributions

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	22 years
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experienced-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other information:

Notes

There were no benefit changes during the year.

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 28, 2018.

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.
Certified Public Accountants
Texarkana, Texas

March 28, 2018

CITY OF REDWATER, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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 unmodified 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 instance of noncompliance material to the financial statements of the City of Redwater, Texas was 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, 2017*

No prior audit findings were required to be reported.

*CITY OF REDWATER, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2017*

There were no current year audit findings or questioned costs.