

***CITY OF REDWATER, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2023***



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ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

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CITY DIRECTORY

MAYOR
Clay Parker

CITY COUNCIL
Paula Coggin
Donovan Owens
Ronnie Starkey
Kelly Gerber
Leo Whelchel

CITY OFFICIALS
Dessie Whelchel, Finance Director
Tanya Duhon, City Secretary



Independent Auditor's Report

August 8, 2024

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

Report on the Audit of the Financials Statements

Opinions

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 (the City), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, as of September 30, 2023, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Redwater's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 8, 2024, on our consideration of the City's 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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 City of Redwater's internal control over financial reporting and compliance.



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

August 8, 2024

*City of Redwater, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2023*

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

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

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

Overview of the Financial Statements

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

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

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

Notes to the Financial Statements

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

City Highlights

Net position balance at September 30, 2023 in the governmental activities (including the General Fund) increased from \$670,562 to \$712,884. The business-type activities (consisting of the City's water and sewer) net position balance decreased from \$1,685,505 to \$1,631,954.

- For governmental activities, the total net investment in capital assets (after subtracting out debt owed on capital assets) decreased from \$288,128 to \$251,685.
- For business-type activities, the total of net investment in capital assets increased from \$1,058,870 to \$1,063,507.
- For business-type activities, the City's long-term debt at September 30, 2023 decreased from \$1,424,391 to \$1,279,877, due to payment of principal.
- The most significant continuing revenue sources for governmental activities of the City consisted of \$155,762 in refuse income, \$69,392 in property tax and related revenues, \$25,629 in franchise fees, and \$54,379 in sales tax revenues.
- Charges for business-type activities of the enterprise fund totaled \$1,182,774.

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	
	2023	2022	2023	2022	2023	2022
	Current assets	\$ 475,742	\$ 391,678	\$ 1,001,154	\$ 1,072,020	\$ 106,230
Capital assets, net	251,685	288,128	2,343,384	2,483,261	472,943	472,943
Net pension asset (TMRS)	-	4,396	-	23,590	-	-
Total Assets	727,427	684,202	3,344,538	3,578,871	579,173	572,281
Deferred outflows of resources	5,804	1,231	31,935	7,396	-	-
Other liabilities	15,022	10,347	436,187	452,212	-	375
Long-term liabilities	-	-	1,279,877	1,424,391	153,910	161,276
Net pension liability (TMRS)	4,716	-	25,304	-	-	-
Total Liabilities	19,738	10,347	1,741,368	1,876,603	153,910	161,651
Deferred inflow of resources	609	4,524	3,151	24,159	-	-
Net position						
Net investment in capital assets	251,685	288,128	1,063,507	1,058,870	319,033	311,667
Restricted	-	-	118,213	111,056	106,230	98,963
Unrestricted	461,199	382,434	450,234	515,579	-	-
Total Net Position	\$ 712,884	\$ 670,562	\$ 1,631,954	\$ 1,685,505	\$ 425,263	\$ 410,630

Governmental Activities - Statement of Net Position

The major component of the current and other assets category consists of cash and cash equivalents of \$469,343. The balance in this category comprised of various receivables (amounts due) for taxes and for revenues due from intergovernmental agencies. The total for cash and cash equivalents reflects the City's past performance in meeting budgetary goals and the accumulation of resources for future needs of the City.

Capital assets totaling \$251,685 (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 and cash equivalents, totaling \$544,449 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 \$272,400. Accounts and unbilled receivable balances of \$183,452 represent outstanding water and sewer billings at fiscal year-end.

Capital assets totaling \$2,343,384 (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 \$1,279,877 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 \$1,063,507. Net position restricted for debt service totaled \$118,213. The balance of \$450,234 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, 2023 and 2022. 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	
	2023	2022	2023	2022	2023	2022
Revenues						
Program Revenues:						
Charges for Services	\$ 155,762	\$ 106,146	\$ 1,182,774	\$ 1,213,997	\$ -	\$ -
Operating Grants and Contributions	-	-	-	10,437	-	-
Capital Grants and Contributions	-	-	20,735	66,542	-	-
General Revenues:						
Property taxes	69,392	56,315	-	-	-	-
Franchise taxes	25,629	26,785	-	-	-	-
Sales and use taxes	54,379	53,695	-	-	27,190	26,849
Interest	6,229	971	3,483	505	1,293	71
Other income	5,998	6,690	-	-	-	-
Transfer In (Out)	(219)	-	219	-	-	-
Total Revenues	317,170	250,602	1,207,211	1,291,481	28,483	26,920
Program Expenses:						
General Government	208,860	172,808	-	-	-	-
Streets	13,800	51,716	-	-	-	-
Parks	33,373	36,443	-	-	-	-
Economic Development	-	-	-	-	13,850	10,161
Public Safety	18,815	23,001	-	-	-	-
Water and Sewer	-	-	1,260,762	1,267,665	-	-
Total Expenses	274,848	283,968	1,260,762	1,267,665	13,850	10,161
Increase (Decrease) in Net Position	\$ 42,322	\$ (33,366)	\$ (53,551)	\$ 23,816	\$ 14,633	\$ 16,759

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 \$140,922 for refuse income and \$12,300 for rental income charges in general and administrative activities.

General revenues include all revenues not required to be reported as program revenues. All taxes are to be reported by type tax. For the City of Redwater, Texas, the major tax revenues are property tax and related revenues of \$69,392, franchise fees of \$25,629 and sales tax revenues of \$54,379.

Program expenses are presented in the above Statement of Activities by function and total \$274,848 for the current fiscal year-end. Revenues less expenses presented in this statement total to an increase in net position of \$42,322.

