



**WILF & HENDERSON, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

Member of American Institute of Certified Public Accountants  
Member of Private Company Practice Section  
Member of AICPA Governmental Audit Quality Center

August 26, 2021

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

We have audited 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 (City) for the year ended September 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 11, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

The estimate for GASB Statement 68 which required the employer to report the net pension asset or liability, pension expense, and related deferred inflows and outflows of resources associated with providing retirement benefits to their employees and former employees in their basic financial statements. We evaluated the key factors and assumptions used to develop these estimates in determining that it was reasonable in relation to the financial statements as a whole.

Management's estimate of outstanding property tax receivable is based on the amount of collectible taxes. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

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

To the Honorable Mayor and  
City Council  
August 26, 2021  
Page 2

### *Corrected and Uncorrected Misstatements*

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

We did identify uncorrected misstatements of the financial statements for the current year.

#### **Water and Sewer Fund**

Unrecorded OPEB liability of \$11,250 with corresponding decrease in pension expense, deferred inflows and outflows.

#### **Governmental Activities**

Unrecorded OPEB liability of \$2,096 with corresponding decrease in pension expense, deferred inflows and outflows.

In the prior year, we did identify uncorrected misstatements of the financial statements:

#### **Water and Sewer Fund**

Unrecorded OPEB liability of \$6,999 with corresponding increase in pension expense, deferred inflows and outflows.

#### **Governmental Activities**

Unrecorded OPEB liability of \$1,304 with corresponding increase in pension expense, deferred inflows and outflows.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated August 26, 2021.

### *Management Consultations with Other Independent Accountants*

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

To the Honorable Mayor and  
City Council  
August 26, 2021  
Page 3

*Other Audit Findings or Issues*

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

Other Matters

We applied certain limited procedures to the management's discussion and analysis on pages 4-10, budgetary comparison information on page 36, TMRS schedule of changes in net pension (asset) liability and related ratios on page 37, and TMRS schedule of pension contributions on page 38, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing this 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

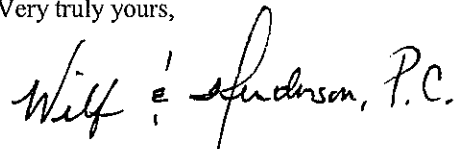
*Other Comments and Recommendations*

We would like to express our appreciation for the excellent cooperation and assistance that we received from the staff during the course of the audit.

Restriction on Use

This information is intended solely for the information and use of the City's trustees, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



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

***CITY OF REDWATER, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
SEPTEMBER 30, 2020***

**CITY OF REDWATER, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**CONTENTS**

	<u>Page</u>
City Directory	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-10
<b>Basic Financial Statements</b>	
Government-Wide Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Fund Types	13
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund Types	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	16
Statement of Net Position - Proprietary Fund	17
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund	18
Statement of Cash Flows - Proprietary Fund	19
Notes to the Financial Statements	20-35
<b>Required Supplementary Information</b>	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	36
TMRS Schedule of Changes in Net Pension (Asset) Liability and Related Ratios	37
TMRS Schedule of Pension Contributions	38
Notes to Required Supplementary Information	39
<b>Report on Compliance and Internal Controls</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40-41
Schedule of Findings and Responses	42
Summary Schedule of Prior Audit Findings	43
Corrective Action Plan	44



## ***CITY DIRECTORY***

### **MAYOR**

Robert Lorance

### **CITY COUNCIL**

Paula Coggin

Donovan Owens

Ronnie Starkey

Clay Parker

Leo Whelchel

### **CITY OFFICIALS**

Dessie Whelchel, Finance Director

Tanya Duhon, City Secretary



Independent Auditor's Report

August 26, 2021

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, 2020, 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, 2020, 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 36, TMRS schedule of changes in net pension (asset) liability and related ratios on page 37, and TMRS schedule of pension contributions on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2021, 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

August 26, 2021



*City of Redwater, Texas*  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2020*

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.

- For governmental activities, the total net investment in capital assets (after subtracting out debt owed on capital assets) decreased from \$375,555 to \$357,219, due to depreciation.
- For business-type activities, the total of net investment in capital assets increased from \$918,783 to \$1,148,548, due to the new sewer improvements.
- For business-type activities, the City's long-term debt at September 30, 2020 decreased from \$1,608,961 to \$1,503,341, due to payment of principal.
- The most significant continuing revenue sources for governmental activities of the City consisted of \$52,683 in charges for services, \$54,156 in property tax and related revenues, \$20,705 in franchise fees, and \$49,746 in sales tax revenues.
- Charges for business-type activities of the enterprise fund totaled \$1,089,840.

