



MUNICIPAL UTILITY SYSTEM ANNUAL FINANCIAL REPORT

For The Year Ended
September 30, 2017

**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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INTRODUCTORY SECTION

MESSAGE FROM THE CITY MANAGER

During the fiscal year ended September 30, 2017, the Weatherford Municipal Utility System continued to experience moderate customer growth in the residential sector, with slightly lesser growth in the commercial sector.

From September 2016 to September 2017, the Electric Department saw an average monthly service connection increase of 2.9%. The majority of the customer base increase came from residential development and an increase in security lights, as connections in these two areas increased by 3.5% and 16.6%, respectively. Customer kWh sales held at a 1.3% increase from the previous fiscal year, going from 387 million to 392.2 million.

The Electric Department completed the construction of the following new infrastructure in 2016-2017: 11 commercial projects and 5 residential subdivisions. Other system improvements of existing circuits as well as the construction of new circuits were continued to more efficiently utilize substation capacity and to build redundancy into the system. Lastly, the advanced metering system deployment that started in March of 2015 is ninety percent installed as of the end of the fiscal year and is still on target for completion by March 2018.

In an effort to diversify wholesale power suppliers and the percentage of Weatherford Electric's load to be bid in the market in any given year, Weatherford Electric has entered into three wholesale power supply agreements with three different wholesale power suppliers: Garland Power and Light, Bryan Texas Utilities, and EDF Trading North America. Each supplier supplies one-third of Weatherford Electric's power needs for differing contract term lengths: Garland Power and Light for five years, Bryan Texas Utilities for three years, and EDF Trading North America for four years.

The Water Department saw an overall service connection increase of approximately 228 connections, or 2%. Most this growth was in the residential customer base, which grew approximately 2%. Due in part to a milder summer than in 2016 the annual volume of water sales decrease by about 2.9% for fiscal year 2016-2017.

During fiscal year 2016-2017, the water maintenance crews installed 185 new water meters, 11 new water taps and 7 new water valves. They replaced 35 fire hydrants, repaired 314 meters, installed 39 water services, and 52 water mains, and repaired 42 water services and replaced a total 3,296 feet of water lines throughout the city. Additionally, 5,125 new water meters were installed for the automated metering infrastructure project.

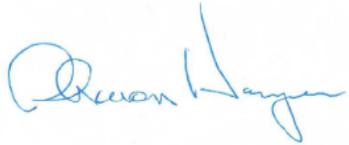
In the wastewater collection system, the wastewater maintenance crews repaired 71 wastewater services and installed 24 additional wastewater services. Crews also installed devars and eliminated floats at lift stations 3, 5, 18, 20, and 22, repaired 25 wastewater mains, installed discharge piping inside lift station 10, replaced discharge elbows inside lift station 15, and installed 14 wastewater taps. Additionally, crews replaced over 4,981 feet of sewer lines, 25 wastewater mains, and installed or repaired 34 manholes. Some of these projects occurred on Houston street and South Waco.

The Utility Administration and Engineering departments continued to provide support to other departments and the City, including contributing to other funds for shared internal services.

Additionally, public utilities are extremely capital intensive. Quality management, construction, operation, and maintenance demand a high degree of professionalism and dedication from employees and Utility Board Members. Training and development of these qualities continues to enhance teamwork and pay dividends for the ratepayers of the Weatherford Municipal Utility System. The employees are to be congratulated for their dedication to the overall development and cohesiveness of the Utility Department. The City of Weatherford values our employees and continues to invest in training that provides superior job, supervisory management, and customer service skills.

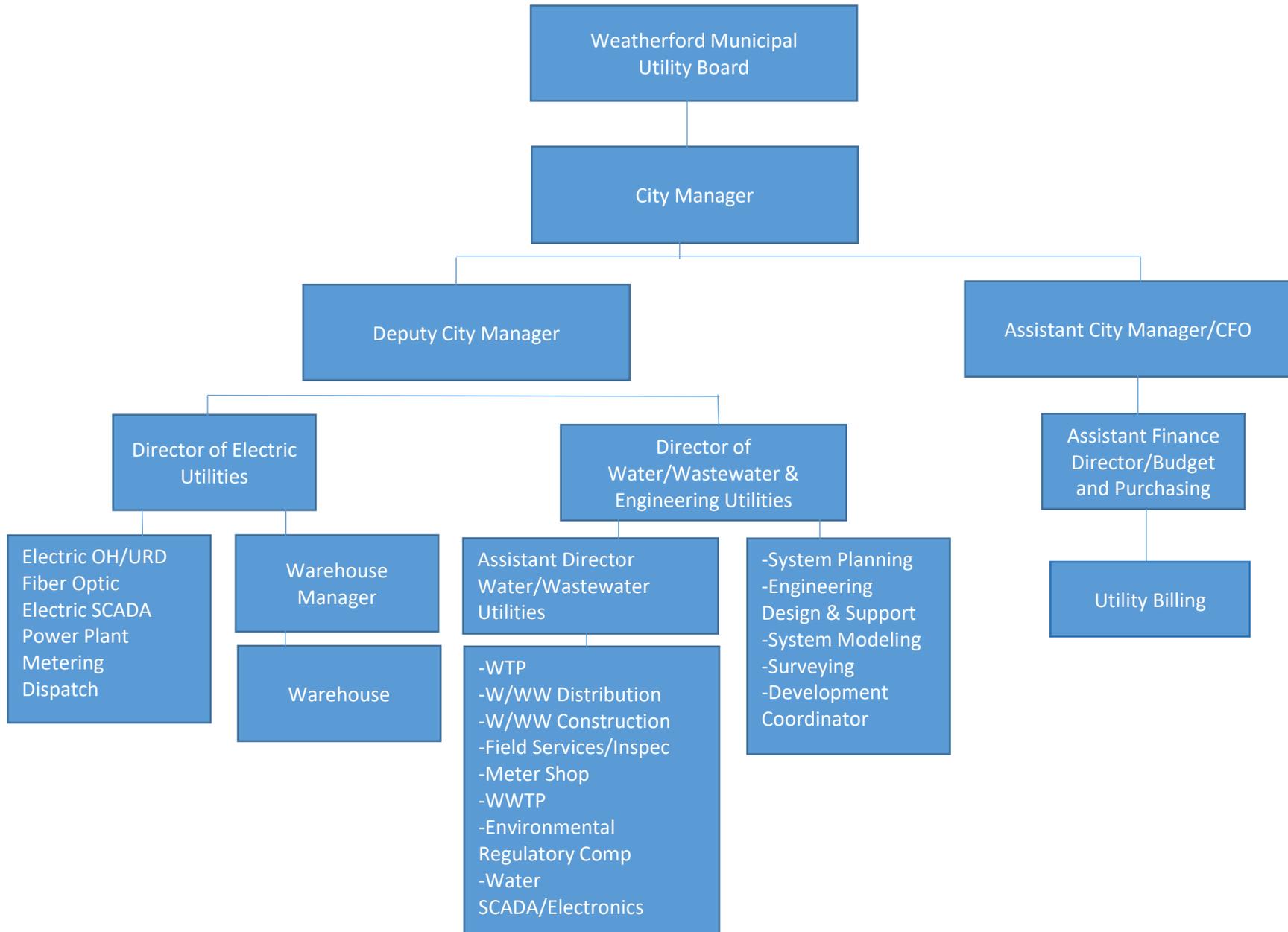
Likewise, the dedication of the Weatherford Municipal Utility Board of Trustees has also paid many dividends for the citizens of Weatherford and the Utility's ratepayers. This unselfish dedication of time and effort to make sure the Utility System, under their direction, is operated with foresight and vision has enabled the system to accommodate Weatherford's expected growth.

The Board's commitment to policy direction is very much appreciated.