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 \$1,182,774 for water and sewer.

The City reports the total amount of expenses for operation of the utility system as \$1,260,762 for the fiscal year ended September 30, 2023. Water and sewer program expenses include \$248,980 of depreciation expense. The change in net position (revenues less expenses and transfers) for the current fiscal year was a decrease in net position of (\$53,551). The decrease in net position was primarily due to a decrease in revenues due to a decrease in consumption.

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 \$245,575 committed for capital improvement projects and \$215,145 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 \$469,343 cash and cash equivalents. Liabilities for the City consist primarily of accounts payable, accrued expenses and other liabilities and due to the Proprietary Fund.

The fund reporting format presents in the Statement of Revenues, Expenditures, and Changes in Fund Balance all revenue types followed by the expenses of the City, also presented on a functional basis. However, for the fund financial statements, the City reports only current year capital expenditures and does not report depreciation on capital assets. Principal payments on loans are reported only as a current year expenditure and not the related long-term loan liability as in the government-wide financial statements. The major revenue sources are similar to the government-wide presentation above, with additional detail provided for services for which the City receives a fee or charge for services (refuse and rental fees). The General Fund reports an increase in revenues and other sources over expenditures and other uses by \$74,156. Fund balance at the end of the current fiscal year for the General Fund was \$215,145.

The Capital Projects Fund reports an increase in excess of expenditures and other uses over revenues and other sources of \$5,234. Fund balance at the end of the current fiscal year for the Capital Projects Fund is \$245,575.

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 \$352,549 for water contracts, \$226,321 for salaries and wages, and \$248,980 for depreciation expense. Non-operating revenues and expenses include \$3,483 in interest income, \$54,799 reported for interest expense and fees on bonds, notes and capital leases payable, and \$20,735 in Covid-19 – American Rescue Act capital grant income.

Capital Assets and Long-Term Debt

Capital Assets

At the end of the fiscal year 2023, the governmental activities had \$251,685 (net of accumulated depreciation) invested in a broad range of capital assets.

At the end of the fiscal year 2023, the business-type activities had \$2,343,383 (net of accumulated depreciation) invested in a broad range of capital assets. All depreciation expense of \$248,980 recorded in the business-type activities was charged to the Water and Sewer Fund. The City purchased a 3-Ton Heat Pump for \$2,930, a Neptune pocket reader for \$1,133. The City also purchased a 2022 Dodge Ram truck for \$67,041 and a skirted truck bed for the truck totaling \$7,950.

The City also purchased line extensions totaling \$3,800 and a rebuilt kit and install from TriState for \$5,513.

During fiscal year 2023, the City incurred \$20,735 in road construction costs for the Jones St. Project. The project will be paid for with ARPA funds and is set to begin in 2024 to upgrade and move sewer lines and repair the road afterwards.

At the end of the fiscal year 2023, 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 \$1,279,877 in long-term outstanding notes payable in the business-type activities and \$153,910 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 expenditures for the General Fund is \$4,172.

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. In FY 2023, the City began researching options to upgrade the existing automated metering infrastructure system. In December 2023, the City was able to re-finance the existing AMI Loan through Government Capital, and finance an additional \$253,340 to purchase new endpoints to attach to existing meters that include software which operates more efficiently than the system currently in place. Property values inside the City once again increased significantly; and the property tax rate adopted for fiscal year ending September 30, 2024 remained the same as the prior year at \$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, 2023

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 469,343	\$ 544,449	\$ 1,013,792	\$ -
Accounts receivable (net)	7,252	-	7,252	-
Utility accounts receivable (net)	-	124,030	124,030	-
Unbilled receivables (net)	-	59,422	59,422	-
Restricted assets - cash and cash equivalents	-	272,400	272,400	106,230
Interfund accounts	(853)	853	-	-
Capital assets (net of accumulated depreciation):				
Land	158,401	25,331	183,732	472,943
Construction in progress	-	20,735	20,735	-
Buildings	89,745	39,427	129,172	-
Office furniture and equipment	32,250	54,849	87,099	-
Equipment and tools	88,735	791,210	879,945	-
Park facilities	651,630	-	651,630	-
Pumps and equipment	-	304,243	304,243	-
Line and storage	-	2,407,118	2,407,118	-
Water meters	-	197,159	197,159	-
Sewer system	-	2,898,949	2,898,949	-
Less accumulated depreciation	(769,076)	(4,395,637)	(5,164,713)	-
Total Assets	<u>\$ 727,427</u>	<u>\$ 3,344,538</u>	<u>\$ 4,071,965</u>	<u>\$ 579,173</u>
DEFERRED OUTFLOW OF RESOURCES				
Deferred Outflow Related to TMRS, net	<u>\$ 5,804</u>	<u>\$ 31,935</u>	<u>\$ 37,739</u>	<u>\$ -</u>
LIABILITIES				
Accounts payable	\$ 6,054	\$ 32,696	\$ 38,750	\$ -
Accrued expenses and other liabilities	8,968	16,148	25,116	-
Accrued interest payable	-	13,933	13,933	-
Refuse contract payable	-	18,777	18,777	-
Customer meter deposits	-	140,254	140,254	-
Deferred ARPA Grant Revenue	-	214,379	214,379	-
Noncurrent liabilities:				
Due within one year	-	148,997	148,997	6,606
Due in more than one year	-	1,130,880	1,130,880	147,304
Net pension liability (TMRS)	4,716	25,304	30,020	-
Total Liabilities	<u>19,738</u>	<u>1,741,368</u>	<u>1,761,106</u>	<u>153,910</u>
DEFERRED INFLOW OF RESOURCES				
Deferred Inflow Related to TMRS, net	<u>\$ 609</u>	<u>\$ 3,151</u>	<u>\$ 3,760</u>	<u>\$ -</u>
NET POSITION				
Net investment in capital assets	251,685	1,063,507	1,315,192	319,033
Restricted for:				
Debt service	-	118,213	118,213	-
Economic development	-	-	-	106,230
Unrestricted	461,199	450,234	911,433	-
Total Net Position	<u>\$ 712,884</u>	<u>\$ 1,631,954</u>	<u>\$ 2,344,838</u>	<u>\$ 425,263</u>

