

***CITY OF REDWATER, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
SEPTEMBER 30, 2019***

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ANNUAL FINANCIAL REPORT  
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## ***CITY DIRECTORY***

### **MAYOR**

Robert Lorange

### **CITY COUNCIL**

Paula Coggin

Donovan Owens

Ronnie Starkey

Clay Parker

Leo Whelchel

### **CITY OFFICIALS**

Dessie Whelchel, City Secretary / Finance Director



Independent Auditor's Report

July 16, 2020

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, 2019, 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, 2019, 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 4-10, budgetary comparison information on page 37, TMRS schedule of changes in net pension (asset) liability and related ratios on page 38, and TMRS schedule of pension contributions on page 39 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 July 16, 2020, 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

July 16, 2020

*City of Redwater, Texas*  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2019*

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, 2019 in the governmental activities (including the General Fund) decreased from \$792,347 to \$783,519. The business-type activities (consisting of the City's water and sewer) net position balance increased from \$1,372,356 to \$1,448,324.

- For governmental activities, the total net investment in capital assets (after subtracting out debt owed on capital assets) decreased from \$410,856 to \$375,555, due to depreciation.
- For business-type activities, the total of net investment in capital assets decreased from \$955,592 to \$918,783, due to depreciation.
- For business-type activities, the City's long-term debt at September 30, 2019 decreased from \$1,710,960 to \$1,608,961, due to payment of principal.
- The most significant continuing revenue sources for governmental activities of the City consisted of \$60,364 in charges for services, \$53,064 in property tax and related revenues, \$23,856 in franchise fees, and \$42,976 in sales tax revenues.
- Charges for business-type activities of the enterprise fund totaled \$1,019,725.

## 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.

	Governmental Activities		Business-Type Activities		Component Unit	
	2019	2018	2019	2018	2019	2018
Current assets	\$ 416,534	\$ 390,009	\$ 776,179	\$ 612,282	\$ 74,180	\$ 68,674
Capital assets, net	375,555	410,856	2,527,744	2,666,551	472,943	472,943
<b>Total Assets</b>	<b>792,089</b>	<b>800,865</b>	<b>3,303,923</b>	<b>3,278,833</b>	<b>547,123</b>	<b>541,617</b>
Deferred outflows of resources	3,668	1,690	20,464	9,853	-	-
Other liabilities	6,011	6,082	233,815	183,350	-	-
Long-term liabilities	-	-	1,608,961	1,710,960	185,601	193,245
Net pension liability (TMRS)	3,930	96	21,080	515	-	-
<b>Total Liabilities</b>	<b>9,941</b>	<b>6,178</b>	<b>1,863,856</b>	<b>1,894,825</b>	<b>185,601</b>	<b>193,245</b>
Deferred inflow of resources	2,297	4,030	12,207	21,505	-	-
<b>Net position</b>						
Net investment in capital assets	375,555	410,856	918,783	955,592	287,342	279,698
Restricted	-	-	100,562	170,734	74,180	68,674
Unrestricted	407,964	381,491	428,979	246,030	-	-
<b>Total Net Position</b>	<b>\$ 783,519</b>	<b>\$ 792,347</b>	<b>\$ 1,448,324</b>	<b>\$ 1,372,356</b>	<b>\$ 361,522</b>	<b>\$ 348,372</b>



#### 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 \$444,496. 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 \$375,555 (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 \$318,962 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 \$232,748. Accounts and unbilled receivable balances of \$171,757 represent outstanding water and sewer billings at fiscal year-end.

Capital assets totaling \$2,527,744 (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 \$1,608,961 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 \$918,783. Net position restricted for debt service totaled \$100,562. The balance of \$428,979 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, 2019 and 2018. 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	
	2019	2018	2019	2018	2019	2018
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 60,364	\$ 50,335	\$ 1,019,725	\$ 869,584	\$ -	\$ -
<b>General Revenues:</b>						
Property taxes	53,064	51,699	-	-	-	-
Franchise taxes	23,856	25,302	-	-	-	-
Sales and use taxes	42,976	52,305	-	-	21,488	26,153
Interest	1,596	1,485	821	747	969	38
Other income	2,184	1,870	5,847	5,195	5	-
Transfer In (Out)	1,220	(21,418)	(1,220)	21,418	-	-
Capital grants	-	-	23,378	-	-	-
<b>Total Revenues</b>	<b>185,260</b>	<b>161,578</b>	<b>1,048,551</b>	<b>896,944</b>	<b>22,462</b>	<b>26,191</b>
<b>Program Expenses:</b>						
General Government	145,991	96,926	-	-	-	-
Streets	8,626	29,307	-	-	-	-
Parks	33,471	35,881	-	-	-	-
Economic Development	-	-	-	-	9,312	10,175
Public Safety	6,000	6,000	-	-	-	-
Water and Sewer	-	-	972,583	990,385	-	-
<b>Total Expenses</b>	<b>194,088</b>	<b>168,114</b>	<b>972,583</b>	<b>990,385</b>	<b>9,312</b>	<b>10,175</b>
<b>Increase (Decrease) in Net Position</b>	<b>(8,828)</b>	<b>(6,536)</b>	<b>75,968</b>	<b>(93,441)</b>	<b>13,150</b>	<b>16,016</b>

### 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 \$31,471 for refuse income, \$9,000 for rental income, \$10,293 for building permit income, \$3,600 for miscellaneous charges in general and administrative activities, and \$6,000 for fees in public safety.