Sharon Hayes
City Manager

ORGANIZATIONAL CHART WEATHERFORD MUNICIPAL UTILITIES



**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY BOARD**

PRINCIPAL OFFICIALS

**YEAR ENDED
SEPTEMBER 30, 2017**

**ELECTED
CITY COUNCIL**

Craig Swancy – Mayor
Jeff Robinson – Mayor Pro-Tem/Council Member
Dale Fleeger – Council Member
Kevin Cleveland – Council Member
Heidi Wilder – Council Member

**APPOINTED/DESIGNATED
MUNICIPAL UTILITY BOARD**

Craig Swancy – Mayor – Chairman
Heidi Wilder – Vice Chair
Jeff Robinson – Designated Council Member
Ken Davis – Appointed Public Member
Howard McClurkin – Appointed Public Member
Lindsey Hester – Appointed Public Member
Paul Paschall – Appointed Public Member

SENIOR STAFF

Sharon Hayes – City Manager
James Hotopp – Deputy City Manager
Brad Burnett – Assistant City Manager/Chief Financial Officer

ADVISORY/CONSULTATION

Malinda Nowell – City Secretary
Zellers & Zellers – City Attorney

OPERATIONS STAFF

Joe Farley – Director of Utilities - Electric
Rick Shaffer – Director of Utilities – Engineering, Water & Wastewater

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FINANCIAL SECTION

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Municipal Utility System Board
City of Weatherford, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Municipal Utility System Enterprise Fund of the City of Weatherford, Texas, as of and for the years ended September 30, 2017 and 2016, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Utility System of the City of Weatherford, Texas, as of September 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Municipal Utility System of the City of Weatherford, Texas, and do not purport to, and do not present fairly, the financial position of the City of Weatherford, Texas, as of September 30, 2017 and 2016, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the OPEB schedule of funding progress and pension information on pages 32 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Municipal Utility System Enterprise Fund of the City of Weatherford, Texas’ financial statements as a whole. The introductory, capital assets and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The capital assets section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
February 21, 2018

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FINANCIAL STATEMENTS

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**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

COMPARATIVE STATEMENTS OF NET POSITION

SEPTEMBER 30, 2017 AND 2016

	2017	2016
ASSETS		
Current assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 23,358,085	\$ 31,943,260
Investments	14,535,684	5,578,479
Receivables:		
Accounts, net of allowances for uncollectible of \$91,695 and \$52,573 for 2017 and 2016 respectively	3,120,677	2,746,469
Earned but unbilled customer accounts	3,448,353	2,846,174
Other	30,586	53,341
Inventory	3,280,855	3,222,182
Prepaid items	336,928	192,378
Restricted assets:		
Cash and cash equivalents		
Revenue bond debt service	889,871	863,394
Revenue bond reserve	1,207,293	3,182,808
Construction	16,430,248	3,278,819
Investments:		
Revenue bond reserve	1,987,900	-
Rate stabilization	2,692,000	2,654,700
Accrued interest	-	1,691
Total current assets	71,318,480	56,563,695
Noncurrent assets:		
Capital assets:		
Nondepreciable	8,611,621	12,180,308
Depreciable, net of accumulated depreciation	126,159,179	118,695,388
Total noncurrent assets	134,770,800	130,875,696
Total assets	206,089,280	187,439,391
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	811,505	862,113
Deferred outflow related to pensions	1,497,776	1,831,134
Total deferred outflows of resources	2,309,281	2,693,247

The accompanying notes are an integral part of these financial statements.

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**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

COMPARATIVE STATEMENTS OF NET POSITION

SEPTEMBER 30, 2017 AND 2016

	2017	2016
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 3,200,959	\$ 2,974,655
Accrued wages	1,926	38,981
Retainage payable	118,238	54,774
Accrued interest	10,577	12,300
Unearned revenue	1,612,670	232,649
Customer deposits	1,401,813	1,461,385
Notes payable	36,254	93,479
Capital lease	35,447	34,556
Revenue bonds	4,373,389	3,703,389
Compensated absences	165,645	170,304
Payable from restricted assets:		
Accrued interest	153,460	156,603
Revenue bonds payable	324,583	314,583
Total current liabilities	11,434,961	9,247,658
Noncurrent liabilities:		
Notes payable	37,632	73,886
Capital lease	363,141	398,588
Revenue bonds	46,095,283	40,133,255
Compensated absences	768,959	803,053
Net pension liability	3,391,472	3,352,193
Net OPEB obligation	1,535,585	1,342,379
Total noncurrent liabilities	52,192,072	46,103,354
Total liabilities	63,627,033	55,351,012
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to pensions	226,897	315,217
Total deferred inflows of resources	226,897	315,217
NET POSITION		
Net investment in capital assets	104,370,623	99,409,326
Restricted for:		
Construction	3,866,171	13,834,699
Debt service	3,607,021	3,575,016
Rate stabilization	2,692,000	2,654,700
Unrestricted	30,008,816	14,992,668
Total net position	\$ 144,544,631	\$ 134,466,409

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**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Electric sales	\$ 32,240,670	\$ 27,163,416
Electric services	457,908	467,707
Water sales	15,144,874	13,055,526
Water services	139,069	134,963
Wastewater services	6,791,526	5,830,166
Other	62,923	8,997
Total operating revenues	54,836,970	46,660,775
OPERATING EXPENSES		
Personnel services	6,617,954	5,603,857
Contractual services	5,763,512	3,227,921
Purchased power	19,851,986	16,393,221
Materials and supplies	1,763,028	1,818,310
Depreciation	5,833,729	5,238,384
Total operating expenses	39,830,209	32,281,693
OPERATING INCOME	15,006,761	14,379,082
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	411,900	250,320
Rentals	1,143,642	1,113,230
Proceeds from insurance	6,493	-
Gain (loss) on sale of assets	(2,988,084)	57,828
Interest and other charges	(2,012,457)	(1,674,561)
Total nonoperating revenues (expenses)	(3,438,506)	(253,183)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	11,568,255	14,125,899
Capital contributions	3,460,294	2,115,293
Transfers in	-	40,456
Transfers out	(4,950,327)	(6,920,114)
NET CHANGE IN NET POSITION	10,078,222	9,361,534
NET POSITION, BEGINNING, RESTATED	134,466,409	125,104,875
NET POSITION, ENDING	\$ 144,544,631	\$ 134,466,409

The accompanying notes are an integral part of these financial statements.

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**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

COMPARATIVE STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 55,203,787	\$ 47,090,103
Cash paid to employees for services	(6,216,239)	(5,276,640)
Cash paid to suppliers for goods and services	(27,355,445)	(22,270,578)
Net cash provided by operating activities	21,632,103	19,542,885
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from rentals	1,143,642	1,113,230
Transfers from other funds	-	40,456
Transfers to other funds	(4,950,327)	(6,920,114)
Net cash used by noncapital financing activities	(3,806,685)	(5,766,428)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposal of capital assets	131,648	57,828
Proceeds from debt issuance	11,220,000	-
Proceeds from developers for contributions in aid of construction	1,770,204	1,429,265
Principal payments on long-term debt	(4,463,035)	(3,819,141)
Acquisition and construction of capital assets	(11,088,518)	(12,968,710)
Interest and other charges on debt	(2,209,687)	(1,916,976)
Net cash provided (used) by capital and related financing activities	(4,639,388)	(17,217,734)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	825,491	523,674
Purchase of investments	(11,394,305)	-
Sale of investments	-	15,958,913
Net cash used by investing activities	(10,568,814)	16,482,587
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,617,216	13,041,310
CASH AND CASH EQUIVALENTS, BEGINNING	39,268,281	26,226,971
CASH AND CASH EQUIVALENTS, ENDING	41,885,497	39,268,281
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS		
Current assets - cash and cash equivalents	23,358,085	31,943,260
Restricted assets - cash and cash equivalents	18,527,412	7,325,021
Total cash and cash equivalents	\$ 41,885,497	\$ 39,268,281

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**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

COMPARATIVE STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 15,006,761	\$ 14,379,082
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,833,729	5,238,384
Decrease (increase) in accounts receivable	(351,453)	280,731
Decrease (increase) in earned but unbilled customer accounts	(602,179)	260,644
Decrease (increase) in inventory	(58,673)	349,408
Decrease (increase) in prepaid items	(144,550)	(53,114)
Decrease (increase) in deferred outflows - pensions	333,358	(1,213,488)
Increase (decrease) in accounts payable	226,304	(1,127,420)
Increase (decrease) in accrued wages payable	(37,055)	10,607
Increase (decrease) in unearned revenue	1,380,021	(177,843)
Increase (decrease) in customer deposits	(59,572)	65,796
Increase (decrease) in compensated absences	(38,753)	(55,426)
Increase (decrease) in deferred inflows - pensions	(88,320)	2,288
Increase (decrease) in net pension liability	39,279	1,409,652
Increase (decrease) in net OPEB obligation	193,206	173,584
Net cash provided by operating activities	\$ 21,632,103	\$ 19,542,885
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Contributions of capital assets	\$ 1,690,090	\$ 686,028
Change in fair value of investments	411,900	250,320

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**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

These financial statements present only the Municipal Utility System, a separate fund of the City of Weatherford, Texas (the “City”). They are not intended to present the financial position, results of operations or cash flows of the City as a whole.

