



# **MUNICIPAL UTILITY SYSTEM ANNUAL FINANCIAL REPORT**

For The Year Ended  
September 30, 2019

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

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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## **INTRODUCTORY SECTION**

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## MESSAGE FROM THE CITY MANAGER

During the fiscal year ended September 30, 2019, the Weatherford Municipal Utility System continued to experience moderate customer growth in the residential and commercial sector.

From September 2018 to September 2019, customer kWh consumption showed a slight decrease, at 2.1% or 8.9M. Actual usage for customers were responsible for the slight decrease, as monthly consumption is down and average of 2%.

In addition to its annual maintenance, the Electric Department completed the construction of 19 new commercial projects, 1 new commercial subdivision and 2 new 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. The replacement of HID street and security lighting on the electric system with LED lights continued with the current replacement amount of 56 percent.

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.

For the year, we received a total of 48.2 inches of rain, 13 inches above the 10-year average. The increased rainfall amounts resulted in a 12% decrease in water consumption. Gallons sold went from 1.39 billion in FY18 to 1.17 billion in FY19. Service connection increases accounted for an average of 1.5% increase between residential and commercial customer base.

The Water Utility operates and maintains a water distribution system consisting of a water treatment facility, 288 miles of water pipelines, 9 water storage tanks and 4 pump stations. During fiscal year 2018-2019, the Water Utility replaced over 18,000 feet of aging water pipelines. The maintenance crews responded to over 2,200 work orders, which includes both minor tasks (such as checking for residential leaks) and major tasks (such as responding to water main breaks). One of the key projects during this time was the completion of design of a new 500,000-gallon elevated water storage tank to keep up with growth and serve customers on the western side of the city. Additionally, staff have begun using our new AMI metering system to proactively identify potential customer water leaks and notify those customers to help them conserve water and reduce their water bills.

The Water Utility also operates and maintains a wastewater collection system consisting of a wastewater treatment facility, 213 miles of wastewater pipelines and 24 lift stations. During fiscal year 2018-2019, the Water Utility replaced over 13,000 feet of aging wastewater pipelines. Maintenance crews responded to over 1,400 work orders, which includes minor tasks (such as installing connections for new customers) to major tasks (such as responding to pipeline failures or customer stop ups). During this previous fiscal year, the Water Utility completed the TCEQ Sanitary Sewer Overflow Initiative program. This 10-year program is intended to identify and reduce potential wastewater overflows in the collection system. The Water Utility submitted a request to TCEQ, and has been approved to re-enter

the program, which is a benefit to our customers. Another key project involved upgrades and conversions of the SCADA system at the wastewater treatment facility to expand the capability to remotely monitor and control that facility.

Aside from external operations, Weatherford utilities rely on internal service functions such as finance, human resources, and information technology which are housed in the City's governmental funds. Because of this, Utility Administration and Engineering departments continued to provide support to other departments and the City, including contributing to other funds for these 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.