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 \$53,064, franchise fees of \$23,856 and sales tax revenues of \$42,976. The Water and Sewer Fund transferred out \$1,220 to General Fund fund to help pay payroll taxes.

Program expenses are presented in the above Statement of Activities by function and total \$194,088 for the current fiscal year-end. Revenues less expenses presented in this statement total to a decrease in net position of (\$8,828).

### 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 \$1,019,725 for water and sewer. Revenues increased due to an increase in rates from 2018 to 2019.

The City reports the total amount of expenses for operation of the utility system as \$972,583 for the fiscal year ended September 30, 2019. Water and sewer program expenses include \$211,344 of depreciation expense. The change in net position (revenues less expenses and transfers) for the current fiscal year was an increase in net position of \$75,968. Expenses decreased in the current year due to less water purchased and less repairs.

### 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 \$238,783 committed for capital improvement projects and \$171,740 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 \$420,697 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 decrease in revenues and other sources over expenditures and other uses by (\$74,614). Fund balance at the end of the current fiscal year for the General Fund was \$171,740.

The Capital Projects Fund reports an increase in excess of expenditures and other uses over revenues and other sources of \$101,210. Fund balance at the end of the current fiscal year for the Capital Projects Fund is \$238,783.

## 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 \$181,039 for water contracts, \$199,566 for salaries and wages, and \$211,344 for depreciation expense. Non-operating revenues and expenses include \$821 in interest income, grant revenue of \$23,378, and \$67,643 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 2019, the governmental activities had \$375,555 (net of accumulated depreciation) invested in a broad range of capital assets. During 2019, additions included new office furniture and improvements to park.

The business-type activities had \$2,527,744 (net of accumulated depreciation) invested in capital assets. During 2019, the City purchased a new lap top and an office chair for \$407. The City also purchased two water pumps for a total cost of \$13,390. The City spent \$8,099 on line improvements and \$9,588 on new water meters. In fiscal year 2019, the City received a \$275,000 CDBG grant for sewer improvements. As of September 30, 2019, the City had incurred \$41,053 in expenditures related to the sewer improvements. These costs were pre-construction costs. The total grant revenue for the fiscal year was \$23,378 and the local match contribution was \$17,675.

At the end of the fiscal year 2019, the component unit had \$472,943 invested in capital assets.

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 \$1,608,961 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 decrease revenues in total and to decrease expenditures. The variance between budgeted and actual revenues for the General Fund is (\$2,331). The variance between budgeted and actual expenditures for the General Fund is \$10,725.

## **Economic Factors**

The City of Redwater, Texas's management approach is conservative, yet accommodating to economic development. Whenever possible, the Mayor and City Council actively pursue grants and other funding to provide more and better services for the City while relying on existing revenues and living within the budget. The City of Redwater, Texas finances long-term projects only when necessary. The City was awarded a Texas Community Development Block Grant ("TxCDBG") and signed Contract No. 7218399 in FY 2019 to undertake eligible community and/or development activities in a non-entitlement area. With this grant, the City will provide first time sewer service for several households; as well as complete replacement of deteriorated sewer lines and manholes to reduce inflow and infiltration. The property tax rate adopted for fiscal year ending September 30, 2019 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, 2019**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 420,697	\$ 313,012	\$ 733,709	\$ -
Certificates of deposit	23,799	5,950	29,749	-
Accounts receivable (net)	7,573	-	7,573	-
Utility accounts receivable (net)	-	134,162	134,162	-
Unbilled receivables (net)	-	37,595	37,595	-
Grant receivable	-	13,300	13,300	-
Prepaid insurance	1,318	2,559	3,877	-
Restricted assets - cash and cash equivalents	-	232,748	232,748	71,965
Interfund accounts	(36,853)	36,853	-	-
Due from Primary Government	-	-	-	2,215
Capital assets (net of accumulated depreciation):				
Land	158,401	25,331	183,732	472,943
Construction in progress	-	41,053	41,053	-
Buildings	87,700	39,427	127,127	-
Office furniture and equipment	27,766	43,620	71,386	-
Equipment and tools	88,735	598,815	687,550	-
Park facilities	626,979	-	626,979	-
Pumps and equipment	-	345,076	345,076	-
Line and storage	-	2,371,087	2,371,087	-
Water meters	-	194,459	194,459	-
Sewer system	-	2,480,530	2,480,530	-
Less accumulated depreciation	(614,026)	(3,611,654)	(4,225,680)	-
Total Assets	<u>\$ 792,089</u>	<u>\$ 3,303,923</u>	<u>\$ 4,096,012</u>	<u>\$ 547,123</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Deferred Outflow Related to TMRS, net	<u>\$ 3,668</u>	<u>\$ 20,464</u>	<u>\$ 24,132</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,408	\$ 64,966	\$ 66,374	\$ -
Accrued expenses and other liabilities	2,388	12,848	15,236	-
Accrued interest payable	-	16,199	16,199	-
Refuse contract payable	-	23,815	23,815	-
Customer meter deposits	-	115,987	115,987	-
Due to Component Unit	2,215	-	2,215	-
Noncurrent liabilities:				
Due within one year	-	105,619	105,619	7,874
Due in more than one year	-	1,503,342	1,503,342	177,727
Net pension liability (TMRS)	3,930	21,080	25,010	-
Total Liabilities	<u>9,941</u>	<u>1,863,856</u>	<u>1,873,797</u>	<u>185,601</u>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Deferred Inflow Related to TMRS, net	<u>\$ 2,297</u>	<u>\$ 12,207</u>	<u>\$ 14,504</u>	<u>\$ -</u>
<b>NET POSITION</b>				
Net investment in capital assets	375,555	918,783	1,294,338	287,342
Restricted for:				
Debt service	-	100,562	100,562	-
Economic development	-	-	-	74,180
Unrestricted	407,964	428,979	836,943	-
Total Net Position	<u>\$ 783,519</u>	<u>\$ 1,448,324</u>	<u>\$ 2,231,843</u>	<u>\$ 361,522</u>

The accompanying notes are an integral part of this statement.