In accordance with Article IX of the City Charter, management, control and operation of the municipal utility system is vested with the board of trustees. The Municipal Utility System (the “Utility System”) Board of Trustees, consisting of the Mayor, two Council members and four trustees appointed by the Council, exercises management control of the electric, water and wastewater systems that serve the City. The Trustees are appointed by the City Council. The rates for user charges and bond issuance authorizations are also approved by the Council. The Municipal Utility Fund is used to account for the operations of the City’s electric distribution system, water treatment and distribution system and wastewater treatment and collection system.

B. Fund Accounting

The accounts of the Municipal Utility System are organized as an Enterprise Fund. The operations of the fund is accounted with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses. Enterprise Funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Utility System is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. Total net assets are segregated into the following categories: net assets, invested in capital assets, net of related debt; restricted; and unrestricted. The Utility System operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in financial statements. The Utility System is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Unbilled receivables for electric and water utility service are recorded at year-end. When both restricted and unrestricted resources are available for use, it is the Utility System's policy to use restricted resources first, then unrestricted as they are needed.

The Utility System distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility System's principal ongoing operations. Operating expenses for the Utility System include the cost of personal and contractual services supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash, Cash Equivalents and Investments

Investments for the Utility System are reported at fair value, except for the position in investment pools. The Utility System's investment in pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

The City maintains a cash and investment pool that is available for use by all funds of the City, including the Utility System's funds. Each fund's portion of this pool is allocated to each fund of the City, and the Utility System's cash and investments are displayed on the statement of net position as cash and investments or restricted cash and investments.

For purposes of the statement of cash flows, the Utility System considers cash and other investments with maturities of three months or less from the date of purchase to be cash and cash equivalents.

E. Restricted Assets

Certain resources set aside for repayment of bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond ordinances. The rate stabilization restriction is used to report an amount billed to customers to subsidize potential future rate increases due to an unexpected increase in future power costs.

F. Inventory

The Utility System inventory is valued at cost using the moving average cost method.

G. Capital Assets

Property, plant and equipment are recorded at cost, or, if contributed property, acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets.

Estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	40
Water, electric and sewer system	40 - 60
Machinery and equipment	5 - 10

Renewals and betterments of property and equipment are capitalized, whereas normal repairs and maintenance are charged to expense as incurred. Individual items with an initial cost greater than \$5,000 and with estimated useful life of at least two years following the date of acquisition are capitalized.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The Utility System calculates capitalized interest by applying the interest rate of the debt to the weighted average construction expenditures.

H. Accumulated Unpaid Vacations, Sick Leave and Other Employee Benefit Amounts

Employees are paid for up to 720 hours of unused sick leave upon retirement or annually for one-half of the accumulated sick leave in excess of 720 hours. With the exception of sick leave for employees eligible for retirement, sick leave less than 720 hours is expensed when paid. Vacation is earned in varying amounts. Employees may accrue up to 320 hours of vacation. If the employee reaches the maximum accrual limit future accruals will cease until the vacation balance is below the established maximum amount. The Utility System has accrued for the estimated liability for compensated absences.

I. Long-term Obligations

In the Utility System financial statements, the long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Utility System has the following items that qualify for reporting in this category.

- Deferred charges on refunding – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.
- Difference in expected and actual pension experience – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Utility System has one type of item that qualifies for reporting in this category.

- Difference in expected and actual pension experience - This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

K. Net Position

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital asset consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Utility System or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

M. Concentration of Credit Risk

The Utility System grants credit to utility customers located in the City and the surrounding area.

N. Reclassifications

Certain amounts presented for the prior year have been reclassified in order to be consistent with the current year's presentation.

O. Prior Period Adjustment

In fiscal year 2016, the Utility System entered into an agreement with the City of Hudson Oaks in a prior year to sell and eventually repurchase water capacity currently owned by the Utility System. The repurchase of the capacity was in the form of a credit for excess demand charges and water impact fees.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Interest Rate Risk: In compliance with the Utility System's Investment Policy, the Utility System minimizes interest rate risk or the decrease in market value of securities in the Utility System's portfolio due to changes in interest through strong cash flow projections so that market value losses are reduced and through investments in short-term securities with maturity dates that do not exceed five years from the date of purchase with the exception of security purchases related to reserve funds or that are matched to other specific cash flows and by investing operating funds in short-term securities or government investment pools. By doing this, the Utility System avoids the need to sell securities in the secondary market prior to the maturity date.

Credit Risk: The Utility System has no formal policy addressing credit risk. However, safety of principal is the primary objective of the Utility System's investment policy. In accordance with this objective, the Utility System limits its investments to those that have been issued one of the top ratings by a nationally recognized credit rating agency. As of September 30, 2017, the Utility System's investment in TexPool, TexStar, and Texas Class were rated AAAM by Standard & Poor's and the U. S. Government Securities were rated AAA by Moody.

Concentration of Credit Risk: In accordance with the Utility System’s investment policy, the Utility System limits their exposure of concentration of credit risk by restricting investments in a single security type or financial institute to less than 50% of the Utility System’s total investment portfolio with the exception of U. S. Treasury and Agency Securities and authorized pools.

It is the Utility System’s policy to report all debt securities held at the end of the reporting period at fair value, regardless of the remaining maturity at time of purchase. The fair value of investments is based on quoted market prices for the same or similar security with like stated interest and maturity characteristics.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor’s. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as the office of the Comptroller of Public Accounts for review. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

The Texas Short-term Asset Reserve Program, TexStar, is managed by a five-member Board of Directors in accordance with its bylaws which set forth procedures governing the selection of, and actions taken by the Board. Board oversight is maintained through daily, weekly, and monthly reporting contracts. Administration of TexStar is maintained by JP Morgan Chase, Inc. and First Southwest Asset Management, Inc. who serve as co-administrators for TexStar under contract with the Board. The contract may be extended periodically to a term of two years or less. In accordance with the Public Funds Investment Act, TexStar maintains an advisory board. The members of the Board are composed of participants and other persons who do not have a business relationship with TexStar. Members are appointed and serve at the will of the Board of Directors. All investments are stated at amortized cost rather than market value. Accordingly, the fair value of the position in TexStar is the same as the value of the TexStar shares.

The Cooperative Liquid Assets Securities System – Texas (“CLASS”) is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Chapter 2256, Texas Government Code. CLASS is created under an Amended and Restated Trust Agreement, dated as of May 1, 2001 (the “Agreement”) among certain Texas governmental entities investing in the pool (the “Participants”), Municipal Investors Services Corporation (“MBIA-MISC”) as program administrator, and Wells Fargo as custodian. CLASS is not SEC-registered and is not subject to regulation by the State of Texas. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the “Board”), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with MBIA-MISC to provide for the investment and management of the public funds of CLASS. Separate financial statements for CLASS may be obtained by contacting MBIA Asset Management at 815-A Brazos Street, Suite 345, Austin, Texas 78701-9996 or by calling (800) 707-6242.

Each investment pool has a redemption notice period of one day and may redeem daily. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national or state emergency that affects the pool's liquidity.

The Utility System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The fair value methods used by the Utility System include documented trade history in exact security, present value of expected future cash flow model and option-adjusted discounted cash flow model.

The Utility System's investments as of September 30, 2017 and 2016, are shown below.