### Government-Wide Financial Analysis

#### Statement of Net Position

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

#### City of Redwater, Texas Net Position

	Governmental Activities		Business-Type Activities		Component Unit	
	2020	2019	2020	2019	2020	2019
	Current assets	\$ 410,695	\$ 416,534	\$ 914,376	\$ 776,179	\$ 84,702
Capital assets, net	357,219	375,555	2,651,889	2,527,744	472,943	472,943
<b>Total Assets</b>	<b>767,914</b>	<b>792,089</b>	<b>3,566,265</b>	<b>3,303,923</b>	<b>557,645</b>	<b>547,123</b>
Deferred outflows of resources	1,588	3,668	9,304	20,464	-	-
Other liabilities	18,652	6,011	258,281	233,815	-	-
Long-term liabilities	-	-	1,503,341	1,608,961	177,742	185,601
Net pension liability (TMRS)	494	3,930	2,647	21,080	-	-
<b>Total Liabilities</b>	<b>19,146</b>	<b>9,941</b>	<b>1,764,269</b>	<b>1,863,856</b>	<b>177,742</b>	<b>185,601</b>
Deferred inflow of resources	3,272	2,297	17,437	12,207	-	-
<b>Net position</b>						
Net investment in						
capital assets	357,219	375,555	1,148,548	918,783	295,201	287,342
Restricted	-	-	136,406	100,562	84,702	74,180
Unrestricted	389,865	407,964	508,909	428,979	-	-
<b>Total Net Position</b>	<b>\$ 747,084</b>	<b>\$ 783,519</b>	<b>\$ 1,793,863</b>	<b>\$ 1,448,324</b>	<b>\$ 379,903</b>	<b>\$ 361,522</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 \$432,006. 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 \$357,219 (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 \$452,750 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 \$272,773. Accounts and unbilled receivable balances of \$156,747 represent outstanding water and sewer billings at fiscal year-end.

Capital assets totaling \$2,651,889 (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 \$1,503,341 for notes payable to support operations of the utility system. Other liabilities at fiscal year-end consist primarily of accounts payable, accrued expenses and other liabilities, and customer meter deposits payable.

Net investment in capital assets is the major component of net position for business-type activities (enterprise fund) at a total of \$1,148,548. Net position restricted for debt service totaled \$91,687. Net position restricted for capital projects totaled \$44,719. The balance of \$508,909 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, 2020 and 2019. An explanation of the components of this statement is included immediately following the table.

City of Redwater, Texas  
Statement of Activities

	Governmental		Business-Type		Component	
	Activities		Activities		Unit	
	2020	2019	2020	2019	2020	2019
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 52,683	\$ 60,364	\$ 1,089,840	\$ 1,019,725	\$ -	\$ -
General Revenues:						
Property taxes	54,156	53,064	-	-	-	-
Franchise taxes	20,705	23,856	-	-	-	-
Sales and use taxes	49,746	42,976	-	-	24,873	21,488
Interest	347	1,596	357	821	531	969
Other income	1,468	2,184	1,906	5,847	-	5
Transfer In (Out)	-	1,220	-	(1,220)	-	-
Capital grants	-	-	251,622	23,378	-	-
Total Revenues	179,105	185,260	1,343,725	1,048,551	25,404	22,462
<b>Program Expenses:</b>						
General Government	144,478	145,991	-	-	-	-
Streets	31,414	8,626	-	-	-	-
Parks	33,648	33,471	-	-	-	-
Economic Development	-	-	-	-	7,023	9,312
Public Safety	6,000	6,000	-	-	-	-
Water and Sewer	-	-	998,186	972,583	-	-
Total Expenses	215,540	194,088	998,186	972,583	7,023	9,312
Increase (Decrease) in Net Position	\$ (36,435)	\$ (8,828)	\$ 345,539	\$ 75,968	\$ 18,381	\$ 13,150

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 \$33,193 for refuse income, \$9,000 for rental income, \$1,690 for building permit income, \$3,300 for miscellaneous charges in general and administrative activities, and \$5,500 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 \$54,156, franchise fees of \$20,705 and sales tax revenues of \$49,746.

Program expenses are presented in the above Statement of Activities by function and total \$215,540 for the current fiscal year-end. Revenues less expenses presented in this statement total to a decrease in net position of (\$36,435).

### 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 \$1,089,840 for water and sewer. Revenues increased due to an increase in rates from 2020 to 2019. The City also received a capital grant of \$251,622 for sewer improvements.

The City reports the total amount of expenses for operation of the utility system as \$998,186 for the fiscal year ended September 30, 2020. Water and sewer program expenses include \$209,397 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 \$345,539. Expenses increased in the current year due to an increase in repair work performed on the water system.

### 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 \$238,900 committed for capital improvement projects and \$153,143 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 \$432,006 cash, cash equivalents and certificates of deposit. 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 (\$18,597). Fund balance at the end of the current fiscal year for the General Fund was \$153,143.

The Capital Projects Fund reports an increase in excess of expenditures and other uses over revenues and other sources of \$117. Fund balance at the end of the current fiscal year for the Capital Projects Fund is \$238,900.

### 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 \$203,505 for water contracts, \$190,573 for salaries and wages, and \$209,397 for depreciation expense. Non-operating revenues and expenses include \$357 in interest income, grant revenue of \$251,622, and \$63,914 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 2020, the governmental activities had \$357,219 (net of accumulated depreciation) invested in a broad range of capital assets. During 2020, additions included new office furniture and improvements to park.

The business-type activities had \$2,651,889 (net of accumulated depreciation) invested in capital assets. During the year the City purchased a new desktop and monitors for \$1,389. The City also purchased a push mower for a total cost of \$331. The City spent \$2,700 on new water meters.

In fiscal year 2019, the City signed a construction contract for \$247,071 with Kampco Construction for improvements to Sewer system. At the beginning of the year, the City had \$41,053 in construction in progress related to this project. Throughout fiscal year 2020, the City paid \$247,071 of the contract price, \$18,550 for engineering costs and \$30,097 in admin costs. The total cost of the completed asset was \$336,771.

Other sewer improvements were also made throughout the year totaling \$33,404.

At the end of the fiscal year 2020, the component unit had \$472,943 invested in capital assets.

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

### **Long-Term Debt**

At year-end the City had \$1,503,341 in long-term outstanding notes payable in the business-type activities and \$177,742 outstanding note payable in the component unit. More detailed information about the City's long-term liabilities is presented in Note G and J to the financial statements.