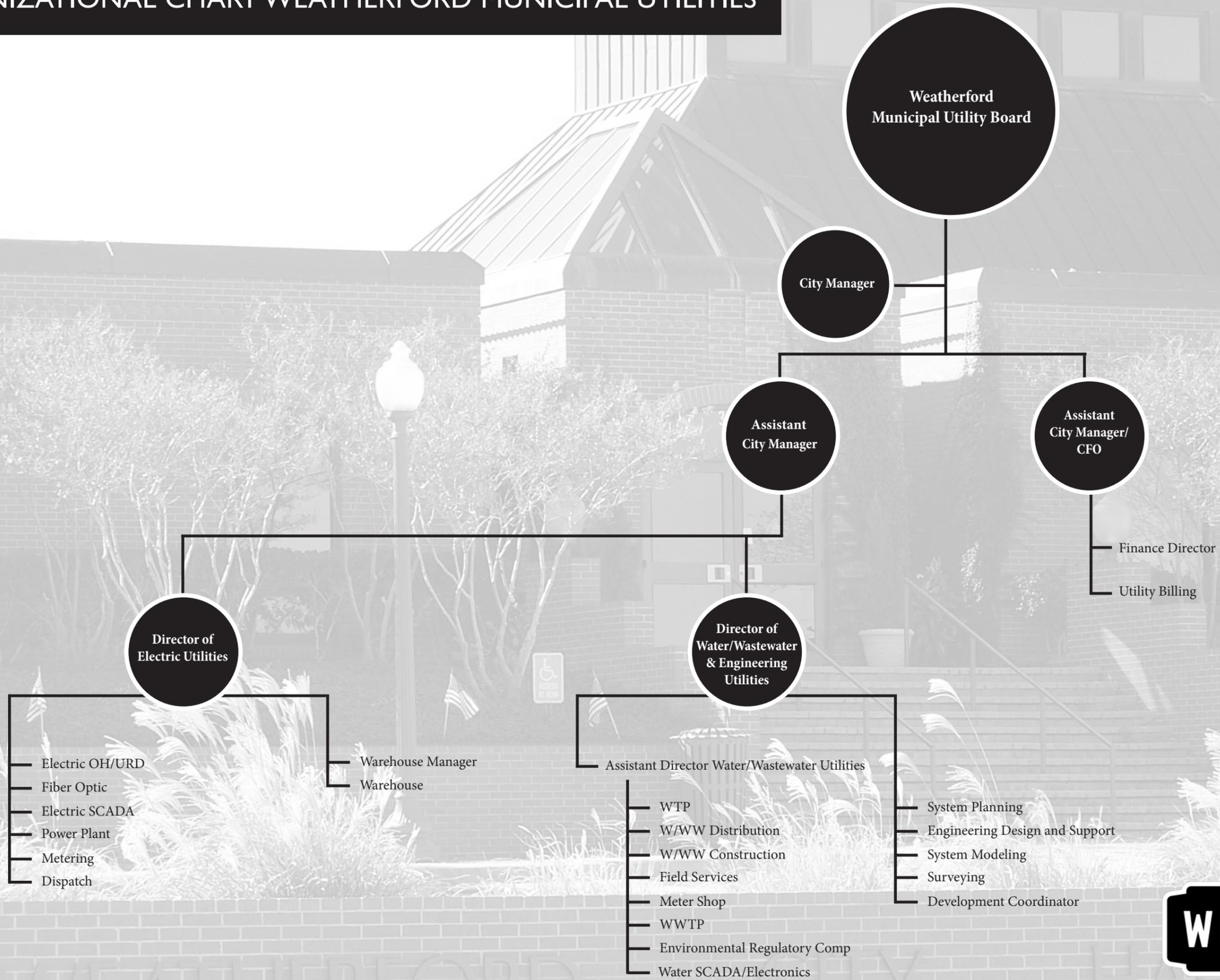
Likewise, the dedication of the Weatherford Municipal Utility Board of Trustees has also paid many dividends for the citizens of Weatherford and the Utility's ratepayers. This unselfish dedication of time and effort to make sure the Utility System, under their direction, is operated with foresight and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

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

A handwritten signature in black ink, appearing to read "James Hotopp". The signature is fluid and cursive, with a large initial "J" and "H".

James Hotopp  
City Manager

# ORGANIZATIONAL CHART WEATHERFORD MUNICIPAL UTILITIES



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

## **PRINICIPAL OFFICIALS**

**YEAR ENDED  
SEPTEMBER 30, 2019**

### **ELECTED CITY COUNCIL**

Paul Paschall – Mayor  
Heidi Wilder – Mayor Pro Tem/Council Member  
Jeff Robinson – Council Member  
Curtis Tucker – Council Member  
Kevin Cleveland – Council Member

### **APPOINTED/DESIGNATED MUNICIPAL UTILITY BOARD**

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

### **SENIOR STAFF**

James Hotopp – 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

## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

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, 2019 and 2018, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Utility System of the City of Weatherford, Texas, as of September 30, 2019 and 2018, 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.

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### OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston  
NEW MEXICO | Albuquerque



**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, 2019 and 2018, 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 pension and OPEB information 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.