As of September 30, 2017:

Description	Fair Value		Reported Value	% of Total	Weighted Average Maturity (Days)
	Maturity Date	Measurements Used			
Local Government Investment					
Pools:					
TexPool	N/A	N/A	\$ 2,438,213	5.59%	37
TexStar	N/A	N/A	4,791,031	10.98%	27
Texas Class	N/A	N/A	<u>17,172,085</u>	<u>39.37%</u>	53
Total			<u>24,401,328</u>		
Certificates of Deposit:					
LegacyTexas	9/5/18	Level 2	1,000,000	2.29%	8
LegacyTexas	12/18/18	Level 2	<u>3,000,000</u>	<u>6.88%</u>	31
Total			<u>4,000,000</u>		
Municipal Securities:					
Altoona WI	9/5/18	Level 2	580,760	1.33%	5
Altoona WI	12/18/18	Level 2	<u>296,634</u>	<u>0.68%</u>	3
Total			<u>877,394</u>		
U.S. Government Securities:					
Federal Farm Credit	8/8/18	Level 2	996,390	2.28%	7
Federal Farm Credit	11/16/18	Level 2	1,987,900	4.56%	19
Federal Home Loan Bank	6/28/19	Level 2	987,340	2.26%	14
Fannie Mae	10/9/19	Level 1	1,927,920	4.42%	33
Fannie Mae	8/24/20	Level 2	1,750,284	4.01%	42
Fannie Mae	11/30/20	Level 1	1,986,600	4.55%	53
Federal Home Loan Bank	7/14/21	Level 1	1,758,366	4.03%	56
Fannie Mae	10/7/21	Level 1	<u>2,943,390</u>	<u>6.75%</u>	99
Total			<u>14,338,190</u>		
Total investments			<u>\$ 43,616,913</u>	<u>100.00%</u>	

As of September 30, 2016:

Description	Maturity Date	Fair Value Measurements Used	Reported Value	% of Total	Weighted Average Maturity (Days)
Local Government Investment Pools:					
TexPool	N/A	N/A	\$ 1,971,950	4.75%	44
TexStar	N/A	N/A	6,755,457	16.26%	43
Texas Class	N/A	N/A	<u>24,590,240</u>	<u>59.18%</u>	71
Total			<u>33,317,647</u>		
Municipal Securities:					
Altoona WI	12/1/16	Level 2	370,740	0.89%	1
Altoona WI	12/1/17	Level 2	589,135	1.42%	6
Altoona WI	12/18/18	Level 2	<u>302,484</u>	<u>0.73%</u>	6
Total			<u>1,262,359</u>		
U.S. Government Securities:					
Federal Home Loan Bank	12/9/16	Level 1	701,087	1.69%	1
Federal Home Loan Bank	1/30/17	Level 2	696,696	1.68%	2
Fannie Mae	1/30/17	Level 1	1,002,596	2.41%	3
Federal Home Loan Bank	6/28/19	Level 2	995,505	2.40%	24
Fannie Mae	8/24/20	Level 2	1,788,158	4.30%	61
Federal Home Loan Bank	7/14/21	Level 1	<u>1,786,777</u>	<u>4.30%</u>	75
Total			<u>6,970,819</u>		
Total investments			<u>\$ 41,550,825</u>	<u>100.00%</u>	

B. Interfund Transfers

Transfers of resources during 2017 and 2016 occurred between the Utility System and other funds of the City as follows:

2017:

Transfers In	Transfers Out	Amount
City's General Fund	Utility System	\$ 4,950,327

2016:

Transfers In	Transfers Out	Amount
City's General Fund	Utility System	\$ 6,920,114
Utility System	Solid Waste Fund	40,456

Transfers were used 1) to transfer franchise fees to the City's General Fund from the Utility System; 2) to transfer funds from the Utility System to the City's General Fund for return on investment of the City owned utility system; 3) to transfer funds from the Solid Waste Fund to the Utility System for billing services; and 4) to transfer funds from the Utility System to the City's General Fund for administrative services provided by the City's General Fund.

C. Capital Assets

Capital asset activity for the years ended September 30, 2017 and 2016, was as follows:

	Beginning Balance	Additions	Transfers/ Retirements	Ending Balance
September 30, 2017				
Capital assets, not being depreciated:				
Land	\$ 2,600,202	\$ 145,290	\$ -	\$ 2,745,492
Construction in progress	<u>9,580,106</u>	<u>5,336,309</u>	<u>(9,050,286)</u>	<u>5,866,129</u>
Total assets not being depreciated	<u>12,180,308</u>	<u>5,481,599</u>	<u>(9,050,286)</u>	<u>8,611,621</u>
Capital assets, being depreciated:				
Buildings and improvements	19,173,835	8,150	-	19,181,985
Other improvements	169,485,862	7,034,094	5,717,898	182,237,854
Machinery and equipment	<u>7,768,368</u>	<u>318,230</u>	<u>(101,589)</u>	<u>7,985,009</u>
Total capital assets being depreciated	<u>196,428,065</u>	<u>7,360,474</u>	<u>5,616,309</u>	<u>209,404,848</u>
Less accumulated depreciation:				
Buildings and improvements	(10,101,759)	(452,357)	-	(10,554,116)
Other improvements	(62,490,109)	(4,705,660)	203,873	(66,991,896)
Machinery and equipment	<u>(5,140,809)</u>	<u>(498,293)</u>	<u>(60,555)</u>	<u>(5,699,657)</u>
Total accumulated depreciation	<u>(77,732,677)</u>	<u>(5,656,310)</u>	<u>143,318</u>	<u>(83,245,669)</u>
Total capital assets being depreciated, net	<u>118,695,388</u>	<u>1,704,164</u>	<u>5,759,627</u>	<u>126,159,179</u>
Municipal Utility capital assets, net	<u>\$ 130,875,696</u>	<u>\$ 7,185,763</u>	<u>\$(3,290,659)</u>	<u>\$ 134,770,800</u>
	Beginning Balance	Additions	Transfers/ Retirements	Ending Balance
September 30, 2016				
Capital assets, not being depreciated:				
Land	\$ 2,589,839	\$ 10,363	\$ -	\$ 2,600,202
Construction in progress	<u>5,189,178</u>	<u>6,190,098</u>	<u>(1,799,170)</u>	<u>9,580,106</u>
Total assets not being depreciated	<u>7,779,017</u>	<u>6,200,461</u>	<u>(1,799,170)</u>	<u>12,180,308</u>
Capital assets, being depreciated:				
Buildings and improvements	19,096,576	86,766	(9,507)	19,173,835
Other improvements	160,874,465	6,812,227	1,799,170	169,485,862
Machinery and equipment	<u>7,641,590</u>	<u>299,354</u>	<u>(172,576)</u>	<u>7,768,368</u>
Total capital assets being depreciated	<u>187,612,631</u>	<u>7,198,347</u>	<u>1,617,087</u>	<u>196,428,065</u>
Less accumulated depreciation:				
Buildings and improvements	(9,664,652)	(446,614)	9,507	(10,101,759)
Other improvements	(58,272,715)	(4,217,394)	-	(62,490,109)
Machinery and equipment	<u>(4,739,004)</u>	<u>(574,381)</u>	<u>172,576</u>	<u>(5,140,809)</u>
Total accumulated depreciation	<u>(72,676,371)</u>	<u>(5,238,389)</u>	<u>182,083</u>	<u>(77,732,677)</u>
Total capital assets being depreciated, net	<u>114,936,260</u>	<u>1,959,958</u>	<u>1,799,170</u>	<u>118,695,388</u>
Municipal Utility capital assets, net	<u>\$ 122,715,277</u>	<u>\$ 8,160,419</u>	<u>\$ -</u>	<u>\$ 130,875,696</u>