**CITY OF REDWATER, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary government:</b>								
Governmental activities:								
General and administrative	\$ 145,991	\$ 54,364	\$ -	\$ -	\$ (91,627)	\$ -	\$ (91,627)	\$ -
Streets	8,626	-	-	-	(8,626)	-	(8,626)	-
Parks	33,471	-	-	-	(33,471)	-	(33,471)	-
Public Safety	6,000	6,000	-	-	-	-	-	-
Total governmental activities	194,088	60,364	-	-	(133,724)	-	(133,724)	-
Business-type activities:								
Water and sewer	972,583	1,019,725	-	23,378	-	70,520	70,520	-
Total business-type activities	972,583	1,019,725	-	23,378	-	70,520	70,520	-
Total primary government	\$ 1,166,671	\$ 1,080,089	\$ -	\$ 23,378	\$ (133,724)	\$ 70,520	\$ (63,204)	\$ -
Component Unit:								
RIDC	9,312	-	-	-	-	-	-	(9,312)
Total component unit	\$ 9,312	\$ -	\$ -	\$ -	-	-	-	(9,312)
General revenues:								
Property taxes and related revenues					53,064	-	53,064	-
Franchise fees					23,856	-	23,856	-
Sales taxes					42,976	-	42,976	21,488
Interest income					1,596	821	2,417	969
Other income					2,184	5,847	8,031	5
Transfer In/Out					1,220	(1,220)	-	-
Total general revenues					124,896	5,448	130,344	22,462
Change in net position					(8,828)	75,968	67,140	13,150
Net position at beginning of year					792,347	1,372,356	2,164,703	348,372
Net position at end of year					\$ 783,519	\$ 1,448,324	\$ 2,231,843	\$ 361,522

The accompanying notes are an integral part of this statement

**CITY OF REDWATER, TEXAS**  
**GOVERNMENTAL FUND TYPES**  
**BALANCE SHEET**  
**SEPTEMBER 30, 2019**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	181,914	238,783	\$ 420,697
Certificates of deposit	23,799	-	23,799
Receivables, net allowances	7,573	-	7,573
Prepaid insurance	1,318	-	1,318
	<u>181,914</u>	<u>238,783</u>	<u>\$ 420,697</u>
Total Assets	<u>\$ 214,604</u>	<u>\$ 238,783</u>	<u>\$ 453,387</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,408	\$ -	\$ 1,408
Accrued expenses and other liabilities	2,388	-	2,388
Due to Proprietary Fund	36,853	-	36,853
Due to RIDC	2,215	-	2,215
	<u>42,864</u>	<u>-</u>	<u>42,864</u>
Total Liabilities	<u>42,864</u>	<u>-</u>	<u>42,864</u>
<b>FUND BALANCES</b>			
Committed Fund Balance:			
Capital Improvement Projects	-	238,783	238,783
Unassigned Fund Balance	171,740	-	171,740
	<u>171,740</u>	<u>238,783</u>	<u>410,523</u>
Total Fund Balances	<u>171,740</u>	<u>238,783</u>	<u>410,523</u>
	<u>\$ 214,604</u>	<u>\$ 238,783</u>	<u>\$ 453,387</u>
Total Liabilities and Fund Balances	<u>\$ 214,604</u>	<u>\$ 238,783</u>	<u>\$ 453,387</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, 2019**

Total Fund Balance - Governmental Funds	\$410,523
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 \$983,387 and the accumulated depreciation was (\$572,531). 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.	410,856
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 2019 capital outlays of \$6,194, plus debt principal payments of \$0 is to increase net position.	6,194
The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.	(41,495)
The net effect of including the beginning balance for pension assets (net of the liability) in the governmental activities is to (decrease) net position.	(2,436)
The net effect of change in pension liability and the net effect of the change in deferred outflows in the governmental activities is to (decrease) net position.	(123)
Net Position of Governmental Activities	\$783,519