*Patillo, Brown & Hill, L.L.P.*

Waco, Texas  
February 19, 2020

## **FINANCIAL STATEMENTS**

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

COMPARATIVE STATEMENTS OF NET POSITION

SEPTEMBER 30, 2019 AND 2018

	2019	2018
<b>ASSETS</b>		
Current assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 12,332,274	\$ 13,199,798
Investments	31,534,889	26,690,748
Receivables:		
Accounts, net of allowances for uncollectible of \$162,755 and \$63,559 for 2019 and 2018, respectively	3,262,631	3,949,446
Earned but unbilled customer accounts	4,121,882	3,544,438
Other	92,663	137,744
Due from other governments	9,733	31,624
Prepaid items	580,203	465,845
Inventory	3,662,192	3,426,939
Restricted assets:		
Cash and cash equivalents		
Revenue bond debt service	1,002,579	42,045
Revenue bond reserve	312,027	1,243,261
Construction	16,576,421	17,337,405
Investments:		
Revenue bond reserve	3,000,000	2,896,400
Rate stabilization	5,716,859	3,818,903
Accrued interest	-	45,239
	<u>82,204,353</u>	<u>76,829,835</u>
 Noncurrent assets:		
Capital assets:		
Nondepreciable	10,844,598	12,129,180
Depreciable, net of accumulated depreciation	<u>134,798,711</u>	<u>128,594,631</u>
	<u>145,643,309</u>	<u>140,723,811</u>
	<u>227,847,662</u>	<u>217,553,646</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charge on refunding	718,398	763,533
Deferred outflow related to pensions	1,656,983	553,573
Deferred outflow related to OPEBs	<u>428,677</u>	<u>413,617</u>
Total deferred outflows of resources	<u>\$ 2,804,058</u>	<u>\$ 1,730,723</u>

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

COMPARATIVE STATEMENTS OF NET POSITION

SEPTEMBER 30, 2019 AND 2018

	2019	2018
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 3,464,001	\$ 2,660,363
Accrued wages	131,454	125,445
Retainage payable	344,614	237,414
Accrued interest	7,368	8,984
Unearned revenue	1,334,542	1,617,116
Customer deposits	1,504,214	1,467,384
Notes payable	-	37,632
Capital lease	37,300	36,362
Revenue bonds	3,103,750	2,984,583
Compensated absences	153,844	158,548
Total OPEB liability	113,163	106,450
Payable from restricted assets:		
Accrued interest	126,858	138,004
Revenue bonds payable	231,250	220,417
Total current liabilities	10,552,358	9,798,702
Noncurrent liabilities:		
Capital lease	289,480	326,779
Revenue bonds	39,312,310	42,890,282
Compensated absences	752,501	775,016
Net pension liability	3,810,966	1,841,550
Total OPEB liability	4,290,621	4,660,896
Total noncurrent liabilities	48,455,878	50,494,523
Total liabilities	59,008,236	60,293,225
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflow related to pensions	136,326	747,339
Deferred inflow related to OPEBs	535,237	-
Total deferred inflows of resources	671,563	747,339
<b>NET POSITION</b>		
Net investment in capital assets	114,690,767	105,934,942
Restricted for:		
Construction	5,583,771	4,605,905
Debt service	3,956,496	3,823,285
Rate stabilization	5,716,859	3,818,903
Unrestricted	41,024,028	40,060,770
Total net position	\$ 170,971,921	\$ 158,243,805

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

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
<b>OPERATING REVENUES</b>		
Electric sales	\$ 35,886,741	\$ 35,822,817
Electric services	456,735	547,575
Water sales	15,470,913	16,791,511
Water services	106,616	181,465
Wastewater services	6,772,614	7,232,787
Other	102,761	129,468
Total operating revenues	58,796,380	60,705,623
<b>OPERATING EXPENSES</b>		
Personnel services	6,051,227	6,261,299
Contractual services	6,361,851	5,713,800
Purchased power	20,865,661	21,625,408
Materials and supplies	1,813,721	1,911,151
Depreciation	6,352,542	5,950,138
Total operating expenses	41,445,002	41,461,796
<b>OPERATING INCOME</b>	17,351,378	19,243,827
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment earnings	1,914,155	703,315
Intergovernmental	215,891	-
Rentals	1,263,035	1,220,240
Gain (loss) on sale of assets	( 209,118)	( 593,842)
Interest and other charges	( 1,463,602)	( 1,649,911)
Total nonoperating revenues (expenses)	1,720,361	( 320,198)
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	19,071,739	18,923,629
Capital contributions	1,974,585	3,098,107
Transfers out	( 8,318,208)	( 5,719,577)
<b>NET CHANGE IN NET POSITION</b>	12,728,116	16,302,159
<b>NET POSITION, BEGINNING</b>	158,243,805	144,544,631
<b>PRIOR PERIOD ADJUSTMENT</b>	-	( 2,602,985)
<b>NET POSITION, ENDING</b>	\$ 170,971,921	\$ 158,243,805