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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	208,860	\$ -	\$ -	\$ (53,098)	\$ -	\$ (53,098)	\$ -	
Streets	13,800	-	-	(13,800)	-	(13,800)	-	
Parks	33,373	-	-	(33,373)	-	(33,373)	-	
Public Safety	18,815	-	-	(18,815)	-	(18,815)	-	
Total governmental activities	274,848	-	-	(119,086)	-	(119,086)	-	
Business-type activities:								
Water and sewer	1,260,762	-	20,735	-	(57,253)	(57,253)	-	
Total business-type activities	1,260,762	-	20,735	-	(57,253)	(57,253)	-	
Total primary government	\$ 1,535,610	\$ -	\$ 20,735	\$ (119,086)	\$ (57,253)	\$ (176,339)	\$ -	
Component Unit:								
RIDC	13,850	-	-	-	-	-	(13,850)	
Total component unit	\$ 13,850	\$ -	\$ -	\$ -	\$ -	\$ -	(13,850)	
General revenues:								
Property taxes and related revenues				69,392	-	69,392	-	
Franchise fees				25,629	-	25,629	-	
Sales taxes				54,379	-	54,379	27,190	
Interest income				6,229	3,483	9,712	1,293	
Other income				5,998	-	5,998	-	
Transfer In(Out)				(219)	219	-	-	
Total general revenues				161,408	3,702	165,110	28,483	
Change in net position				42,322	(53,551)	(11,229)	14,633	
Net position at beginning of year				670,562	1,685,505	2,356,067	410,630	
Net position at end of year				\$ 712,884	\$ 1,631,954	\$ 2,344,838	\$ 425,263	

The accompanying notes are an integral part of this statement

CITY OF REDWATER, TEXAS
GOVERNMENTAL FUND TYPES
BALANCE SHEET
SEPTEMBER 30, 2023

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 223,768	\$ 245,575	\$ 469,343
Receivables, net allowances	7,252	-	7,252
Total Assets	\$ 231,020	\$ 245,575	\$ 476,595
 LIABILITIES			
Accounts payable	\$ 6,054	\$ -	\$ 6,054
Accrued expenses and other liabilities	8,968	-	8,968
Due to Proprietary Fund	853	-	853
Total Liabilities	15,875	-	15,875
 FUND BALANCES			
Committed Fund Balance:			
Capital Improvement Projects	-	245,575	245,575
Unassigned Fund Balance	215,145	-	215,145
Total Fund Balances	215,145	245,575	460,720
Total Liabilities and Fund Balances	\$ 231,020	\$ 245,575	\$ 476,595

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, 2023*

Total Fund Balance - Governmental Funds	\$ 460,720
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 \$1,020,761 and the accumulated depreciation was (\$732,633). 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.	288,128
The 2023 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.	(36,443)
The net effect of including the beginning balance for pension assets (net of the liability) in the governmental activities is to increase net position.	1,104
The net effect of change in pension liability and the net effect of the change in deferred outflows in the governmental activities is to (decrease) net position.	(625)
Net Position of Governmental Activities	\$ 712,884

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, 2023

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 69,392	\$ -	\$ 69,392
Franchise taxes	25,629	-	25,629
Sales taxes	54,379	-	54,379
Refuse income	140,922	-	140,922
Rental income	12,300	-	12,300
Interest	995	5,234	6,229
Miscellaneous	8,538	-	8,538
Total revenues	<u>312,155</u>	<u>5,234</u>	<u>317,389</u>
Expenditures			
Accounting and audit fees	3,264	-	3,264
Appraisal district fees	1,705	-	1,705
Beautification	5,815	-	5,815
Insurance	17,527	-	17,527
Legal and filing fees	6,169	-	6,169
Mileage, travel and training	7,020	-	7,020
Office supplies/postage	5,445	-	5,445
Repairs and maintenance	888	-	888
Retirement	2,688	-	2,688
Salaries & payroll taxes	103,387	-	103,387
Street repairs	13,800	-	13,800
Utilities	34,268	-	34,268
Miscellaneous	16,989	-	16,989
Public safety	18,815	-	18,815
Total expenditures	<u>237,780</u>	<u>-</u>	<u>237,780</u>
Excess (deficiency) of revenues over expenditures	<u>74,375</u>	<u>5,234</u>	<u>79,609</u>
Other Financing Sources (Uses)			
Operating transfers in (out)	(219)	-	(219)
Total other financing sources (uses)	<u>(219)</u>	<u>-</u>	<u>(219)</u>
Net change in fund balance	74,156	5,234	79,390
Fund balance at beginning of year	140,989	240,341	381,330
Fund balance at end of year	<u>\$ 215,145</u>	<u>\$ 245,575</u>	<u>\$ 460,720</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, 2023*

Net changes in Fund Balances - Governmental Funds	\$ 79,390
The 2023 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.	(36,443)
The net effect of change in pension liability and the net effect of the change in deferred outflows in the governmental activities is to (decrease) net position.	(625)
	<hr/>
Change in Net Position in Governmental Activities	<u>\$ 42,322</u>

The accompanying notes are an integral part of this statement.