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, 2019**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>			
Property taxes	53,064	\$ -	\$ 53,064
Franchise taxes	23,856	-	23,856
Sales taxes	42,976	-	42,976
Intergovernmental	6,000	-	6,000
Refuse income	31,471	-	31,471
Rental income	9,000	-	9,000
Lease income	3,600	-	3,600
Interest	386	1,210	1,596
Miscellaneous	12,477	-	12,477
Total revenues	<u>182,830</u>	<u>1,210</u>	<u>184,040</u>
<b>Expenditures</b>			
Accounting and audit fees	2,213	-	2,213
Appraisal district fees	1,277	-	1,277
Beautification	101	-	101
Insurance	14,142	-	14,142
Legal and filing fees	233	-	233
Mileage, travel and training	1,087	-	1,087
Office supplies/postage	25,911	-	25,911
Repairs and maintenance	3,958	-	3,958
Retirement	2,205	-	2,205
Salaries & taxes-administration	71,953	-	71,953
Street repairs	8,626	-	8,626
Utilities	9,605	-	9,605
Miscellaneous	5,159	-	5,159
Public safety	6,000	-	6,000
Capital outlay	6,194	-	6,194
Total expenditures	<u>158,664</u>	<u>-</u>	<u>158,664</u>
Excess (deficiency) of revenues over expenditures	24,166	1,210	25,376
<b>Other Financing Sources (Uses)</b>			
Operating transfers in (out)	<u>(98,780)</u>	<u>100,000</u>	<u>1,220</u>
Total other financing sources (uses)	<u>(98,780)</u>	<u>100,000</u>	<u>1,220</u>
Net change in fund balance	(74,614)	101,210	26,596
Fund balance at beginning of year	<u>246,354</u>	<u>137,573</u>	<u>383,927</u>
Fund balance at end of year	<u>\$ 171,740</u>	<u>\$ 238,783</u>	<u>\$ 410,523</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, 2019**

Net changes in Fund Balances - Governmental Funds	\$ 26,596
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 2019 capital outlays of \$6,194 plus debt principal payments of \$0 is to increase net position.	6,194
The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.	(41,495)
The net effect of change in pension liability and the net effect of the change in deferred outflows in the governmental activities is to (decrease) net position.	(123)
Change in Net Position in Governmental Activities	\$ (8,828)

The accompanying notes are an integral part of this statement.

**CITY OF REDWATER, TEXAS**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2019**

	Water and Sewer	Totals
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	313,012	\$ 313,012
Certificates of deposit	5,950	5,950
Accounts receivable (net)	134,162	134,162
Unbilled receivables (net)	37,595	37,595
Grant receivable	13,300	13,300
Prepaid Insurance	2,559	2,559
Due from General Fund	36,853	36,853
Total Current Assets	543,431	543,431
Restricted Assets:		
Cash and cash equivalents	232,748	232,748
Capital Assets:		
Land	25,331	25,331
Construction in progress	41,053	
Buildings	39,427	39,427
Furniture and fixtures	43,620	43,620
Equipment and tools	598,815	598,815
Pumps and treatment equipment	345,076	345,076
Lines and storage	2,371,087	2,371,087
Water meters	194,459	194,459
Sewer system	2,480,530	2,480,530
Less accumulated depreciation	(3,611,654)	(3,611,654)
Total Capital Assets, net of accumulated depreciation	2,527,744	2,527,744
Total Assets	\$ 3,303,923	\$ 3,303,923
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred Outflow Related to TMRS, net	20,464	\$ 20,464
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	64,966	\$ 64,966
Accrued expenses and other liabilities	12,848	12,848
Accrued interest payable	16,199	16,199
Refuse contract payable	23,815	23,815
Customer meter deposits	115,987	115,987
Bonds and notes payable, current portion	105,619	105,619
Total Current Liabilities	339,434	339,434
Noncurrent Liabilities:		
Bonds and notes payable, long-term, net	1,503,342	1,503,342
Net pension liability (TMRS)	21,080	21,080
Total Noncurrent Liabilities	1,524,422	1,524,422
Total Liabilities	1,863,856	1,863,856
<b>DEFERRED INFLOW OF RESOURCES</b>		
Deferred Inflow Related to TMRS, net	12,207	\$ 12,207
<b>NET POSITION</b>		
Net investment in capital assets	918,783	918,783
Restricted	100,562	100,562
Unrestricted	428,979	428,979
Total Net Position	\$ 1,448,324	\$ 1,448,324

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, 2019**

	Water and Sewer	Totals
<b>Operating Revenues:</b>		
Charges for services	1,019,725	\$ 1,019,725
Other income	5,847	5,847
Total operating revenues	1,025,572	1,025,572
<b>Operating Expenses:</b>		
Accounting and audit	11,800	11,800
Bad debt expense	6,460	6,460
Chemicals	20,062	20,062
Contract labor	28,188	28,188
Depreciation	211,344	211,344
Equipment repairs and maintenance	85	85
Equipment supplies and tools	5,828	5,828
Fees and permits	10,339	10,339
Insurance - group health and workers compensation	31,638	31,638
Insurance - other	7,766	7,766
Lab services and testing	11,604	11,604
Maintenance contracts	10,079	10,079
Miscellaneous	9,658	9,658
Office supplies and expense	3,573	3,573
Postage	4,754	4,754
Refuse charges	2,412	2,412
Rent-building and equipment	9,000	9,000
Repairs and maintenance - water and sewer system	41,646	41,646
Retirement	7,268	7,268
Salaries and wages	199,566	199,566
Supplies-operating	12,893	12,893
Taxes-payroll	15,449	15,449
Telephone and radio	5,714	5,714
Utilities	35,856	35,856
Vehicle repairs and maintenance	2,090	2,090
Vehicle supplies	18,829	18,829
Water contracts	181,039	181,039
Total operating expenses	904,940	904,940
Operating income (loss)	120,632	120,632
<b>Non-Operating Revenues (Expenses)</b>		
Grant revenue	23,378	23,378
Interest income	821	821
Interest expense and fees	(67,643)	(67,643)
Total nonoperating revenues (expenses)	(43,444)	(43,444)
Transfer in (out) to / from other funds, net	(1,220)	(1,220)
Change in net position	75,968	75,968
Net position at beginning of year	1,372,356	1,372,356
Net position at end of year	\$ 1,448,324	\$ 1,448,324