D. Long-term Liabilities

Long-term liability activity for the years ended September 30, 2017 and 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
September 30, 2017					
Bonds payable:					
Revenue bonds	\$ 39,555,000	\$ 11,220,000	\$ 4,335,000	\$ 46,440,000	\$ 4,455,000
Issuance premium/discount	<u>4,596,227</u>	<u>-</u>	<u>242,972</u>	<u>4,353,255</u>	<u>242,972</u>
Total bonds payable	<u>44,151,227</u>	<u>11,220,000</u>	<u>4,577,972</u>	<u>50,793,255</u>	<u>4,697,972</u>
State infrastructure loans	167,365	-	93,479	73,886	36,254
Capital lease obligation	433,144	-	34,556	398,588	35,447
Net OPEB obligation	1,342,379	277,422	84,216	1,535,585	-
Net pension liability	3,352,193	630,125	590,846	3,391,472	-
Compensated absences	<u>973,357</u>	<u>612,812</u>	<u>651,565</u>	<u>934,604</u>	<u>165,645</u>
Municipal Utility long-term liabilities	<u>\$ 50,419,665</u>	<u>\$ 12,740,359</u>	<u>\$ 6,032,634</u>	<u>\$ 57,127,390</u>	<u>\$ 4,935,318</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
September 30, 2016					
Bonds payable:					
Revenue bonds	\$ 43,210,000	\$ -	\$ 3,655,000	\$ 39,555,000	\$ 3,775,000
Issuance premium/discount	<u>4,880,280</u>	<u>-</u>	<u>284,053</u>	<u>4,596,227</u>	<u>284,053</u>
Total bonds payable	<u>48,090,280</u>	<u>-</u>	<u>3,939,053</u>	<u>44,151,227</u>	<u>4,059,053</u>
State infrastructure loans	297,819	-	130,454	167,365	93,479
Capital lease obligation	466,830	-	33,686	433,144	34,556
Net OPEB obligation	1,168,795	255,258	81,674	1,342,379	-
Net pension liability	1,942,541	2,009,905	600,253	3,352,193	-
Compensated absences	<u>1,028,783</u>	<u>419,380</u>	<u>474,806</u>	<u>973,357</u>	<u>170,304</u>
Municipal Utility long-term liabilities	<u>\$ 52,995,048</u>	<u>\$ 2,684,543</u>	<u>\$ 5,259,926</u>	<u>\$ 50,419,665</u>	<u>\$ 4,357,392</u>

The Utility System had capitalized interest expense of \$40,864 and \$102,722, on various construction projects in progress during fiscal year 2017 and 2016, respectively.

Bonds payable at September 30, 2017 and 2016, consist of the following individual issues:

	<u>2017</u>	<u>2016</u>
\$6,575,000 2008 Utility System Refunding Bonds, due in annual installments through September 1, 2018, 3.46%.	\$ 700,000	\$ 1,380,000
\$41,565,000 2015 Utility System Refunding Bonds, due in annual installments through September 1, 2035, 2.00% - 5.00%.	35,080,000	38,175,000
\$11,220,000 2016 Tax & Utility System Revenue COs, due in annual installments through September 1, 2036, 0.00% - 1.74%.	<u>10,660,000</u>	<u>-</u>
	<u>\$ 46,440,000</u>	<u>\$ 39,555,000</u>

The annual debt payment requirements for bonds payable as of September 30, 2017, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 4,455,000	\$ 987,676	\$ 5,442,676
2019	3,205,000	882,831	4,087,831
2020	3,335,000	815,956	4,150,956
2021	3,480,000	745,195	4,225,195
2022	3,620,000	670,014	4,290,014
2023-2027	14,185,000	2,270,107	16,455,107
2028-2032	8,000,000	1,171,174	9,171,174
2033-2036	<u>6,160,000</u>	<u>293,994</u>	<u>6,453,994</u>
Total	<u>\$ 46,440,000</u>	<u>\$ 7,836,947</u>	<u>\$ 54,276,947</u>

On December 15, 2016 the Utility System issued \$11,220,000 Tax & Utility System Revenue Certificates of Obligation, Series 2016 Texas Water Development Board Clean Water SRF Loan. The bonds have a stated interest rate of 0.120%-1.740% and mature on September 1, 2036. The bonds were issued as part of a grant agreement with the Texas Water Development Board to construct improvements and extensions to the City's wastewater and reclaimed water system. As part of the overall grant package, the Utility System was issued an additional \$1,550,433 in principal forgiveness from the Clean Water State Revolving Fund Program that does not need to be paid back as long as the grant conditions are met. Proceeds from the loans have been restricted in the financial statements.

The revenue bonds are collateralized by the revenue of the combined utility system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. The Utility System is in compliance with these financial requirements.

Below is a summary of the various restricted asset accounts required by the bond ordinances along with the actual cash reserved as of September 30, 2017 and 2016.

	2017		2016	
	Required	Actual	Required	Actual
Reserve fund	\$ 3,067,616	\$ 3,195,193	\$ 3,067,616	\$ 3,182,808
Bond fund	524,710	889,871	471,186	863,394

The following is a summary of notes payable as of September 30, 2017 and 2016:

Description and Terms	2017	2016
Texas Department of Transportation: March 2009, the City received a State Infrastructure Bank Loan in the amount of \$320,000, payable in 10 annual installments of \$39,061, including interest at 3.8%, to fund utility relocations in connection with replacement of two bridges over railroad tracks on US 180.	\$ 73,886	\$ 108,811
Texas Department of Transportation: February 2012, the City received a State Infrastructure Bank Loan in the amount of \$650,000. Payable in five annual installments of \$101,034, including interest at 2.45% For sewer line relocation along FM 51/SH 171.	-	58,554
	<u>\$ 73,886</u>	<u>\$ 167,365</u>

Defeased Debt Outstanding

In prior years, the Utility System defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the Utility System's financial statements. As of September 30, 2017, the Utility System does not have any bonds considered defeased.

The annual debt payment requirements for notes payable as of September 30, 2017, are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 36,254	\$ 2,808	\$ 39,062
2019	<u>37,632</u>	<u>1,431</u>	<u>39,063</u>
Total	<u>\$ 73,886</u>	<u>\$ 4,239</u>	<u>\$ 78,125</u>

The Utility System has entered into a lease agreement as lessee for financing of building improvements. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of minimum lease payments as of the inception date.

The annual debt payment requirements for the capital leases as of September 30, 2017, are as follows:

Fiscal Year	Capital Lease
2018	\$ 45,731
2019	45,731
2020	45,731
2021	45,731
2022	45,731
2023-2027	<u>228,653</u>
Total minimum lease payments	457,308
Less: amount representing interest	<u>(58,720)</u>
Present value of minimum lease payments	<u>\$ 398,588</u>

III. OTHER INFORMATION

A. Retirement Plan

Plan Description. The Utility System participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the Utility System 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 Utility System, 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 Utility System-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.

The Utility System grants monetary credits for service rendered of a theoretical amount equal to two times what would have been contributed by the employee, with interest. Monetary credits, also known as the matching ratio, are 200% of the employee's accumulated contributions and are only payable in the form of an annuity.

Beginning in 2000, the Utility System granted an annually repeating (automatic) basis monetary credit referred to as an updated service credit (USC) which is a theoretical amount that takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 2014, the Utility System provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years to any age, 5 years at age 60 and above
Updated service credit	100% repeating
Annuity increase to retirees	50% of CPI repeating

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

Employees for the government were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the government were 12.85% and 13.37% in calendar years 2016 and 2017, respectively. The Utility System's contributions to TMRS for the year ended September 30, 2017, were \$624,225 and were equal to the required contributions.

Actuarial assumptions:

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major assets class in fiscal year 2017 are summarized in the following table:

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

Discount Rate

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

The following presents the net pension liability of the Utility System, 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%) of 1-percentage-higher (7.75%) than the current rate:

	<u>1% Decrease in in Discount Rate (5.75%)</u>	<u>Discount Rate (6.75%)</u>	<u>1% Increase in in Discount Rate (7.75%)</u>
December 31, 2016:			
Utility System's proportionate share of the net pension liability	\$ 6,948,260	\$ 3,391,472	\$ 481,283
December 31, 2015:			
Utility System's proportionate share of the net pension liability	\$ 6,750,275	\$ 3,352,193	\$ 571,540

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

At September 30, 2017 and 2016, the Utility System reported a liability of \$3,391,472 and \$3,352,193, respectively, of its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility System's proportion of the net pension liability was based on the Utility System's contributions to the pension plan relative to the contributions of all employers (the City and Utility System) to the plan for the period January 1, 2016 through December 31, 2016. At December 31, 2016 and 2015, the Utility System's proportion was 22.25% and 22.44%, respectively.