### **Budget and Actual Revenues and Expenditures**

The City amended the General Fund budget during the year to increase revenues in total and to increase expenditures. The variance between budgeted and actual revenues for the General Fund is \$176. The variance between budgeted and actual expenditures for the General Fund is \$6,530.

### **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 was able to 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, 2020 was \$0.181100/\$100.

### **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, 2020**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 408,063	\$ 446,764	\$ 854,827	\$ -
Certificates of deposit	23,943	5,986	29,929	-
Accounts receivable (net)	5,673	-	5,673	-
Utility accounts receivable (net)	-	113,656	113,656	-
Unbilled receivables (net)	-	43,091	43,091	-
Grant receivable	-	2,015	2,015	-
Prepaid insurance	869	2,238	3,107	-
Restricted assets - cash and cash equivalents	-	272,773	272,773	84,518
Interfund accounts	(27,853)	27,853	-	-
Due from Primary Government	-	-	-	184
Capital assets (net of accumulated depreciation):				
Land	158,401	25,331	183,732	472,943
Construction in progress	-	-	-	-
Buildings	87,700	39,427	127,127	-
Office furniture and equipment	27,906	45,009	72,915	-
Equipment and tools	88,735	599,146	687,881	-
Park facilities	649,979	-	649,979	-
Pumps and equipment	-	345,076	345,076	-
Line and storage	-	2,371,087	2,371,087	-
Water meters	-	197,159	197,159	-
Sewer system	-	2,850,705	2,850,705	-
Less accumulated depreciation	(655,502)	(3,821,051)	(4,476,553)	-
Total Assets	<u>\$ 767,914</u>	<u>\$ 3,566,265</u>	<u>\$ 4,334,179</u>	<u>\$ 557,645</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Deferred Outflow Related to TMRS, net	<u>\$ 1,588</u>	<u>\$ 9,304</u>	<u>\$ 10,892</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 12,434	\$ 34,243	\$ 46,677	\$ -
Accrued expenses and other liabilities	6,034	12,420	18,454	-
Accrued interest payable	-	15,455	15,455	-
Refuse contract payable	-	24,672	24,672	-
Grant Payable	-	50,579	50,579	-
Customer meter deposits	-	120,912	120,912	-
Due to Component Unit	184	-	184	-
Noncurrent liabilities:				
Due within one year	-	107,292	107,292	8,111
Due in more than one year	-	1,396,049	1,396,049	169,631
Net pension liability (TMRS)	494	2,647	3,141	-
Total Liabilities	<u>19,146</u>	<u>1,764,269</u>	<u>1,783,415</u>	<u>177,742</u>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Deferred Inflow Related to TMRS, net	<u>\$ 3,272</u>	<u>\$ 17,437</u>	<u>\$ 20,709</u>	<u>\$ -</u>
<b>NET POSITION</b>				
Net investment in capital assets	357,219	1,148,548	1,505,767	295,201
Restricted for:				
Debt service	-	91,687	91,687	-
Capital projects	-	44,719	44,719	-
Economic development	-	-	-	84,702
Unrestricted	389,865	508,909	898,774	-
Total Net Position	<u>\$ 747,084</u>	<u>\$ 1,793,863</u>	<u>\$ 2,540,947</u>	<u>\$ 379,903</u>

The accompanying notes are an integral part of this statement.

**CITY OF REDWATER, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Functions/Programs	Net (Expense) Revenue and Changes in Net Position							Component Unit
	Program Revenues			Primary Government				
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total		
Primary government:								
Governmental activities:								
General and administrative	\$ 144,478	\$ 47,183	\$ -	\$ (97,295)	\$ -	\$ (97,295)	\$ -	
Streets	31,414	-	-	(31,414)	-	(31,414)	-	
Parks	33,648	-	-	(33,648)	-	(33,648)	-	
Public Safety	6,000	5,500	-	(500)	-	(500)	-	
Total governmental activities	215,540	52,683	-	(162,857)	-	(162,857)	-	
Business-type activities:								
Water and sewer	998,186	1,089,840	251,622	-	343,276	343,276	-	
Total business-type activities	998,186	1,089,840	251,622	-	343,276	343,276	-	
Total primary government	\$ 1,213,726	\$ 1,142,523	\$ 251,622	\$ (162,857)	\$ 343,276	\$ 180,419	\$ -	
Component Unit:								
RIDC	7,023	-	-	-	-	-	(7,023)	
Total component unit	\$ 7,023	\$ -	\$ -	\$ -	\$ -	\$ -	(7,023)	
General revenues:								
Property taxes and related revenues				54,156	-	54,156	-	
Franchise fees				20,705	-	20,705	-	
Sales taxes				49,746	-	49,746	24,873	
Interest income				347	357	704	531	
Other income				1,468	1,906	3,374	-	
Total general revenues				126,422	2,263	128,685	25,404	
Change in net position				(36,435)	345,539	309,104	18,381	
Net position at beginning of year				783,519	1,448,324	2,231,843	361,522	
Net position at end of year				\$ 747,084	\$ 1,793,863	\$ 2,540,947	\$ 379,903	