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, 2019**

	<u>Water and Sewer</u>	<u>Totals</u>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 971,053	\$ 971,053
Payments to suppliers	(446,650)	(446,650)
Payments to employees	(199,566)	(199,566)
Net cash provided by operating activities	<u>324,837</u>	<u>324,837</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Net increase interfund receivables / payables	(1,220)	(1,220)
Net cash provided (used) by noncapital financing activities	<u>(1,220)</u>	<u>(1,220)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital assets purchased	(72,537)	(72,537)
Capital grant revenue received	23,378	-
Bonds and notes principal retirement	(101,999)	(101,999)
Bonds and notes interest and fees expense paid	(68,352)	(68,352)
Net cash (used) by capital and financing activities	<u>(219,510)</u>	<u>(242,888)</u>
<b>Cash Flows from Investing Activities</b>		
Interest received	821	821
Additions to investments in certificates of deposit	(26)	(26)
Net cash provided by investing activities	<u>795</u>	<u>795</u>
Net increase (decrease) in cash and cash equivalents	104,902	104,902
Cash and cash equivalents at beginning of year	<u>440,858</u>	<u>440,858</u>
Cash and cash equivalents at end of year	<u>\$ 545,760</u>	<u>\$ 545,760</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ 120,632	\$ 120,632
Depreciation expense	211,344	211,344
Change in assets and liabilities:		
(Increase) decrease in receivables	(58,994)	(58,994)
(Increase) decrease in prepaid insurance	25	25
Increase (decrease) in accounts payable	49,127	49,127
Increase (decrease) in accrued expenses and other liabilities	(2,428)	(2,428)
Increase (decrease) in customer meter deposits	4,475	4,475
Increase (decrease) in pension plan liabilities and outflows	656	656
Net cash provided by operating activities	<u>\$ 324,837</u>	<u>\$ 324,837</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, 2019**

**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.

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015 was adopted for the year ending September 30, 2018. The City participates in the TMRS Supplemental Death Benefits (SDB) plan. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Because the OPEB calculated amounts are immaterial for the City of Redwater, these amounts are not recorded in the financial statements.

Reporting Entity

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

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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

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



**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

*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.

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, ordinances are adopted by the City Council for changes to the original budgeted amounts.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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.

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 bond reserve requirement of \$163,251 is met and no additional deposits are required. The bond reserve for the 2003 and 2005 bonds of \$21,047 and \$13,012, respectively, are met and no additional deposits are required.

The restricted assets at September 30, 2019 are as follow:

<u>Type of Restricted Asset</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Meter Deposits	115,987	\$ -
Bond Reserve Fund	63,912	-
2003 Debt Service Fund	24,262	-
2005 Debt Service Fund	14,792	-
2017 AMI Loan Debt Service Fund	5,055	-
Maintenance Fund-Investments	8,740	-
Economic Development	-	74,965
<b>Total Restricted Assets</b>	<b>\$ 232,748</b>	<b>\$ 74,965</b>

Accounts Receivable

The accounts receivable at September 30, 2019 are as follows:

<u>Accounts Receivable</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Franchise tax	6,517	\$ -	\$ 6,517
Property tax	15,068	-	15,068
Interest	31	8	39
Customer billed	-	142,467	142,467
Allowance for doubtful accounts	(14,043)	(8,313)	(22,356)
<b>Total Accounts Receivable, Net</b>	<b>\$ 7,573</b>	<b>\$ 134,162</b>	<b>\$ 141,735</b>

*CITY OF REDWATER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019*

Capital Assets

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

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

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

Long-Term Debt

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

Bond Issuance Costs

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

Interfund Receivables and Payables

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

Interfund Transfers

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

Use of Estimates

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

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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.

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-1 by Moody's Commercial Paper Record. The City's policy is to invest in instruments or require collateral so as to not expose the City to credit, custodial credit, custodial concentration, interest rate, or foreign currency risks. Since the City complies with this law, it has no custodial credit risk for deposits.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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At September 30, 2019, the bank balances, including time deposits, were fully insured by FDIC at all financial institutions.

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

**NOTE C – PROPERTY TAXES**

Property taxes are levied by October 1 and may be paid without penalty until January 31. Penalty and interest are then added to payments received February 1 through June 30. An enforceable lien is attached when property taxes become delinquent. City property taxes are recognized as revenue in the accounting period when they become susceptible to accrual, i.e., when they become both measurable and available to pay liabilities of the current period. Only property taxes available within 60 days from the end of the fiscal period are subject to accrual. The City accrued \$1,025 of delinquent property taxes at September 30, 2019.

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, 2019, 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 \$362,117 per year from the present assessed valuation of \$27,619,974 before the limit is reached. The amount assessed for the 2018 tax roll was \$52,182.