For the year ended September 30, 2017 and 2016, the Utility System recognized pension expense of \$923,757 and \$810,674, respectively. At September 30, 2017 and 2016, the Utility System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
September 30, 2017:		
Differences between expected and actual economic experience	\$ -	\$ 226,897
Changes in actuarial assumptions	126,600	-
Difference between projected and actual investment earnings	889,330	-
Contributions subsequent to the measurement date	<u>481,846</u>	<u>-</u>
Totals as of September 30, 2017	<u>\$ 1,497,776</u>	<u>\$ 226,897</u>
September 30, 2016:		
Differences between expected and actual economic experience	\$ -	\$ 315,217
Changes in actuarial assumptions	169,135	-
Difference between projected and actual investment earnings	1,213,529	-
Contributions subsequent to the measurement date	<u>448,469</u>	<u>-</u>
Totals as of September 30, 2016	<u>\$ 1,831,133</u>	<u>\$ 315,217</u>

\$481,846 and \$448,469 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

<u>For the Year Ended September 30,</u>	<u>As of September 30, 2017</u>	<u>As of September 30, 2016</u>
2017	\$ -	\$ 262,402
2018	257,947	262,402
2019	257,947	262,402
2020	273,835	278,426
2021	(434)	1,815
2022	(262)	-

B. Other Postemployment Benefits

Retiree Health Plan

Plan Description

The City offers its retired employees health insurance benefits through a single-employer defined benefit OPEB plan, under City policy. This plan is administered by the City and no separate audited financial statements are available.

After October 2000, the City began paying for 100 percent of the premiums of health, dental and vision care for employees who retire from full time service with the City. On March 1, 2007, the City changed this policy to only pay the medical premiums for those retirees who attain age 55 with 20 years of continuous service before retirement and meet the requirements under TMRS. On September 23, 2008, eligibility was further limited to those employees that were hired regular, full time before October 1, 2008.

Therefore, under the existing plan, the City will pay 100% medical, dental and vision premiums for those retirees who were hired regular fulltime before October 1, 2008, retire after October 1, 2008, and meet the following qualifications:

1. Employed by the City of Weatherford in a fulltime status for a period of at least 20 years continuously prior to retirement;
2. Meet eligibility requirements under TMRS; and
3. Attain minimum age 55 at retirement date.

The City will not pay any portion of medical premiums for retirees hired after October 1, 2008.

Retirees are responsible for payment of premiums for any dependent coverage. Retirement under TMRS is attainment of 20 years of service, any age or five years of service and age 60. Only fulltime employees who attain age 55 with 20 years of continuous service with the City are eligible for health benefits. Employees retiring early under retirement conditions or who terminate employment are not eligible for retiree health benefits. Survivors of employees who die while actively employed are not eligible for retiree health care benefits. Employees who retire under a disability retirement must meet the eligibility requirements stated above to be eligible for health care benefits. Spouses and the dependents of retired employees are eligible to continue health care, dental and vision benefits or Medicare Supplement with payment of 100% of premiums, until death of retiree. Upon death of retiree, all benefits cease. Retirees are required to enroll in Medicare Part A and B when eligible. Retiree pays full Medicare premiums with the City paying the costs of the Medicare Supplement policy for retiree. The City does not offer life insurance coverage for retirees or their dependents. Retirees who decide to opt-out of the health care plan are not eligible to opt back.

Funding Policy

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance within the parameters of GASB Statement No. 45. The ARC represents an amount that is projected to recognize the normal cost each year and the amortization of any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City had its first OPEB actuarial valuation performed for the fiscal year beginning October 1, 2008, as required by GASB. The City's annual OPEB cost for the fiscal years ending September 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Annual required contribution	\$ 1,077,830	\$ 992,245
Interest on OPEB obligation	205,004	199,818
Adjustment to ARC	<u>(199,708)</u>	<u>(185,129)</u>
Annual OPEB cost (expense) end of year	1,083,126	1,006,934
Net estimated employer contributions	<u>(328,799)</u>	<u>(322,237)</u>
Increase in net OPEB obligation	754,327	684,697
Net OPEB obligation - as of beginning of the year	<u>5,125,100</u>	<u>4,440,403</u>
 Net OPEB obligation - as of end of the year	 <u>\$ 5,879,427</u>	 <u>\$ 5,125,100</u>

The Utility System's portion of the net OPEB obligation was \$1,535,585 and \$1,342,379, as of September 30, 2017 and 2016, respectively.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years (4.0% discount rate, and level percent of pay amortization) follow:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation End of Year</u>
9/30/2015	\$ 975,773	\$ 292,556	30.0%	\$ 4,440,403
9/30/2016	1,006,934	322,237	32.0%	5,125,100
9/30/2017	1,083,126	328,799	30.4%	5,879,427

Funded Status and Funding Progress

The funded status of the City's retiree health care plan, as of the most recent actuarial valuation date is as follows:

Schedule of Funding Progress – Other Post-Employment Health Care Benefits

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2016	\$ -	\$ 16,495,612	\$ 16,495,612	- %	\$ 20,520,859	80.38%

Actuarial valuations of an ongoing plan involve estimates of the value reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. A schedule of funding progress presents multi-trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The funded status as of December 31, 2016 is the most recent actuarial valuation.

Actuarial Methods and Assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City’s retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projects of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City’s employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Inflation rate	2.50% per annum
Investment rate of return	4.00%, net of expenses
Actuarial cost method	Individual Entry Age Normal Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year, open amortization
Payroll growth	3.00% per annum
Pre-65 Medical Trend	Initial rate of 7.50% declining to an ultimate rate of 4.75% after 13 years
Post-65 Medical Trend	Initial rate of 6.00%, declining to an ultimate rate of 4.25% after 13 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City’s retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Supplemental Death Benefits Plan for Retirees

Plan Description

The City 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.

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. Contributions are made on a monthly basis on the covered payroll of employee members of the City. The City's contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015, were \$33,368, \$37,346 and \$32,008, respectively, which equaled the required contributions each year.

C. Deferred Compensation Plan

The Utility System offers its employees a tax-deferred compensation plan meeting the requirements of Internal Revenue Code Section 457 through the City. The plan was established by City ordinance that appointed ICMA Retirement Corporation as plan administrator. The City's fiduciary responsibility is to remit employee deferred compensation to the administrator on a regular basis. The deferred compensation is not available to employees until termination, retirement, death, or emergency.

D. Risk Management

The Utility System is exposed to various risks of loss related to theft or damage of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by the Utility System's participation in the Texas Municipal League Intergovernmental Risk Pool (TMLIRP) for liability, property, and workers' compensation and in the Texas Municipal League Intergovernmental Employee Benefits Pool (TMLIEBP) for employee health insurance in conjunction with the City. These are self-sustaining risk pools operated on a statewide basis for the benefit of several hundred Texas cities and other public entities. Annual premiums are paid to the TMLIRP, which retains risk of loss up to \$3,000,000 and obtains independent coverage for losses in excess of that amount. Monthly premiums are paid to the TMLIEBP, which retains risk of loss up to \$500,000 per individual and obtains independent coverage for losses in excess of that amount.

The Utility System retains no risk except for the deductible amounts as shown below:

<u>Type of Coverage</u>	<u>Limit Per Occurrence</u>	<u>Annual Aggregate</u>	<u>Deductible</u>
General liability	\$ 2,000,000	\$ 4,000,000	\$ 5,000
Law enforcement liability	2,000,000	4,000,000	5,000
Errors and omissions liability	2,000,000	4,000,000	50,000
Auto liability	2,000,000	N/A	5,000
Auto physical damage	ACV*	N/A	1,000
Real and personal property**	57,277,073	57,277,073	5,000
Mobile equipment*	2,237,894	2,237,894	1,000
Boiler and machinery	11,000,000	N/A	5,000
Sewage backup	50,000	N/A	500

*Actual cash value

**Blanket limit

There have been no reductions in coverage from the coverage in the previous three years, and there have been no settlements that exceeded coverage in the current or past four fiscal years.

E. Contingencies

There are various lawsuits pending in which the Utility System is involved. In the opinion of legal counsel and Utility System management, the settlement of these lawsuits will not have a material adverse effect on the Utility System's financial position.