CITY OF REDWATER, TEXAS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2023

	Water and Sewer	Totals
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 544,449	\$ 544,449
Accounts receivable (net)	124,030	124,030
Unbilled receivables (net)	59,422	59,422
Due from General Fund	853	853
Total Current Assets	728,754	728,754
Restricted Assets:		
Cash and cash equivalents	272,400	272,400
Capital Assets:		
Land	25,331	25,331
Construction in progress	20,735	20,735
Buildings	39,427	39,427
Furniture and fixtures	54,849	54,849
Equipment and tools	791,210	791,210
Pumps and treatment equipment	304,243	304,243
Lines and storage	2,407,118	2,407,118
Water meters	197,159	197,159
Sewer system	2,898,949	2,898,949
Less accumulated depreciation	(4,395,637)	(4,395,637)
Total Capital Assets, net of accumulated depreciation	2,343,384	2,343,384
Total Assets	\$ 3,344,538	\$ 3,344,538
DEFERRED OUTFLOW OF RESOURCES		
Deferred Outflow Related to TMRS, net	31,935	31,935
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 32,696	\$ 32,696
Accrued expenses and other liabilities	16,148	16,148
Accrued interest payable	13,933	13,933
Refuse contract payable	18,777	18,777
Customer meter deposits	140,254	140,254
Deferred ARPA Grant Revenue	214,379	214,379
Bonds and notes payable, current portion	148,997	148,997
Total Current Liabilities	585,184	585,184
Noncurrent Liabilities:		
Bonds and notes payable, long-term, net	1,130,880	1,130,880
Net pension liability (TMRS)	25,304	25,304
Total Noncurrent Liabilities	1,156,184	1,156,184
Total Liabilities	1,741,368	1,741,368
DEFERRED INFLOW OF RESOURCES		
Deferred Inflow Related to TMRS, net	\$ 3,151	\$ 3,151
NET POSITION		
Net Investment in Capital Assets	1,063,507	1,063,507
Restricted	118,213	118,213
Unrestricted	450,234	450,234
Total Net Position	\$ 1,631,954	\$ 1,631,954

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, 2023

	Water and Sewer	Totals
Operating Revenues:		
Charges for services	\$ 1,178,305	\$ 1,178,305
Other Revenue	4,469	4,469
Total operating revenues	1,182,774	1,182,774
Operating Expenses:		
Accounting and audit	17,408	17,408
Bad debt expense	10,369	10,369
Chemicals	15,047	15,047
Contract labor	16,406	16,406
Depreciation	248,980	248,980
Equipment repairs and maintenance	3,251	3,251
Equipment supplies and tools	13,425	13,425
Fees and permits	6,807	6,807
Insurance - group health and workers compensation	42,628	42,628
Insurance - other	10,721	10,721
Lab services and testing	14,318	14,318
Maintenance contracts	10,188	10,188
Miscellaneous	6,337	6,337
Office supplies and expense	4,754	4,754
Postage	9,646	9,646
Refuse charges	110	110
Rent-building and equipment	9,000	9,000
Repairs and maintenance - water and sewer system	49,273	49,273
Retirement - contribution	9,842	9,842
Salaries and wages	226,321	226,321
Supplies-operating	11,605	11,605
Taxes-payroll	17,398	17,398
Telephone and radio	31,079	31,079
Utilities	41,584	41,584
Vehicle repairs and maintenance	838	838
Vehicle supplies	26,079	26,079
Water contracts	352,549	352,549
Total operating expenses	1,205,963	1,205,963
Operating income (loss)	(23,189)	(23,189)
Non-Operating Revenues (Expenses)		
Interest income	3,483	3,483
Interest expense and fees	(54,799)	(54,799)
ARPA grant revenue - capital	20,735	20,735
Transfers In (Out)	219	219
Total nonoperating revenues (expenses)	(30,362)	(30,362)
Change in net position	(53,551)	(53,551)
Net position at beginning of year	1,685,505	1,685,505
Net position at end of year	\$ 1,631,954	\$ 1,631,954

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, 2023

	Water and Sewer	Totals
Cash Flows from Operating Activities		
Receipts from customers	\$ 1,189,735	\$ 1,189,735
Payments to suppliers	(753,421)	(753,421)
Payments to employees	(226,321)	(226,321)
Net cash provided by operating activities	209,993	209,993
Cash Flows from Noncapital Financing Activities		
Net increase interfund receivables / payables	219	219
Net cash provided (used) by noncapital financing activities	219	219
Cash Flows from Capital and Related Financing Activities		
Capital assets purchased	(109,102)	(109,102)
ARPA grant revenue - capital	20,735	20,735
Bonds and notes principal retirement	(144,514)	(144,514)
Bonds and notes interest and fees expense paid	(55,862)	(55,862)
Net cash (used) by capital and financing activities	(288,743)	(288,743)
Cash Flows from Investing Activities		
Interest received	3,483	3,483
Net cash provided by investing activities	3,483	3,483
Net increase (decrease) in cash and cash equivalents	(75,048)	(75,048)
Cash and cash equivalents at beginning of year	891,897	891,897
Cash and cash equivalents at end of year	\$ 816,849	\$ 816,849
Reconciliation of operating income (loss) to net cash provided		
(used) by operating activities:		
Operating income (loss)	\$ (23,189)	\$ (23,189)
Depreciation expense	248,980	248,980
Change in assets and liabilities:		
(Increase) decrease in receivables	(8,156)	(8,156)
(Increase) decrease in prepaid insurance	3,974	3,974
Increase (decrease) in accounts payable	(13,770)	(13,770)
Increase (decrease) in accrued expenses and other liabilities	4,425	4,425
Increase (decrease) in customer meter deposits	15,117	15,117
Increase (decrease) in Deferred ARPA Grant Revenue	(20,735)	(20,735)
Increase (decrease) in pension plan liabilities and outflows	3,347	3,347
Net cash provided by operating activities	\$ 209,993	\$ 209,993

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, 2023*

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).