**NOTE D – INTERFUND TRANSACTIONS**

Interfund balances are as follows as of September 30, 2019:

	Receivables (Due From)	Payables (Due To)
General Fund:		
Proprietary Fund	\$ -	(36,853)
Component Unit	-	(2,215)
Proprietary Fund:		
General Fund	36,853	-
Component Unit:		
General Fund	2,215	-
Total	\$ 39,068	\$ (39,068)

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**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, 2019, are as follows:

	Balance October 1, 2018	Additions	Deletions	Balance September 30, 2019
<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	27,581	185	-	27,766
Equipment and tools	88,735	-	-	88,735
Park facilities	620,970	6,009	-	626,979
Total	<u>\$ 983,387</u>	<u>\$ 6,194</u>	<u>\$ -</u>	<u>\$ 989,581</u>
	Balance October 1, 2018	Additions	Deletions	Balance September 30, 2019
<u>Accumulated depreciation</u>				
Buildings	\$ 87,700	\$ -	\$ -	\$ 87,700
Office furniture and equipment	21,901	1,596	-	23,497
Equipment and tools	62,397	6,428	-	68,825
Park facilities	400,533	33,471	-	434,004
Total	<u>\$ 572,531</u>	<u>\$ 41,495</u>	<u>\$ -</u>	<u>\$ 614,026</u>
<u>Total Governmental activities capital assets, net</u>	<u>\$ 410,856</u>	<u>\$ (35,301)</u>	<u>\$ -</u>	<u>\$ 375,555</u>

Current year additions of \$6,194 included new office chairs and new awnings for the park.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Governmental activities depreciation expense charged to program activities was:

General and administration	\$	8,024
Parks		33,471
		\$ 41,495

Business-type activities capital asset activity for the year ended September 30, 2019, are as follows:

	Balance October 1, 2018	Additions	Deletions	Balance September 30, 2019
<u>Business-type activities-cost</u>				
Land	\$ 25,331	\$ -	\$ -	\$ 25,331
Construction in progress	-	41,053	-	41,053
Buildings	39,427	-	-	39,427
Office furniture and equipment	43,213	407	-	43,620
Equipment and tools	598,815	-	-	598,815
Pumps and treatment	331,686	13,390	-	345,076
Lines and storage	2,362,988	8,099	-	2,371,087
Water meters	184,871	9,588	-	194,459
Sewer system	2,480,530	-	-	2,480,530
Total	\$ 6,066,861	\$ 72,537	\$ -	\$ 6,139,398
	Balance October 1, 2018	Additions	Deletions	Balance September 30, 2019
<u>Accumulated depreciation</u>				
Buildings	\$ 35,132	\$ 1,337	\$ -	\$ 36,469
Office furniture and equipment	17,947	5,560	-	23,507
Equipment and tools	286,595	41,224	-	327,819
Pumps and treatment	235,289	15,595	-	250,884
Lines and storage	1,254,477	61,354	-	1,315,831
Water meters	13,101	19,840	-	32,941
Sewer system	1,557,769	66,434	-	1,624,203
Total	\$ 3,400,310	\$ 211,344	\$ -	\$ 3,611,654
<u>Total Business-type activities capital assets, net</u>	\$ 2,666,551	\$ (138,807)	\$ -	\$ 2,527,744

Business-type activities - All depreciation expense of \$211,344 recorded in the business-type activities was charged to the Water and Sewer Fund. The City purchased a new lap top and an office chair for \$407. The City also purchased two water pumps for a total cost of \$13,390. The City spent \$8,099 on line improvements and \$9,588 on new water meters.

In fiscal year 2019, the City received a \$275,000 CDBG grant for sewer improvements. As of September 30, 2019, the City had incurred \$41,053 in expenditures related to the sewer improvements. These costs were pre-construction costs. The total grant revenue for the fiscal year was \$23,378 and the local match contribution was \$17,675.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**NOTE G – LONG-TERM DEBT**

Business-type activities long-term debt at September 30, 2019 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%.	\$ 471,000
\$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%	475,000
\$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%	200,000
\$561,389 Public Property Finance Act Contract (Notes Payable) due in annual installments on September 26 through 2027, at an interest rate of 3.241%	462,961
<b>Total Water and Sewer Fund - Business-Type Activities</b>	<b>\$ 1,608,961</b>

Business-type transactions long term debts for the year ended September 30, 2019 are summarized as follows:

Type of Debt	September 30, 2018	Additions	Retirements	September 30, 2019	Due within one year
Business-type Activities					
Revenue Bonds	\$ 968,000	-	22,000	\$ 946,000	24,000
Certificates of Obligations	230,000	-	30,000	200,000	30,000
Notes Payable	512,960	-	49,999	462,961	51,619
	<b>\$ 1,710,960</b>	<b>\$ -</b>	<b>\$ 101,999</b>	<b>\$ 1,608,961</b>	<b>\$ 105,619</b>



**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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The annual requirements to retire long-term debt as of September 30, 2019 follow:

Year Ending September 30,	2003 Series		2005 Series		Notes Payable - Direct Borrowing		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2020	24,000	40,205	30,000	7,898	51,619	15,005	168,727
2021	24,000	39,185	30,000	6,742	53,292	13,332	166,551
2022	26,000	38,676	30,000	5,572	55,020	11,604	166,872
2023	26,000	37,058	35,000	9,206	56,803	9,821	173,888
2024	28,000	17,892	35,000	4,388	58,644	7,981	151,905
2025 - 2029	156,000	161,072	40,000	1,810	187,583	12,289	558,754
2030 - 2034	193,000	124,905	-	-	-	-	317,905
2035 - 2039	240,000	80,107	-	-	-	-	320,107
2040 - 2043	229,000	24,821	-	-	-	-	253,821
Totals	<u>\$946,000</u>	<u>\$563,921</u>	<u>\$200,000</u>	<u>\$ 35,616</u>	<u>\$462,961</u>	<u>\$ 70,032</u>	<u>\$2,278,530</u>