F. Power Wholesale Supplier Agreements and Derivative Instruments

The City owns and operates its own electric distribution system and purchases all of its power from wholesale power suppliers. In an effort to mitigate the financial and market risk associated with the purchase of energy and congestion risk in delivery, the City has established a risk management program. The program was authorized by the Weatherford Municipal Utility Board and is led by a Risk Management Committee. Under this program, the City enters into forward contracts for natural gas and congestion rights for the purpose of reducing exposure to energy and congestion price risk. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. In order to hedge the City's price risk, the City has entered into corresponding power supply agreements with the entity's wholesale power supplier to hedge against energy price fluctuation in the market.

Congestion Revenue Rights (CRRs) function as financial hedges against the cost of resolving congestion in the Electric Reliability Council of Texas (ERCOT) market. These instruments allow the City to hedge expected future congestion that may arise during a certain period. CRRs are purchased at auction, semi-annually and monthly at market value. These CRRs are expected to be settled upon the City taking delivery of the commodity which meet the requirements of a normal purchase of the City. As of September 30, 2017 and 2016, the City held CRRs with a cost of \$335,448 and \$195,378, respectively, and are reported as prepaid items within the Utility System Fund.

The City has entered into a wholesale power supply agreement with Garland Power and Light (GP&L) through 2018. Additionally, the City has wholesale power supply agreements with Bryan Texas Utilities and EDF Trading North America, LLC, through 2020, and 2019, respectively. Under the terms of the agreements, the City purchases its full power requirements for its retail customer base. As of year-end, the City entered into forward purchase contracts with GPL and BTU extending through December 2018 and December 2020, respectively, which are expected to be settled upon delivery of the commodity. These contracts are considered normal purchase agreements and are reported when the exchange occurs.

In July 2015, the City entered into an agreement with the City of Garland to invest in energy from a wind turbine electrical generation facility. As a result, the City agrees to purchase power generated by this facility in terms of the agreement for fourteen years beginning in December 2016.

In April 2016, the City entered into an agreement with the City of Garland to invest in energy from a solar energy facility. As a result, the City agrees to purchase power generated by this facility in accordance with the terms of the agreement for fifteen years beginning in April 2017.

G. New Accounting Principles

A significant new accounting standard not yet implemented by the Utility System includes the following.

Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*” – This statement changes the focus of accounting of postemployment benefits other than pensions from whether an entity is responsible for funding the benefits over time to a point-in-time liability that is reflected on the employer’s financial statements for any actuarially unfunded portion of benefits earned to date. This statement will become effective in fiscal year 2018.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

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**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF THE MUNICIPAL UTILITY SYSTEM'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Plan Year		
	2015	2016	2017
Municipal Utility System's proportion of the net pension liability	22.36%	22.44%	22.25%
Municipal Utility System's proportionate share of the net pension liability	\$ 1,942,541	\$ 3,352,193	\$ 3,391,472
Municipal Utility System's covered payroll	4,169,600	4,406,604	4,565,891
Municipal Utility System's proportionate share of the net pension liability as a percentage of its covered payroll	46.59%	76.07%	74.28%
Plan fiduciary net position as a percentage of the total pension liability	90.94%	85.50%	86.05%

Note: This schedule is required to have 10 years of information, but the information prior to 2015 is not available.

**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF THE MUNICIPAL UTILITY SYSTEM CONTRIBUTIONS**

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Fiscal Year			
	2014	2015	2016	2017
Contractually required contribution	\$ 656,192	\$ 609,555	\$ 616,651	\$ 624,225
Contributions in relation to the contractually required contribution	(656,192)	(609,555)	(616,651)	(624,225)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Municipal Utility System's covered-employee payroll	\$ 4,118,312	\$ 4,324,265	4,724,310	4,709,359
Contributions as a percentage of covered-employee payroll	15.93%	14.10%	13.05%	13.25%

Note: This schedule is required to have 10 years of information, but the information prior to 2014 is not available.

**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN
FOR THE EMPLOYEES OF CITY OF WEATHERFORD, TEXAS**

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2012	\$ -	\$ 11,451,759	\$ 11,451,759	0.0%	\$ 17,909,673	63.94%
12/31/2014	-	11,915,747	11,915,747	0.0%	21,053,077	56.60%
12/31/2016	-	16,495,612	16,495,612	0.0%	20,520,859	80.38%

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CAPITAL ASSETS

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**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

SCHEDULES OF CAPITAL ASSETS

SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Land	\$ 2,745,492	\$ 2,600,202
Buildings and improvements	19,181,985	19,173,835
Other improvements	182,237,854	169,485,862
Machinery and equipment	7,985,009	7,768,368
Construction in progress	<u>5,866,129</u>	<u>9,580,106</u>
	218,016,469	208,608,373
Less accumulated depreciation	<u>(83,245,669)</u>	<u>(77,732,677)</u>
Totals	<u>\$ 134,770,800</u>	<u>\$ 130,875,696</u>

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**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

SCHEDULE OF CAPITAL ASSETS BY FUNCTION AND ACTIVITY

SEPTEMBER 30, 2017

<u>Function and Activity</u>	<u>Total</u>	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Other Improvements</u>	<u>Machinery and Equipment</u>	<u>Construction in Progress</u>
Administration	\$ 5,392,639	\$ 326,764	\$ 3,431,676	\$ 1,168,200	\$ 465,999	\$ -
Water production	27,407,435	1,055,502	12,146,429	12,703,488	1,502,016	-
Water distribution	66,677,738	842,513	35,619	61,199,458	864,880	3,735,268
Wastewater	49,590,981	180,339	3,231,643	41,837,519	2,223,584	2,117,896
Electric production	1,192,894	11,334	336,618	13,203	831,739	-
Electric distribution	<u>67,754,782</u>	<u>329,040</u>	<u>-</u>	<u>65,315,986</u>	<u>2,096,791</u>	<u>12,965</u>
Total capital assets	<u>\$ 218,016,469</u>	<u>\$ 2,745,492</u>	<u>\$ 19,181,985</u>	<u>\$ 182,237,854</u>	<u>\$ 7,985,009</u>	<u>\$ 5,866,129</u>

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**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

**SCHEDULE OF CHANGES IN CAPITAL ASSETS
BY FUNCTION AND ACTIVITY**

FOR THE YEAR ENDED SEPTEMBER 30, 2017

<u>Function and Activity</u>	<u>Balance 09/30/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 09/30/17</u>
Administration	\$ 5,409,418	\$ 15,645	\$(32,424)	\$ 5,392,639
Water production	27,210,538	1,104,356	(907,459)	27,407,435
Water distribution	61,563,292	5,669,688	(555,242)	66,677,738
Wastewater	45,877,750	6,205,724	(2,492,493)	49,590,981
Electric production	1,192,894	-	-	1,192,894
Electric distribution	<u>67,354,481</u>	<u>8,203,574</u>	<u>(7,803,273)</u>	<u>67,754,782</u>
Total capital assets	<u>\$ 208,608,373</u>	<u>\$ 21,198,987</u>	<u>\$(11,790,891)</u>	<u>\$ 218,016,469</u>

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STATISTICAL SECTION

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**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM**

PLEDGED REVENUE COVERAGE

**SEPTEMBER 30, 2017
(UNAUDITED)**

Fiscal Year	Utility System Revenue Bonds					
	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2007/08	60,783,520	49,251,229	11,532,291	2,400,000	2,222,336	1.99%
2008/09	55,326,626	46,126,060	9,200,566	2,515,000	2,111,215	2.26%
2009/10	44,648,091	34,190,600	10,457,491	2,615,000	2,015,352	3.34%
2010/11	48,143,263	32,655,996	15,487,267	2,715,000	1,912,988	3.43%
2011/12	40,639,256	24,787,800	15,851,456	2,840,000	1,787,416	3.36%
2012/13	44,969,078	29,429,195	15,539,883	2,985,000	1,655,952	3.19%
2013/14	51,923,460	37,140,069	14,783,391	3,115,000	1,517,523	3.19%
2014/15	51,902,458	31,326,472	20,575,986	3,830,000	2,049,007	3.50%
2015/16	46,911,095	27,043,309	19,867,786	3,960,000	1,930,757	3.37%
2016/17	55,248,870	33,996,480	21,252,390	4,335,000	1,963,782	3.37%

Notes: Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements.

(1) Total operating revenues plus interest.

(2) Total operating expenses excluding depreciation and amortization.

CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM
SCHEDULE OF ELECTRIC SALES
LAST TEN FISCAL YEARS
(Unaudited)

Year Ended September 30	Power Sold (KWHR)	Daily Average (KWHR)	System Peak (KW)
2008	354,818,755	972,106	82,317
2009	341,457,244	935,499	83,385
2010	365,673,529	1,001,845	90,289
2011	381,826,440	1,046,100	96,681
2012	371,081,397	1,016,661	92,466
2013	371,982,863	1,019,131	94,161
2014	389,421,402	1,066,908	96,681
2015	386,452,762	1,058,775	94,249
2016	387,044,014	1,060,395	96,067
2017	* 392,239,811	** 1,074,630	*** 101,940

* 10.5% Increase since 2008 (KWHR)
** 10.5% Increase since 2008 (KWHR)
*** 23.8% Increase since 2008 (KW)

CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM
SCHEDULE OF RETAIL WATER SALES
LAST TEN FISCAL YEARS
(Unaudited)

<u>Year Ended September 30</u>	<u>Water Sold (1,000 Gallon)</u>	<u>Daily Average (1,000 Gallon)</u>	<u>Peak Day (1,000 Gallon)</u>
2008	1,281,104	3,510	7,991
2009	1,258,075	3,447	8,191
2010	1,107,183	3,033	7,316
2011	1,373,590	3,763	9,069
2012	1,289,037	3,532	9,003
2013	1,227,698	3,364	7,708
2014	1,179,691	3,232	6,997
2015	1,116,010	3,058	7,676
2016	1,214,712	3,328	8,616
2017	* 1,179,666	** 3,232	*** 6,520
*	-7.9%	Decrease since 2008	
**	-7.9%	Decrease since 2008	
***	-18.4%	Decrease since 2008	

25,950 pop. - 135.26 gals per day per person (2008)

29,969 pop. - 107.84 gals per day per person (2017)

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CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM
SCHEDULE OF WASTEWATER SALES
LAST TEN FISCAL YEARS
(Unaudited)

<u>Year Ended September 30</u>	<u>Wastewater Treated (1,000 Gallon)</u>	<u>Daily Average (1,000 Gallon)</u>	<u>Peak Day (1,000 Gallon)</u>
2008	758,813	2,079	4,083
2009	706,666	1,936	4,307
2010	825,139	2,261	4,360
2011	778,677	2,133	5,490
2012	818,178	2,242	4,389
2013	772,133	2,115	3,964
2014	784,012	2,148	3,660
2015	801,228	2,195	4,762
2016	860,193	2,357	5,139
2017	* 773,025	** 2,118	*** 3,884
*	1.9%	Increase since 2008	
**	1.9%	Increase since 2008	
***	-4.9%	Decrease since 2008	

25,950 pop. - 80.11 gals per day per person (2008)

29,969 pop. - 70.67 gals per day per person (2017)

CITY OF WEATHERFORD, TEXAS
MISCELLANEOUS STATISTICS
SEPTEMBER 30, 2017
(Unaudited)

Date of incorporation	January 2, 1858
Form of government	Council/Manager
Number of full-time employees (excluding police and fire):	249
Area in square miles	28.95
Facilities and Services	
Miles of streets	248.59
Number of street lights	2143
Culture and Recreation:	
Public libraries	1
Total library holdings	95,921
Community centers	3
Parks	26
Park acreage	501.00
Swimming pools	1
Tennis courts	7
Soccer fields	11
Softball and baseball fields	12
Multi-purpose fields and courts	5
Fire protection:	
Number of stations	3
Number of paid fire personnel and officers	60
Number of trucks	14
Number of calls answered	5,041
Police protection:	
Number of stations	1
Number of police personnel and officers	85
Number of patrol units	25
Number of law violations:	
Arrests	1,766
Violations other than parking	2,969
Parking violations	81

CITY OF WEATHERFORD, TEXAS
MISCELLANEOUS STATISTICS
SEPTEMBER 30, 2017
(Unaudited)

Facilities and Services - continued

Sanitary Sewer System:

Miles of sanitary sewers	212.00
Number of treatment plants	1
Number of service connections	11,239
Daily average treatment in gallons	2,115,000
Permitted daily capacity of treatment plant in gallons	4,500,000

Water System:

Miles of water mains	277.74
Number of service connections	11,907
Number of fire hydrants	1,568
Daily average consumption in gallons	3,231,962
Maximum daily capacity of plant in gallons	14,000,000
Total water storage capacity	7,600,000
Annual water sales in gallons	1,214,821,000

Electric Distribution System:

Miles of distribution lines	355
Number of service connections	14,844
Total system peak demand (KW)	101,940
Annual kilowatt-hour sales (KWH)	392,239,811

Education:

Number of elementary schools	7
Number of elementary school instructors	260
Number of secondary schools	4
Number of secondary school instructors	252
Number of community colleges	1

Hospitals:

Number of hospitals	1
Number of patient beds	103

**CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM
SERVICE RATE SCHEDULES
AS OF SEPTEMBER 30, 2017
(Unaudited)**

ELECTRIC RATES - (Effective October 1, 2016 - Ordinance 695-2014-40)

Residential	\$15.00 customer charge \$0.0412 per KWH
Small General Service (Demand does not exceed 20.00)	\$19.55 customer charge plus \$0.0424 per KWH
Large General Service - 1 (Demand 20.00 - 200.00)	\$42.50 customer charge \$3.96 per KVA demand \$0.0232 per KWH
Large General Service - 2 (Demand 200.00 - 1000.00)	\$100.00 customer charge \$4.65 per KVA demand \$0.0240 per KWH
Large General Service - 3 (Demand 1000.00 or more)	\$195.00 customer charge \$4.75 per KVA demand \$0.0220 per KWH

LGS-1, LGS-2 and LGS-3 customers are subject to minimum KW demand billing equal to 75% of highest demand billed within last 12 months.

MV Lighting	\$10.90 customer charge Estimated usage 40 KWH
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Power cost adjustment factor (PCAF) - The energy charges stated in all rate schedules for the current billing month will be increased or decreased by the amount by which the average cost of purchased power plus production costs per kilowatt hour sold for the previous month exceeds \$0.0150.

CITY OF WEATHERFORD, TEXAS
MUNICIPAL UTILITY SYSTEM
SERVICE RATE SCHEDULES
As of September 30, 2017
(Unaudited)

WATER RATES (Effective October 1, 2016 - Ordinance 695-2014-40)

RESIDENTIAL WATER CUSTOMER

Customer Charge (minimum)	\$ 20.76
Per Cu. Ft. (0-1,000)	\$ 0.05597
Per Cu. Ft. (1,001-3,500)	\$ 0.06992
Per Cu. Ft. (3,501-5,000)	\$ 0.08752
Per Cu. Ft. (all over 5,000)	\$ 0.10961

RURAL WATER CUSTOMER - Westridge/Southcrest Subdivisions

Customer Charge (minimum)	\$ 31.14
Residential:	
Per Cu. Ft. (0-1,000)	\$ 0.09400
Per Cu. Ft. (1,001-3,500)	\$ 0.10790
Per Cu. Ft. (3,501-5,000)	\$ 0.12550
Per Cu. Ft. (all over 5,000)	\$ 0.14760
Commercial	\$ 0.08974

COMMERCIAL RATES

Customer Charge (minimum)	\$ 20.68
Per Cu. Ft.	\$ 0.05574

OFFSITE COMMERCIAL / INDUSTRIAL

Fire Hydrant Meters

Customer Charge (minimum) - FH 2 Inch	\$ 165.40
Customer Charge (minimum) - FH 3 Inch	\$ 361.82
Per Cu. Ft. (all)	\$ 0.10565

WASTEWATER RATES (Effective October 1, 2016 - Ordinance 695-2014-40)

RESIDENTIAL RATES

Customer Charge (minimum)	\$ 21.48
Cu. Ft. Included in Minimum	400
Per Cu. Ft. > 400 CF (Maximum Billed - 2,000 CF)	\$ 0.05782

Residential wastewater volume based on lower month's actual use or average of water billed during months of Dec., Jan., and Feb.

COMMERCIAL RATES

Customer Charge (minimum)	\$ 21.48
Cu. Ft. Included in Minimum	400
Per Cu. Ft. > 400 CF	\$ 0.05782

Commercial volume based on percent of actual water billed each month.

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