The City implemented Governmental Accounting Standards Board (GASB) Number 96 “*Subscription-Based Information Technology Arrangements (SBITAs)*”. GASB Statement No.96 requires recognition of certain right-to-use subscription assets and liabilities for SBITAs in the financial statements. The City did not have any material SBITAs individually or in the aggregate for the fiscal year.

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.

*CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023*

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

Fund Financial Statements

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

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

General Fund - The General Fund is the main operating fund of the City. The fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other funds 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.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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

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

Budget and Budgetary Accounting

The City Council adopts a budget each year by ordinances. As the year progresses, ordinances are adopted by the City Council for changes to the original budgeted amounts.

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 \$64,223 is met and no additional deposits are required. The bond reserve for the 2003 and 2005 bonds of \$24,159 and \$17,274, respectively, are met and no additional deposits are required.

The restricted assets at September 30, 2023 are as follow:

<u>Type of Restricted Asset</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Meter Deposits	\$ 138,437	\$ -
Bond Reserve Fund	64,223	-
2003 Debt Service Fund	24,159	-
2005 Debt Service Fund	17,274	-
2017 AMI Loan Debt Service Fund	5,937	-
2021 Equipment Loan Debt Service Fund	13,788	-
2022 Trucks Loan Debt Service Fund	6,765	-
Unclaimed Money Fund	1,817	-
Economic Development	-	106,230
Total Restricted Assets	\$ 272,400	\$ 106,230

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Accounts Receivable

The accounts receivable at September 30, 2023 are as follows:

<u>Accounts Receivable</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Franchise tax	\$ 6,565	\$ -	\$ 6,565
Property tax	16,070	-	16,070
Customer billed	-	129,876	129,876
Allowance for doubtful accounts	<u>(15,383)</u>	<u>(5,846)</u>	<u>(21,229)</u>
Total Accounts Receivable, Net	<u>\$ 7,252</u>	<u>\$ 124,030</u>	<u>\$ 131,282</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, 2023*

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, 2023

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, 2023

At September 30, 2023, 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 \$686 of delinquent property taxes at September 30, 2023.

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, 2023, was levied using a rate of \$0.1811 per one hundred dollars of assessed valuation. Based on 100% of estimated market value, the City has a tax margin of \$1.3189 per \$100 and could raise an additional \$499,041 per year from the present assessed valuation of \$37,837,659 before the limit is reached. The amount assessed for the 2022 tax roll was \$68,524.

NOTE D – INTERFUND TRANSACTIONS

Interfund balances are as follows as of September 30, 2023:

	Receivables (Due From)	Payables (Due To)
General Fund:		
Proprietary Fund	\$ -	(853)
Proprietary Fund:		
General Fund	853	-
Total	\$ 853	\$ (853)

The General Fund owes the Proprietary Fund \$853 for reimbursement of prior year payments of payroll taxes and other payroll expenditures.

The General Fund transferred \$219 to the Proprietary Fund for reimbursement of prior year expenditures.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE E – FINANCING AND RELATED INSURANCE ISSUES

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

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

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

NOTE F – CAPITAL ASSETS

Governmental activities capital asset activity for the year ended September 30, 2023, are as follows:

	Balance September 30, 2022	Additions	Deletions	Balance September 30, 2023
Governmental activities-cost				
Land (non-depreciable)	\$ 25,401	\$ -	\$ -	25,401
Park land (non-depreciable)	133,000	-	-	133,000
Buildings	89,745	-	-	89,745
Office furniture and equipment	32,250	-	-	32,250
Equipment and tools	88,735	-	-	88,735
Park facilities	651,630	-	-	651,630
Total	<u>\$ 1,020,761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,020,761</u>
	Balance September 30, 2022	Additions	Deletions	Balance September 30, 2023
Accumulated depreciation				
Buildings	\$ 87,802	\$ 102	\$ -	87,904
Office furniture and equipment	23,084	1,913	-	24,997
Equipment and tools	87,679	1,055	-	88,734
Park facilities	534,068	33,373	-	567,441
Total	<u>\$ 732,633</u>	<u>\$ 36,443</u>	<u>\$ -</u>	<u>769,076</u>
Total Governmental activities capital assets, net	<u>\$ 288,128</u>	<u>\$ (36,443)</u>	<u>\$ -</u>	<u>251,685</u>

Governmental activities depreciation expense charged to program activities was:

General and administration	\$ 3,070
Parks	33,373
	<u>\$ 36,443</u>

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Business-type activities capital asset activity for the year ended September 30, 2023, are as follows:

	Balance September 30, 2022	Additions	Deletion / Reclassifications	Balance September 30, 2023
<u>Business-type activities-cost</u>				
Land (non-depreciable)	\$ 25,331	\$ -	\$ -	\$ 25,331
Construction in progress	-	20,735	-	20,735
Buildings	39,427	-	-	39,427
Office furniture and equipment	51,919	2,930	-	54,849
Equipment and tools	715,085	76,124	-	791,209
Pumps and treatment	298,730	5,513	-	304,243
Lines and storage	2,403,318	3,800	-	2,407,118
Water meters	197,159	-	-	197,159
Sewer system	2,898,949	-	-	2,898,949
Total	<u>\$ 6,629,918</u>	<u>\$ 109,102</u>	<u>\$ -</u>	<u>\$ 6,739,020</u>
	Balance September 30, 2022	Additions	Deletions	Balance September 30, 2023
<u>Accumulated depreciation</u>				
Buildings	\$ 39,159	\$ 257	\$ -	\$ 39,416
Office furniture and equipment	41,466	5,013	-	46,479
Equipment and tools	412,375	68,425	-	480,800
Pumps and treatment	252,878	16,519	-	269,397
Lines and storage	1,469,617	62,229	-	1,531,846
Water meters	93,775	20,353	-	114,128
Sewer system	1,837,387	76,184	-	1,913,571
Total	<u>\$ 4,146,657</u>	<u>\$ 248,980</u>	<u>\$ -</u>	<u>\$ 4,395,637</u>
 <u>Total Business-type activities capital assets, net</u>	 <u>\$ 2,483,261</u>	 <u>\$ (139,878)</u>	 <u>-</u>	 <u>\$ 2,343,383</u>

Business-type activities - All depreciation expense of \$248,980 recorded in the business-type activities was charged to the Water and Sewer Fund. The City purchased a 3-Ton Heat Pump for \$2,930, a Neptune pocket reader for \$1,133. The City also purchased a 2022 Dodge Ram truck for \$67,041 and a skirted truck bed for the truck totaling \$7,950.

The City also purchased line extensions totaling \$3,800 and a rebuilt kit and install from TriState for \$5,513.

During fiscal year 2023, the City incurred \$20,735 in engineering costs for the Jones St. Project. The project will be paid for with ARPA funds and is set to begin in 2024 to upgrade and move sewer lines and repair the road afterwards.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE G – LONG-TERM DEBT

Business-type activities long-term debt at September 30, 2023 is comprised of the following:

Water and Sewer Fund:

\$603,000 in Series 2003A Revenue Bonds, due in semiannual installments of varying amounts on each December 1 and June 1 through 2043 at an interest rate of 4.25%.	\$ 421,000
\$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%	425,000
\$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%	75,000
\$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%	246,227
\$83,391 Guaranty Bank & Trust (Loans Payable) due in semiannual installments of varying amounts on each June 5 and December 5 through 2026 at an interest rate of 2.2738%	63,946
\$68,944 Guaranty Bank & Trust (Loans Payable) due in semiannual installments of varying amounts on each June 5 and December 5 through 2026 at an interest rate of 2.25%	48,704
Total Water and Sewer Fund - Business-Type Activities	\$ 1,279,877

Business-type transactions long term debts for the year ended September 30, 2023 are summarized as follows:

Type of Debt	September 30, 2022	Additions	Retirements	September 30, 2023	Due within one year
Business-type Activities					
Revenue Bonds	\$ 872,000	\$ -	\$ 26,000	\$ 846,000	\$ 28,000
Certificates of Obligations	110,000	-	35,000	75,000	35,000
Notes Payable	303,030	-	56,803	246,227	58,644
Loans Payable	139,361	-	26,711	112,650	27,353
	\$ 1,424,391	\$ -	\$ 144,514	\$ 1,279,877	\$ 148,997

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

The annual requirements to retire bonded debt as of September 30, 2023:

Year Ending September 30,	2003 Series		2005 Series		Total
	Principal	Interest	Principal	Interest	
2024	28,000	35,955	35,000	3,005	101,960
2025	29,000	34,765	35,000	1,605	100,370
2026	30,000	33,533	5,000	205	68,738
2027	31,000	32,258	-	-	63,258
2028	32,000	30,940	-	-	62,940
2029-2033	185,000	132,770	-	-	317,770
2034-2038	230,000	89,888	-	-	319,888
2039-2043	281,000	36,761	-	-	317,761
Totals	\$ 846,000	\$ 426,870	\$ 75,000	\$ 4,815	\$ 1,352,685

The annual requirements to retire notes/loans payable (direct borrowing) as of September 30, 2023:

Year Ending September 30,	Notes Payable		Loan Payable - Equipment Loan		Loan Payable - Trucks Loan		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2024	58,644	7,980	13,567	1,385	13,786	1,018	96,380
2025	60,544	6,080	13,879	1,071	14,016	788	96,378
2026	62,507	4,117	14,198	752	14,414	390	96,378
2027	64,532	2,092	22,302	484	6,488	73	95,971
Totals	\$ 246,227	\$ 20,269	\$ 63,946	\$ 3,692	\$ 48,704	\$ 2,269	\$ 385,107

NOTE H – DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Redwater participates as one of 919 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at tmrs.com.

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

Benefits Provided

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

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

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

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Employees covered by benefit terms:

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	10
Active employees	8
Total	20

Contributions

Member contribution rates in TMRS are either 5%, 6%, or 7% of the member’s total compensation, 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 City’s contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

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 2.73% and 2.65% for the calendar years 2022 and 2023, respectively. The City’s contributions to TMRS for the year ended September 30, 2023 were \$8,540 and were equal to the required contributions.

Net Pension Liability

The city’s Net Pension Liability (NPL) was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2022 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).