**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](http://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, 2018 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	1
Active employees	<u>7</u>
<b>Total</b>	<b>8</b>

*CITY OF REDWATER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019*

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 3.34% and 3.08% for the calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019 were \$8,416 and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2018, 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, 2018 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 were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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). The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
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 12/31/2017	\$ 239,404	\$ 238,793	\$ 611
Changes for the year:			
Service cost	24,141	-	24,141
Interest	16,975	-	16,975
Change of benefit terms	-	-	-
Difference between expected and actual experience	1,942	-	1,942
Change of assumptions	-	-	-
Contributions - employer	-	8,390	(8,390)
Contributions - employee	-	17,584	(17,584)
Net investment income	-	(7,170)	7,170
Benefit payments, including refunds to employees	-	-	-
Administrative expense	-	(138)	138
Other changes	-	(7)	7
Net changes	43,058	18,659	24,399
Balance at 12/31/2018	<u>\$ 282,462</u>	<u>\$ 257,452</u>	<u>\$ 25,010</u>

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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:

	Discount Rate (5.75%)	Discount Rate (6.75%)	Discount Rate (7.75%)
City's net pension (asset) liability	\$ 64,801	\$ 25,010	\$ (8,399)

*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](http://www.tmr.com).

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

For the year ended September 30, 2019 the city recognized pension expense of \$9,106.

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,064	\$ 14,504
Changes in actuarial assumptions	3,144	-
Difference between projected and actual investment earnings	12,753	-
Contributions subsequent to the measurement date	6,171	-
	\$ 24,132	\$ 14,504

\$6,171 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net deferred outflows (inflows) of resources
2020	\$ 1,182
2021	(1,268)
2022	(1,651)
2023	4,696
2024	40
Thereafter	458
Total	\$ 3,457

**CITY OF REDWATER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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.

<b>Your city offers supplemental death to:</b>	<u>Plan Year 2018</u>	<u>Plan Year 2019</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 2019, 2018, and 2017 were \$401, \$337, and \$571.

**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 incurred \$181,039 of expenditures for water under the water supply contract for the year ending September 30, 2019. The amount incurred is based on actual water consumption. Membership fees paid to Riverbend totaled \$5,450 for the year ending September 30, 2019.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**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- 1 by Moody’s Commercial Paper Record. The City’s policy is to invest in instruments or require collateral so as to not expose the City to credit, custodial credit, custodial concentration, interest rate, or foreign currency risks. Since the City complies with this law, it has no custodial credit risk for deposits.

At September 30, 2019, 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, 2019, are as follows:

	Balance October 1, 2018	Additions	Deletions	Balance September 30, 2019
<u>Component unit-cost</u>				
Land	\$ 472,943	\$ -	\$ -	\$ 472,943
<u>Total Component unit capital assets</u>	<u>\$ 472,943</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 472,943</u>

There were no additions in the current year.

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%. The loan was refinanced with a note payable from Bancorp South on October 12, 2017. The City borrowed \$200,000 which is payable in 240 monthly installments of \$1,107 at an interest rate of 2.93%. The additional funds were utilized for construction of a road and land improvements.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Long-term debt transactions for the year ended September 30, 2019 are summarized as follows:

	Balance October 1, 2018	Additions	Retirements	Balance September 30, 2019	Due within one year
Note payable	\$ 193,245	\$ -	\$ 7,644	\$ 185,601	\$ 7,874
	<u>\$ 193,245</u>	<u>\$ -</u>	<u>\$ 7,644</u>	<u>\$ 185,601</u>	<u>\$ 7,874</u>

The annual requirements to retire long-term debt as of September 30, 2019 follow:

For the Year Ending:	Direct Borrowing		
	Principal	Interest	Total
2020	7,874	5,406	13,280
2021	8,183	5,098	13,281
2022	8,426	4,855	13,281
2023	8,675	4,605	13,280
2024	8,934	4,347	13,281
2025 - 2029	48,809	17,595	66,404
2030 - 2034	56,499	9,905	66,404
2035 - 2037	38,201	1,755	39,956
	<u>\$ 185,601</u>	<u>\$ 53,566</u>	<u>\$ 239,167</u>

**NOTE K – SUBSEQUENT EVENTS**

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through July 16, 2020, which is the date the financial statements were available to be issued.

On March 13, 2020, Texas Governor Greg Abbott declared Texas in a state of disaster as a result of the COVID-19 pandemic. The pandemic will most probably have a significant effect on governmental and private entities. The extent of the effect cannot, at this time, be estimated or quantified.