The accompanying notes are an integral part of this statement

**CITY OF REDWATER, TEXAS  
GOVERNMENTAL FUND TYPES  
BALANCE SHEET  
SEPTEMBER 30, 2020**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 169,163	\$ 238,900	\$ 408,063
Certificates of deposit	23,943	-	23,943
Receivables, net allowances	5,673	-	5,673
Prepaid insurance	869	-	869
	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 199,648</u>	<u>\$ 238,900</u>	<u>\$ 438,548</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 12,434	\$ -	\$ 12,434
Accrued expenses and other liabilities	6,034	-	6,034
Due to Proprietary Fund	27,853	-	27,853
Due to RIDC	184	-	184
	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>46,505</u>	<u>-</u>	<u>46,505</u>
<b>FUND BALANCES</b>			
Committed Fund Balance:			
Capital Improvement Projects	-	238,900	238,900
Unassigned Fund Balance	153,143	-	153,143
	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>153,143</u>	<u>238,900</u>	<u>392,043</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Fund Balances	<u>\$ 199,648</u>	<u>\$ 238,900</u>	<u>\$ 438,548</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, 2020*

Total Fund Balance - Governmental Funds	\$392,043
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 \$989,581 and the accumulated depreciation was (\$614,026). 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.	375,555
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 2020 capital outlays of \$23,140, plus debt principal payments of \$0 is to increase net position.	23,140
The 2020 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.	(41,476)
The net effect of including the beginning balance for pension assets (net of the liability) in the governmental activities is to (decrease) net position.	(2,559)
The net effect of change in pension liability and the net effect of the change in deferred outflows in the governmental activities is to increase net position.	381
Net Position of Governmental Activities	\$ 747,084

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, 2020**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>			
Property taxes	\$ 54,156	\$ -	\$ 54,156
Franchise taxes	20,705	-	20,705
Sales taxes	49,746	-	49,746
Intergovernmental	5,500	-	5,500
Refuse income	33,194	-	33,194
Rental income	9,000	-	9,000
Lease income	3,300	-	3,300
Interest	230	117	347
Miscellaneous	3,157	-	3,157
Total revenues	<u>178,988</u>	<u>117</u>	<u>179,105</u>
<b>Expenditures</b>			
Accounting and audit fees	2,194	-	2,194
Appraisal district fees	1,310	-	1,310
Beautification	38	-	38
Insurance	14,138	-	14,138
Legal and filing fees	85	-	85
Mileage, travel and training	2,124	-	2,124
Office supplies/postage	3,682	-	3,682
Repairs and maintenance	990	-	990
Retirement	2,378	-	2,378
Salaries & taxes-administration	81,052	-	81,052
Street repairs	31,414	-	31,414
Utilities	17,720	-	17,720
Miscellaneous	11,320	-	11,320
Public safety	6,000	-	6,000
Capital outlay	23,140	-	23,140
Total expenditures	<u>197,585</u>	<u>-</u>	<u>197,585</u>
Excess (deficiency) of revenues over expenditures	<u>(18,597)</u>	<u>117</u>	<u>(18,480)</u>
Net change in fund balance	(18,597)	117	(18,480)
Fund balance at beginning of year	<u>171,740</u>	<u>238,783</u>	<u>410,523</u>
Fund balance at end of year	<u>\$ 153,143</u>	<u>\$ 238,900</u>	<u>\$ 392,043</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, 2020*

Net changes in Fund Balances - Governmental Funds	\$ (18,480)
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 2020 capital outlays of \$23,140 plus debt principal payments of \$0 is to increase net position.	23,140
The 2020 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.	(41,476)
The net effect of change in pension liability and the net effect of the change in deferred outflows in the governmental activities is to increase net position.	381
Change in Net Position in Governmental Activities	\$ (36,435)

The accompanying notes are an integral part of this statement.

**CITY OF REDWATER, TEXAS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2020**

	Water and Sewer	Totals
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 446,764	\$ 446,764
Certificates of deposit	5,986	5,986
Accounts receivable (net)	113,656	113,656
Unbilled receivables (net)	43,091	43,091
Grant receivable	2,015	2,015
Prepaid Insurance	2,238	2,238
Due from General Fund	27,853	27,853
Total Current Assets	641,603	641,603
Restricted Assets:		
Cash and cash equivalents	272,773	272,773
Capital Assets:		
Land	25,331	25,331
Buildings	39,427	39,427
Furniture and fixtures	45,009	45,009
Equipment and tools	599,146	599,146
Pumps and treatment equipment	345,076	345,076
Lines and storage	2,371,087	2,371,087
Water meters	197,159	197,159
Sewer system	2,850,705	2,850,705
Less accumulated depreciation	(3,821,051)	(3,821,051)
Total Capital Assets, net of accumulated depreciation	2,651,889	2,651,889
Total Assets	\$ 3,566,265	\$ 3,566,265
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred Outflow Related to TMRS, net	\$ 9,304	\$ 9,304
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 34,243	\$ 34,243
Accrued expenses and other liabilities	12,420	12,420
Accrued interest payable	15,455	15,455
Refuse contract payable	24,672	24,672
Grant Payable	50,579	50,579
Customer meter deposits	120,912	120,912
Bonds and notes payable, current portion	107,292	107,292
Total Current Liabilities	365,573	365,573
Noncurrent Liabilities:		
Bonds and notes payable, long-term, net	1,396,049	1,396,049
Net pension liability (TMRS)	2,647	2,647
Total Noncurrent Liabilities	1,398,696	1,398,696
Total Liabilities	1,764,269	1,764,269
<b>DEFERRED INFLOW OF RESOURCES</b>		
Deferred Inflow Related to TMRS, net	\$ 17,437	\$ 17,437
<b>NET POSITION</b>		
Net investment in capital assets	1,148,548	1,148,548
Restricted	136,406	136,406
Unrestricted	508,909	508,909
Total Net Position	\$ 1,793,863	\$ 1,793,863