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.70%
Core Fixed Income	6.0%	4.90%
Non-Core Fixed Income	20.0%	8.70%
Other Public and Private Markets	12.0%	8.10%
Real Estate	12.0%	5.80%
Hedge Funds	5.0%	6.90%
Private Equity	10.0%	11.80%
Total	<u>100.0%</u>	

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

Changes in the Net Pension (Asset) Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2021	\$ 407,618	\$ 435,604	\$ (27,986)
Changes for the year:			
Service cost	30,362	-	30,362
Interest	27,737	-	27,737
Change of benefit terms	-	-	-
Difference between expected and actual experience	(753)	-	(753)
Change of assumptions	-	-	-
Contributions - employer	-	8,762	(8,762)
Contributions - employee	-	22,466	(22,466)
Net investment income	-	(31,941)	31,941
Benefit payments, including refunds to employees	(23,768)	(23,768)	-
Administrative expense	-	(275)	275
Other changes	-	328	(328)
Net changes	<u>33,578</u>	<u>(24,428)</u>	<u>58,006</u>
Balance at 12/31/2022	<u>\$ 441,196</u>	<u>\$ 411,176</u>	<u>\$ 30,020</u>

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	\$ 90,685	\$ 30,020	\$ (20,579)

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.tmrs.com.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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

For the year ended September 30, 2023 the city recognized pension expense of \$12,509.

At September 30, 2023, 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	\$ 1,522	\$ 2,751
Changes in actuarial assumptions	-	1,009
Difference between projected and actual investment earnings	29,775	-
Contributions subsequent to the measurement date	6,442	-
	\$ 37,739	\$ 3,760

\$6,442 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, 2023. 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
2023	\$ 1,680
2024	6,367
2025	7,282
2026	12,210
2027	(2)
Thereafter	-
Total	\$ 27,537

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 2021	Plan Year 2022	Plan Year 2023
Active employees (yes or no)	Yes	Yes	Yes
Retirees (yes or no)	Yes	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 2023, 2022, and 2021 were \$559, \$367, and \$371.

**CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

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 \$189,173 of expenditures for water under the water supply contract for the year ending September 30, 2023. 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 \$4,720 for the year ending September 30, 2023.

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 new contract began in September 2020. The City incurred \$158,656 of expenditures to Riverbend during the year ended September 30, 2023.

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, 2023, 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, 2023, are as follows:

	Balance October 1, 2022	Additions	Deletions	Balance September 30, 2023
<u>Component unit-cost</u>				
Land	\$ 472,943	\$ -	\$ -	\$ 472,943
<u>Total Component unit capital assets</u>	<u>\$ 472,943</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 472,943</u>

There were no additions in the current year.

Long-Term Debt

On September 22, 2014, Redwater Industrial Development Corporation borrowed money from First National Bank of Hughes Springs for purchase of land in the amount of \$100,000. The note is payable in 120 monthly installments of \$1,036 at an interest rate of 4.5%. The loan was refinanced with a note payable from Bancorp South on October 12, 2017.

CITY OF REDWATER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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 (direct borrowing) transactions for the year ended September 30, 2023 are summarized as follows:

	Balance September 30, 2022	Additions	Retirements	Balance September 30, 2023	Due within one year
Note payable	\$ 161,276	\$ -	\$ 7,366	\$ 153,910	\$ 6,606
	<u>\$ 161,276</u>	<u>\$ -</u>	<u>\$ 7,366</u>	<u>\$ 153,910</u>	<u>\$ 6,606</u>

The annual requirements to retire long-term debt as of September 30, 2023 follow:

For the Year Ending:	Direct Borrowing		
	Principal	Interest	Total
2024	6,606	10,605	17,211
2025	9,016	4,265	13,281
2026	9,299	3,982	13,281
2027	9,580	3,702	13,282
2028	9,868	3,413	13,281
2029-2033	53,964	12,441	66,405
2034-2037	55,577	3,792	59,369
	<u>\$ 153,910</u>	<u>\$ 42,200</u>	<u>\$ 196,110</u>

NOTE K – DEFERRED REVENUE – ARPA GRANT

The City received Coronavirus State and Local Recovery Rescue Funds in fiscal year 2021 and 2022 totaling \$273,351. In fiscal year 2022, the City spent \$38,237 of these funds on water and sewer infrastructure repair and improvements. In fiscal year 2023, the City spent \$20,735 on the Jones Street project, resulting in an ending deferred revenue balance of \$214,379 at September 30, 2023. The City plans to spend the remaining balance on costs related to the Jones Street project. The City is required to obligate the funds by December 31, 2024 and expend the funds by December 31, 2026.

NOTE L – SUBSEQUENT EVENTS

On May 27, 2024, the City awarded a construction contract to Mike Rogers Construction for a total of \$224,850 for Jones Street sewer improvements.

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through August 8, 2024, 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, 2023