***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, 2019**

	Budgeted Amounts		GAAP	Variance with
	Original	Final	Basis Actual Amount	Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 50,000	\$ 51,500	\$ 53,064	\$ 1,564
Franchise taxes	25,000	28,500	23,856	(4,644)
Sales taxes	49,000	42,000	42,976	976
Intergovernmental	6,000	6,000	6,000	-
Refuse income	30,000	32,000	31,471	(529)
Rental income	9,000	9,000	9,000	-
Lease income	3,600	3,600	3,600	-
Interest	250	380	386	6
Miscellaneous	1,950	12,181	12,477	296
<b>Total revenues</b>	<b>174,800</b>	<b>185,161</b>	<b>182,830</b>	<b>(2,331)</b>
<b>Expenditures</b>				
Accounting and audit fees	3,000	2,300	2,213	87
Appraisal district fees	1,500	1,280	1,277	3
Beautification	500	150	101	49
Election	2,000	-	-	-
Emergency management	2,000	500	-	500
Insurance	8,300	15,015	14,142	873
Legal and filing fees	300	150	233	(83)
Mileage, travel and training	3,200	1,700	1,087	613
Office supplies/postage	4,250	26,250	25,911	339
Repairs and maintenance	3,500	5,000	3,958	1,042
Retirement	1,500	2,200	2,205	(5)
Salaries & taxes-admin	47,900	72,530	71,953	577
Street repairs	20,000	9,000	8,626	374
Utilities	8,500	9,300	9,605	(305)
Miscellaneous	7,360	6,145	5,159	986
Park expense	20,000	8,000	-	8,000
Public safety	6,000	6,000	6,000	-
Capital outlay	2,000	6,200	6,194	6
Service charges	-	-	-	-
<b>Total expenditures</b>	<b>141,810</b>	<b>171,720</b>	<b>158,664</b>	<b>13,056</b>
Excess (deficiency) of revenues over expenditures	32,990	13,441	24,166	10,725
<b>Other Financing Sources (Uses)</b>				
Operating transfers in (out)	-	(100,000)	(98,780)	1,220
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(100,000)</b>	<b>(98,780)</b>	<b>1,220</b>
Net change in fund balance	32,990	(86,559)	(74,614)	11,945
Fund balance at beginning of year	246,354	246,354	246,354	-
<b>Fund balance at end of year</b>	<b>\$ 279,344</b>	<b>\$ 159,795</b>	<b>\$ 171,740</b>	<b>\$ 11,945</b>

**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)*

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
	<u>Plan Year 2015</u>	<u>Plan Year 2016</u>	<u>Plan Year 2017</u>	<u>Plan Year 2018</u>
<b>Total Pension Liability</b>				
Service cost	\$ 23,032	\$ 23,487	\$ 23,416	\$ 24,141
Interest (on the Total Pension Liability)	13,953	15,329	14,669	16,975
Change of benefit terms	-	-	-	-
Difference between expected and actual experience	636	(28,094)	(1,447)	1,942
Change of assumptions	9,284	-	-	-
Benefit payments, including refunds to employees	(3,477)	(35,241)	(5,691)	-
Net Change in Total Pension Liability	<u>43,428</u>	<u>(24,519)</u>	<u>30,947</u>	<u>43,058</u>
Total Pension Liability - Beginning	<u>189,548</u>	<u>232,976</u>	<u>208,457</u>	<u>239,404</u>
Total Pension Liability - Ending (a)	<u><u>232,976</u></u>	<u><u>208,457</u></u>	<u><u>239,404</u></u>	<u><u>282,462</u></u>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	8,184	7,852	10,501	8,390
Contributions - employee	16,604	16,214	16,898	17,584
Net investment income	248	12,813	26,475	(7,170)
Benefit payments, including refunds to employees	(3,477)	(35,241)	(5,691)	-
Administrative expense	(151)	(144)	(137)	(138)
Other changes	(8)	(8)	(7)	(7)
Net Change in Plan Fiduciary Net Position	<u>21,400</u>	<u>1,486</u>	<u>48,039</u>	<u>18,659</u>
Plan Fiduciary Net Position - Beginning	<u>167,868</u>	<u>189,268</u>	<u>190,754</u>	<u>238,793</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 189,268</u></u>	<u><u>\$ 190,754</u></u>	<u><u>\$ 238,793</u></u>	<u><u>\$ 257,452</u></u>
Net Pension Liability - Ending (a) - (b)	<u><u>\$ 43,708</u></u>	<u><u>\$ 17,703</u></u>	<u><u>\$ 611</u></u>	<u><u>\$ 25,010</u></u>
<b>Plan Fiduciary Net Position as a Percentage of</b>				
Total Pension Liability	81.24%	91.51%	99.74%	91.15%
<b>Covered Employee Payroll</b>				
	237,198	231,627	241,405	251,203
<b>Net Pension Liability as a Percentage of Covered</b>				
Employee Payroll	18.43%	7.64%	0.25%	9.96%

Note: Only five years of data is presented with GASB #68, paragraph 138. "The information for all periods for the 10 year schedules that are required to be presented as required supplementary information may be not available initially. In these cases, during the transition period, that information should be presented for as many periods as are available."

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

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Actuarially Determined Contribution	\$ 7,917	\$ 7,906	\$ 9,772	\$ 8,922	\$ 8,416
Contributions in relation to the actuarially determined contribution	\$ (7,917)	\$ (7,906)	\$ (9,772)	\$ (8,922)	\$ (8,416)
Contribution deficiency (excess)	\$ -	\$ -	-	-	-
Covered employee payroll	\$ 234,435	\$ 232,172	\$ 237,688	\$ 245,791	\$ 267,575
Contributions as a percentage of covered employee payroll	3.38%	3.41%	4.11%	3.63%	3.15%

Note: GASB #68, paragraph 81.2.b requires that the data in this schedule be presented as of the City's fiscal year as of the time period covered by the measurement date.

Note: Only five years of data is presented in accordance with GASB #86, paragraph 138. "The information for all periods for the 10 year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many periods as are available."

**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	24 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 16, 2020.

**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

**July 16, 2020**

**CITY OF REDWATER, TEXAS  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**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, 2019*

No prior audit findings were required to be reported.



*CITY OF REDWATER, TEXAS  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2019*

There were no current year audit findings.