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, 2020**

	Water and Sewer	Totals
<b>Operating Revenues:</b>		
Charges for services	\$ 1,089,840	\$ 1,089,840
Other income	1,906	1,906
Total operating revenues	1,091,746	1,091,746
<b>Operating Expenses:</b>		
Accounting and audit	11,698	11,698
Bad debt expense	3,830	3,830
Chemicals	20,338	20,338
Contract labor	27,111	27,111
Depreciation	209,397	209,397
Equipment repairs and maintenance	1,339	1,339
Equipment supplies and tools	5,775	5,775
Fees and permits	5,632	5,632
Insurance - group health and workers compensation	28,650	28,650
Insurance - other	7,933	7,933
Lab services and testing	11,215	11,215
Maintenance contracts	1,915	1,915
Miscellaneous	6,981	6,981
Office supplies and expense	4,001	4,001
Postage	5,681	5,681
Refuse charges	2,052	2,052
Rent-building and equipment	9,000	9,000
Repairs and maintenance - water and sewer system	50,175	50,175
Retirement	4,361	4,361
Salaries and wages	190,573	190,573
Supplies-operating	27,066	27,066
Taxes-payroll	16,062	16,062
Telephone and radio	25,701	25,701
Utilities	32,610	32,610
Vehicle repairs and maintenance	2,775	2,775
Vehicle supplies	18,896	18,896
Water contracts	203,505	203,505
Total operating expenses	934,272	934,272
Operating income (loss)	157,474	157,474
<b>Non-Operating Revenues (Expenses)</b>		
Grant revenue	251,622	251,622
Interest income	357	357
Interest expense and fees	(63,914)	(63,914)
Total nonoperating revenues (expenses)	188,065	188,065
Change in net position	345,539	345,539
Net position at beginning of year	1,448,324	1,448,324
Net position at end of year	\$ 1,793,863	\$ 1,793,863

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, 2020**

	Water and Sewer	Totals
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 1,131,966	\$ 1,131,966
Payments to suppliers	(515,739)	(515,739)
Payments to employees	(190,573)	(190,573)
Net cash provided by operating activities	<u>425,654</u>	<u>425,654</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital assets purchased	(333,542)	(333,542)
Capital grant revenue received	251,622	251,622
Bonds and notes principal retirement	(105,620)	(105,620)
Bonds and notes interest and fees expense paid	(64,658)	(64,658)
Net cash (used) by capital and financing activities	<u>(252,198)</u>	<u>(252,198)</u>
<b>Cash Flows from Investing Activities</b>		
Interest received	357	357
Additions to investments in certificates of deposit	(36)	(36)
Net cash provided by investing activities	<u>321</u>	<u>321</u>
Net increase (decrease) in cash and cash equivalents	173,777	173,777
Cash and cash equivalents at beginning of year	<u>545,760</u>	<u>545,760</u>
Cash and cash equivalents at end of year	<u>\$ 719,537</u>	<u>\$ 719,537</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ 157,474	\$ 157,474
Depreciation expense	209,397	209,397
Change in assets and liabilities:		
(Increase) decrease in receivables	35,295	35,295
(Increase) decrease in prepaid insurance	321	321
Increase (decrease) in accounts payable	(30,723)	(30,723)
Increase (decrease) in accrued expenses and other liabilities	51,008	51,008
Increase (decrease) in customer meter deposits	4,925	4,925
Increase (decrease) in pension plan liabilities and outflows	(2,043)	(2,043)
Net cash provided by operating activities	<u>\$ 425,654</u>	<u>\$ 425,654</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, 2020**

**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).

Reporting Entity

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

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

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.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Fund Financial Statements

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

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

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

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

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

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

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

*CITY OF REDWATER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020*

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.

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 \$63,251 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, 2020 are as follow:

<u>Type of Restricted Asset</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Meter Deposits	\$ 120,912	\$ -
TxCDBG Grant	44,719	
Bond Reserve Fund	63,959	-
2003 Debt Service Fund	23,751	-
2005 Debt Service Fund	14,308	-
2017 AMI Loan Debt Service Fund	5,124	-
Economic Development	-	84,518
	<hr/>	<hr/>
Total Restricted Assets	<u>\$ 272,773</u>	<u>\$ 84,518</u>

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Accounts Receivable

The accounts receivable at September 30, 2020 are as follows:

<u>Accounts Receivable</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Franchise tax	\$ 5,282	\$ -	\$ 5,282
Property tax	14,601	-	14,601
Interest	13	3	16
Customer billed	-	117,395	117,395
Allowance for doubtful accounts	<u>(14,223)</u>	<u>(3,744)</u>	<u>(17,967)</u>
 Total Accounts Receivable, Net	 <u>\$ 5,673</u>	 <u>\$ 113,654</u>	 <u>\$ 119,327</u>

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.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Interfund Transfers

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

Use of Estimates

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

Pensions

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

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.

*Other Postemployment Benefits*

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.

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:

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

*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.

*Certain Disclosures Related to Debt*

**GASB Statement 88, Certain Disclosure Related to Debt, Including Direct Borrowing and Placements**

The primary objective of this statement is to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with financial-related consequences, significant termination events with finance-related consequences and significant subjective acceleration clauses.

For notes to the financial statements related to debt, this Statement also requires existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

**NOTE B – COLLATERALIZATION OF DEPOSITS**

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

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

At September 30, 2020, 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 \$379 of delinquent property taxes at September 30, 2020.