	Budgeted Amounts		GAAP	Variance with
	Original	Final	Basis Actual Amount	Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 65,000	\$ 69,000	\$ 69,392	\$ 392
Franchise taxes	21,000	25,000	25,629	629
Sales taxes	50,000	53,000	54,379	1,379
Refuse income	100,000	140,000	140,922	922
Rental income	12,600	12,600	12,300	(300)
Interest	150	995	995	-
Miscellaneous	3,350	7,538	8,538	1,000
Total revenues	252,100	308,133	312,155	4,022
Expenditures				
Accounting and audit fees	3,000	3,300	3,264	36
Appraisal district fees	1,350	1,705	1,705	-
Beautification	500	5,815	5,815	-
Insurance	16,500	15,858	17,527	(1,669)
Legal and filing fees	200	6,300	6,169	131
Mileage, travel and training	3,500	7,100	7,020	80
Office supplies/postage	5,350	5,350	5,445	(95)
Repairs and maintenance	1,200	1,700	888	812
Retirement	2,540	2,700	2,688	12
Salaries & taxes-admin	95,150	101,400	103,387	(1,987)
Street repairs	40,000	15,000	13,800	1,200
Utilities	26,500	31,200	34,268	(3,068)
Miscellaneous	13,480	17,787	16,989	798
Public safety	24,000	21,715	18,815	2,900
Capital outlay	1,000	1,000	-	1,000
Total expenditures	234,270	237,930	237,780	150
Excess (deficiency) of revenues over expenditures	17,830	70,203	74,375	4,172
Other Financing Sources (Uses)				
Operating transfers in (out)	-	-	(219)	(219)
Total other financing sources (uses)	-	-	(219)	(219)
Net change in fund balance	17,830	70,203	74,156	3,953
Fund balance at beginning of year	140,989	140,989	140,989	-
Fund balance at end of year	\$ 158,819	\$ 211,192	\$ 215,145	\$ 3,953

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>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
	<u>Plan Year 2015</u>	<u>Plan Year 2016</u>	<u>Plan Year 2017</u>	<u>Plan Year 2018</u>	<u>Plan Year 2019</u>	<u>Plan Year 2020</u>	<u>Plan Year 2021</u>	<u>Plan Year 2022</u>
Total Pension Liability	\$ 23,032	\$ 23,487	\$ 23,416	\$ 24,141	\$ 25,589	\$ 25,920	\$ 29,271	\$ 30,362
Service cost	13,953	15,329	14,669	16,975	19,540	22,051	25,018	27,737
Interest (on the Total Pension Liability)	-	(28,094)	(1,447)	1,942	1,587	(2,529)	(1,394)	(753)
Change of benefit terms	636	-	-	-	(2,013)	-	-	-
Difference between expected and actual experience	9,284	-	-	-	(2,013)	-	-	-
Change of assumptions	(3,477)	(35,241)	(5,691)	-	(11,564)	(3,770)	(2,550)	(23,768)
Benefit payments, including refunds to employees	43,428	(24,519)	30,947	43,058	33,139	41,672	50,345	33,578
Net Change in Total Pension Liability	189,548	232,976	208,457	239,404	282,462	315,601	357,273	407,618
Total Pension Liability - Beginning	232,976	208,457	239,404	282,462	315,601	357,273	407,618	441,196
Total Pension Liability - Ending (a)								
Plan Fiduciary Net Position	8,184	7,852	10,501	8,390	8,209	8,872	8,763	8,762
Contributions - employer	16,604	16,214	16,898	17,584	18,659	19,468	21,751	22,466
Contributions - employee	248	12,813	26,475	(7,170)	39,936	23,796	47,191	(31,941)
Net investment income	(3,477)	(35,241)	(5,691)	-	(11,564)	(3,770)	(2,550)	(23,768)
Benefit payments, including refunds to employees	(151)	(144)	(137)	(138)	(225)	(153)	(218)	(275)
Administrative expense	(8)	(8)	(7)	(7)	(7)	(6)	1	328
Other changes	21,400	1,486	48,039	18,659	55,008	48,207	74,938	(24,428)
Net Change in Plan Fiduciary Net Position	167,868	189,268	190,754	238,793	257,452	312,460	360,666	435,604
Plan Fiduciary Net Position - Beginning	189,268	190,754	238,793	257,452	312,460	360,667	435,604	411,176
Plan Fiduciary Net Position - Ending (b)	\$ 43,708	\$ 17,703	\$ 611	\$ 25,010	\$ 3,141	\$ (3,394)	\$ (27,986)	\$ 30,020
Net Pension Liability - Ending (a) - (b)								
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81.24%	91.51%	99.74%	91.15%	99.00%	100.95%	106.87%	93.20%
Covered Employee Payroll	237,198	231,627	241,405	251,203	266,551	278,108	310,732	320,947
Net Pension Liability as a Percentage of Covered Employee Payroll	18.43%	7.64%	0.25%	9.96%	1.18%	-1.22%	-9.01%	9.35%

Note: Only eight 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	FY 2021	FY 2022	FY 2023
Actuarially Determined Contribution	\$ 7,917	\$ 7,906	\$ 9,772	\$ 8,922	\$ 8,416	\$ 8,366	\$ 8,794	\$ 9,040	\$ 8,540
Contributions in relation to the actuarially determined contribution	\$ (7,917)	\$ (7,906)	\$ (9,772)	\$ (8,922)	\$ (8,416)	\$ (8,366)	\$ (8,794)	\$ (9,040)	\$ (8,540)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 234,435	\$ 232,172	\$ 237,688	\$ 245,791	\$ 267,575	\$ 264,535	\$ 301,367	\$ 333,249	\$ 319,938
Contributions as a percentage of covered employee payroll	3.38%	3.41%	4.11%	3.63%	3.15%	3.16%	2.92%	2.71%	2.67%

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 nine 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, 2023

Notes to Schedule of Contributions:
September 30, 2023

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	16 Years (longest amortization ladder)
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.
Other information:	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, 2023, 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 8, 2024.

Report on 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) as a basis for designing 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. We did not identify any significant deficiencies.

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 or significant deficiencies may exist that were not identified.

Report on 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.

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

August 8, 2024

**CITY OF REDWATER, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

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 instances 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 current audit findings were noted.

*CITY OF REDWATER, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2023*

No prior audit findings were required to be reported.

*CITY OF REDWATER, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2023*

No current audit findings were noted.