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, 2020, 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 \$368,092 per year from the present assessed valuation of \$28,075,746 before the limit is reached. The amount assessed for the 2019 tax roll was \$53,044.

**NOTE D – INTERFUND TRANSACTIONS**

Interfund balances are as follows as of September 30, 2020:

	Receivables (Due From)	Payables (Due To)
General Fund:		
Proprietary Fund	\$ -	(27,853)
Component Unit	-	(184)
Proprietary Fund:		
General Fund	27,853	-
Component Unit:		
General Fund	184	-
Total	\$ 28,037	\$ (28,037)

The Proprietary Fund owes the General Fund \$27,853 for prior year rent of facilities.

**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.



**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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, 2020, are as follows:

	Balance October 1, 2019	Additions	Deletions	Balance September 30, 2020
<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	27,766	140	-	27,906
Equipment and tools	88,735	-	-	88,735
Park facilities	626,979	23,000	-	649,979
Total	<u>\$ 989,581</u>	<u>\$ 23,140</u>	<u>\$ -</u>	<u>1,012,721</u>
	Balance September 30, 2019	Additions	Deletions	Balance September 30, 2020
<u>Accumulated depreciation</u>				
Buildings	\$ 87,700	\$ -	\$ -	87,700
Office furniture and equipment	23,497	1,456	-	24,953
Equipment and tools	68,825	6,372	-	75,197
Park facilities	434,004	33,648	-	467,652
Total	<u>\$ 614,026</u>	<u>\$ 41,476</u>	<u>\$ -</u>	<u>655,502</u>
Total Governmental activities capital assets, net	<u>\$ 375,555</u>	<u>\$ (18,336)</u>	<u>\$ -</u>	<u>357,219</u>

Current year additions of \$23,140 included a new monitor and new parking lot for the park.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Governmental activities depreciation expense charged to program activities was:

General and administration	\$ 7,828
Parks	33,648
	\$ 41,476

Business-type activities capital asset activity for the year ended September 30, 2020, are as follows:

	Balance October 1, 2019	Additions	Deletion / Reclassifications	Balance September 30, 2020
<u>Business-type activities-cost</u>				
Land	\$ 25,331	\$ -	\$ -	\$ 25,331
Construction in progress	41,053	295,718	(336,771)	-
Buildings	39,427	-	-	39,427
Office furniture and equipment	43,620	1,389	-	45,009
Equipment and tools	598,815	331	-	599,146
Pumps and treatment	345,076	-	-	345,076
Lines and storage	2,371,087	-	-	2,371,087
Water meters	194,459	2,700	-	197,159
Sewer system	2,480,530	33,404	336,771	2,850,705
Total	\$ 6,139,398	\$ 333,542	\$ -	\$ 6,472,940
	Balance September 30, 2019	Additions	Deletions	Balance September 30, 2020
<u>Accumulated depreciation</u>				
Buildings	\$ 36,469	\$ 922	\$ -	\$ 37,391
Office furniture and equipment	23,507	5,701	-	29,208
Equipment and tools	327,819	36,883	-	364,702
Pumps and treatment	250,884	15,994	-	266,878
Lines and storage	1,315,831	61,554	-	1,377,385
Water meters	32,941	20,128	-	53,069
Sewer system	1,624,203	68,215	-	1,692,418
Total	\$ 3,611,654	\$ 209,397	\$ -	\$ 3,821,051
Total Business-type activities capital assets, net	\$ 2,527,744	\$ 124,145	\$ -	\$ 2,651,889

Business-type activities - All depreciation expense of \$209,397 recorded in the business-type activities was charged to the Water and Sewer Fund. The City purchased a new lap top and monitors for \$1,389. The City also purchased a push mower for a total cost of \$331. The City spent \$2,700 on new water meters.

In fiscal year 2019, the City signed a construction contract for \$247,071 with Kampco Construction for improvements to Sewer system. At the beginning of the year, the City had \$41,053 in construction in progress related to this project. Throughout fiscal year 2020, the City paid \$247,071 of the contract price, \$18,550 for engineering costs and \$30,097 in admin costs. The total cost of the completed asset was \$336,771. This project was funded with a \$275,000 grant and local match of \$61,771.

Other sewer improvements were also made throughout the year totaling \$33,404.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE G – LONG-TERM DEBT**

Business-type activities long-term debt at September 30, 2020 is comprised of the following:

\$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%.	\$ 459,000
\$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%	463,000
\$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%	170,000
\$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%	411,341
Total Water and Sewer Fund - Business-Type Activities	\$ 1,503,341

Business-type transactions long term debts for the year ended September 30, 2020 are summarized as follows:

Type of Debt	September 30, 2019	Additions	Retirements	September 30, 2020	Due within one year
Business-type Activities					
Revenue Bonds	\$ 946,000	\$ -	\$ 24,000	\$ 922,000	\$ 24,000
Certificates of Obligations	200,000	-	30,000	170,000	30,000
Notes Payable	462,961	-	51,620	411,341	53,292
	\$ 1,608,961	\$ -	\$ 105,620	\$ 1,503,341	\$ 107,292

The annual requirements to retire long-term debt as of September 30, 2020 follow:

Year Ending September 30,	2003 Series		2005 Series		Notes Payable - Direct Borrowing		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2021	24,000	39,185	30,000	6,742	53,292	13,332	166,551
2022	26,000	38,165	30,000	5,572	55,020	11,604	166,361
2023	26,000	37,060	35,000	4,388	56,803	9,821	169,072
2024	28,000	35,955	35,000	3,005	58,644	7,980	168,584
2025	29,000	34,765	35,000	1,605	60,544	6,080	166,994
2026-2030	163,000	154,445	5,000	205	127,038	6,209	455,897
2031-2035	201,000	116,705	-	-	-	-	317,705
2036-2040	250,000	69,913	-	-	-	-	319,913
2041-2043	175,000	15,088	-	-	-	-	190,088
Totals	\$ 922,000	\$ 541,281	\$ 170,000	\$ 21,517	\$ 411,341	\$ 55,026	\$ 2,121,615

**CITY OF REDWATER, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE H – DEFINED BENEFIT PENSION PLAN**

Plan Description

The City of Redwater participates as one of 895 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.tmr.com](http://www.tmr.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, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	3
Active employees	8
<b>Total</b>	<b>12</b>

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 3.08% and 3.19% for the calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2020 were \$8,366 and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

*Actuarial assumptions:*

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
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 are based on PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in December 31, 2019 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. 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	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.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

*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 12/31/2018	\$ 282,462	\$ 257,452	\$ 25,010
Changes for the year:			
Service cost	25,589	-	25,589
Interest	19,540	-	19,540
Change of benefit terms	-	-	-
Difference between expected and actual experience	1,587	-	1,587
Change of assumptions	(2,013)	-	(2,013)
Contributions - employer		8,209	(8,209)
Contributions - employee	-	18,659	(18,659)
Net investment income	-	39,936	(39,936)
Benefit payments, including refunds to employees	(11,564)	(11,564)	-
Administrative expense	-	(225)	225
Other changes	-	(7)	7
Net changes	33,139	55,008	(21,869)
Balance at 12/31/2019	\$ 315,601	\$ 312,460	\$ 3,141

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	\$ 46,275	\$ 3,141	\$ (33,161)

*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, 2020 the city recognized pension expense of \$5,941.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

At September 30, 2020, 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	\$ 2,956	\$ 9,424
Changes in actuarial assumptions	1,609	1,762
Difference between projected and actual investment earnings	-	9,523
Contributions subsequent to the measurement date	6,327	-
	<u>\$ 10,892</u>	<u>\$ 20,709</u>

\$6,327 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, 2020. 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	\$ (5,833)
2021	(6,216)
2022	131
2023	(4,523)
2024	164
Thereafter	133
Total	<u>\$ (16,144)</u>

Supplemental Death Benefits Fund

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

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

Your city offers supplemental death to:	Plan Year 2019	Plan Year 2020
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 2020, 2019, and 2018 were \$417, \$401, and \$337.

**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**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 \$203,505 of expenditures for water under the water supply contract for the year ending September 30, 2020. The amount incurred is based on actual water consumption.

Each Member City agrees to make monthly payments to Riverbend Water Resources District in an amount deemed adequate to discharge its pro rata part of maintenance and operating and administrative expense of Riverbend Water Resource District. Membership fees paid to Riverbend totaled \$5,660 for the year ending September 30, 2020.

In FY 2020, Riverbend Water Resources District was approved for \$200 million funding from the Texas Water Development Board’s Drinking Water State Revolving Fund for the construction of a new regional water treatment facility. New water supply contracts with the participating member cities have been completed. The water supply contracts support the payment of the multi-year bond issuance package. The City paid one payment of \$13,832 to Riverbend for the new contract that began in September 2020. Future annual payment requirements under this contract will be approximately \$165,000.

**NOTE J – DISCLOSURES OF REDWATER INDUSTRIAL DEVELOPMENT CORPORATION**

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

Cash and Deposits

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

At September 30, 2020, 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, 2020, are as follows:

	Balance October 1, 2019	Additions	Deletions	Balance September 30, 2020
	<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.



**CITY OF REDWATER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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.

Long-term debt transactions for the year ended September 30, 2020 are summarized as follows:

	Balance October 1, 2019	Additions	Retirements	Balance September 30, 2020	Due within one year
Note payable	\$ 185,601	\$ -	\$ 7,859	\$ 177,742	\$ 8,111
	<u>\$ 185,601</u>	<u>\$ -</u>	<u>\$ 7,859</u>	<u>\$ 177,742</u>	<u>\$ 8,111</u>

The annual requirements to retire long-term debt as of September 30, 2020 follow:

For the Year Ending:	Direct Borrowing		
	Principal	Interest	Total
2021	8,111	5,098	13,209
2022	8,426	4,855	13,281
2023	8,675	4,605	13,280
2024	8,934	4,347	13,281
2025	9,199	4,082	13,281
2026-2030	50,258	16,147	66,405
2031-2035	58,177	8,228	66,405
2036-2037	25,962	801	26,763
	<u>\$ 177,742</u>	<u>\$ 48,163</u>	<u>\$ 225,905</u>

**NOTE K – SUBSEQUENT EVENTS**

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. In each subsequent month effective through April 5, 2021, proclamations have been issued renewing the disaster declaration for all Texas counties.

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through August 26, 2021, which is the date the financial statements were available to be issued.

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

**CITY OF REDWATER, TEXAS**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Budgeted Amounts		GAAP	Variance with
	Original	Final	Basis	Final Budget
			Actual	Favorable
			Amount	(Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 52,000	\$ 53,000	\$ 54,156	\$ 1,156
Franchise taxes	25,000	23,000	20,705	(2,295)
Sales taxes	43,000	48,000	49,746	1,746
Intergovernmental	6,000	6,000	5,500	(500)
Refuse income	33,000	33,000	33,194	194
Rental income	9,000	9,000	9,000	-
Lease income	3,600	3,600	3,300	(300)
Interest	300	247	230	(17)
Miscellaneous	1,830	2,965	3,157	192
Total revenues	173,730	178,812	178,988	176
<b>Expenditures</b>				
Accounting and audit fees	3,000	3,000	2,194	806
Appraisal district fees	1,500	1,310	1,310	-
Beautification	500	300	38	262
Insurance	14,700	13,975	14,138	(163)
Legal and filing fees	175	100	85	15
Mileage, travel and training	3,200	2,335	2,124	211
Office supplies/postage	7,250	4,750	3,682	1,068
Repairs and maintenance	3,500	1,500	990	510
Retirement	2,245	2,375	2,378	(3)
Salaries & taxes-admin	72,630	77,220	81,052	(3,832)
Street repairs	30,000	37,000	31,414	5,586
Utilities	8,600	18,400	17,720	680
Miscellaneous	12,210	12,320	11,320	1,000
Public safety	6,000	6,000	6,000	-
Capital outlay	30,700	23,350	23,140	210
Total expenditures	196,210	203,935	197,585	6,350
Excess (deficiency) of revenues over expenditures	(22,480)	(25,123)	(18,597)	6,526
Net change in fund balance	(22,480)	(25,123)	(18,597)	6,526
Fund balance at beginning of year	171,740	171,740	171,740	-
Fund balance at end of year	\$ 149,260	\$ 146,617	\$ 153,143	\$ 6,526

**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>FY 2020</u>
	Plan Year 2015	Plan Year 2016	Plan Year 2017	Plan Year 2018	Plan Year 2019
<b>Total Pension Liability</b>					
Service cost	\$ 23,032	\$ 23,487	\$ 23,416	\$ 24,141	\$ 25,589
Interest (on the Total Pension Liability)	13,953	15,329	14,669	16,975	19,540
Change of benefit terms	-	-	-	-	-
Difference between expected and actual experience	636	(28,094)	(1,447)	1,942	1,587
Change of assumptions	9,284	-	-	-	(2,013)
Benefit payments, including refunds to employees	(3,477)	(35,241)	(5,691)	-	(11,564)
Net Change in Total Pension Liability	43,428	(24,519)	30,947	43,058	33,139
Total Pension Liability - Beginning	189,548	232,976	208,457	239,404	282,462
Total Pension Liability - Ending (a)	<u>232,976</u>	<u>208,457</u>	<u>239,404</u>	<u>282,462</u>	<u>315,601</u>
<b>Plan Fiduciary Net Position</b>					
Contributions - employer	8,184	7,852	10,501	8,390	8,209
Contributions - employee	16,604	16,214	16,898	17,584	18,659
Net investment income	248	12,813	26,475	(7,170)	39,936
Benefit payments, including refunds to employees	(3,477)	(35,241)	(5,691)	-	(11,564)
Administrative expense	(151)	(144)	(137)	(138)	(225)
Other changes	(8)	(8)	(7)	(7)	(7)
Net Change in Plan Fiduciary Net Position	21,400	1,486	48,039	18,659	55,008
Plan Fiduciary Net Position - Beginning	167,868	189,268	190,754	238,793	257,452
Plan Fiduciary Net Position - Ending (b)	<u>\$ 189,268</u>	<u>\$ 190,754</u>	<u>\$ 238,793</u>	<u>\$ 257,452</u>	<u>\$ 312,460</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 43,708</u>	<u>\$ 17,703</u>	<u>\$ 611</u>	<u>\$ 25,010</u>	<u>\$ 3,141</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	81.24%	91.51%	99.74%	91.15%	99.00%
<b>Covered Employee Payroll</b>	237,198	231,627	241,405	251,203	266,551
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	18.43%	7.64%	0.25%	9.96%	1.18%

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	FY 2020
Actuarially Determined Contribution	\$ 7,917	\$ 7,906	\$ 9,772	\$ 8,922	\$ 8,416	\$ 8,366
Contributions in relation to the actuarially determined contribution	\$ (7,917)	\$ (7,906)	\$ (9,772)	\$ (8,922)	\$ (8,416)	\$ (8,366)
Contribution deficiency (excess)	\$ -	\$ -	-	\$ -	\$ -	\$ -
Covered employee payroll	\$ 234,435	\$ 232,172	\$ 237,688	\$ 245,791	\$ 267,575	\$ 264,535
Contributions as a percentage of covered employee payroll	3.38%	3.41%	4.11%	3.63%	3.15%	3.16%

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 six 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."

**CITY OF REDWATER**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**  
**SCHEDULE OF CONTRIBUTIONS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**Notes to Schedule of Contributions:**

September 30, 2020

**Valuation Date:** 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 for Pensions:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	N/A
Asset Valuation Method	10 year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.5% 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 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
<b>Other information:</b>	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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 26, 2021.

**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.

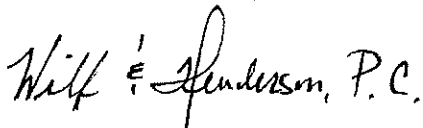


## Compliance and Other Matters

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 financial statements. 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

August 26, 2021

**CITY OF REDWATER, TEXAS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**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, 2020*

No prior audit findings were required to be reported.

*CAPCITY OF REDWATER, TEXAS  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2020*

There were no current year audit findings.