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, 2019 AND 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 58,705,088	\$ 59,743,628
Cash paid to employees for services	( 5,660,829)	( 6,008,938)
Cash paid to suppliers for goods and services	( 28,587,206)	( 30,065,956)
Net cash provided by operating activities	24,457,053	23,668,734
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from rentals	1,263,035	1,220,240
Cash received from other governments	215,891	
Transfers to other funds	( 8,318,208)	( 5,719,577)
Net cash used by noncapital financing activities	( 6,839,282)	( 4,499,337)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from disposal of capital assets	70,786	73,198
Proceeds from developers for contributions in aid of construction	1,204,897	1,907,357
Principal payments on long-term debt	( 3,278,993)	( 4,526,701)
Acquisition and construction of capital assets	( 10,653,165)	( 11,291,887)
Interest and other charges on debt	( 1,674,201)	( 1,861,961)
Net cash used by capital and related financing activities	( 14,330,676)	( 15,699,994)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	1,959,394	1,361,391
Purchase of investments	( 6,845,697)	( 14,893,782)
Net cash used by investing activities	( 4,886,303)	( 13,532,391)
<b>NET INCREASE (DECREASE) IN CASH</b>	( 1,599,208)	( 10,062,988)
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	31,822,509	41,885,497
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	30,223,301	31,822,509
<b>RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS</b>		
Current assets - cash and cash equivalents	12,332,274	13,199,798
Restricted assets - cash and cash equivalents	17,891,027	18,622,711
Total cash and cash equivalents	\$ 30,223,301	\$ 31,822,509

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

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

COMPARATIVE STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 17,351,378	\$ 19,243,827
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	6,352,542	5,950,138
(Increase) decrease in accounts receivable	731,896	( 935,927)
(Increase) decrease in unbilled accounts	( 577,444)	( 96,085)
(Increase) decrease in inventory	( 235,253)	( 146,084)
(Increase) decrease in prepaids	( 114,358)	( 128,917)
(Increase) decrease in deferred outflows for benefits	( 1,118,470)	595,598
Increase (decrease) in accounts payable	803,638	( 540,596)
Increase (decrease) in accrued wages payable	6,009	123,519
Increase (decrease) in unearned revenue	( 282,574)	4,446
Increase (decrease) in customer deposits	36,830	65,571
Increase (decrease) in compensated absences	( 27,219)	( 1,040)
Increase (decrease) in deferred inflows for benefits	( 75,776)	520,442
Increase (decrease) in net pension liability	1,969,416	( 1,549,922)
Increase (decrease) in net OPEB liability	( 363,562)	563,764
Net cash provided by operating activities	<u>\$ 24,457,053</u>	<u>\$ 23,668,734</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Contributions of capital assets	\$ 791,579	\$ 1,159,126
Change in fair value of investments	521,332	( 135,664)

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

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

**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 are accounted for with accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, net position, 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 deferred outflows and all liabilities and deferred inflows associated with the operation of these funds are included on the statement of net position. Total net position is segregated into the following categories: net investment in capital assets; restricted; and unrestricted. The Utility System operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

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 personnel 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 funds 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.

**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. Full-time status employees hired after March 1, 2017 shall participate in the City’s Paid Time Off (PTO) program in lieu of traditional paid vacation and sick leave. Benefits will accrue as follows:

1 month thru 9 years:	13.34 hours/month
10 thru 19 years:	16.67 hours/month
20 years and over:	20 hours/month

Upon termination of employment, an employee who has completed at least six months of continuous service and successful completion of an initiation period will be paid for all unused and accrued PTO up to 480 hours.

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 and OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in actuarial assumptions and other inputs – 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 items that qualify for reporting in this category.

- 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 and OPEB 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**

During fiscal year 2018, the Utility System adopted GASB Statement No. 75, *Accounting and Reporting for Post-Employment Benefits Other Than Pensions*. With GASB 75, the Utility System must assume its total OPEB liability in connection with the TMRS SDBF and Retiree Health Insurance Plan. Adoption of GASB 75 required a prior period adjustment to report the effect of the standard retroactively. As such, beginning net position was restated by \$2,602,985.

## **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, 2019, 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, depository C.D.'s, 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 a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. TexSTAR is overseen by a Governing Board consisting of individuals from participating government entities in the pool. The business and affairs of TexSTAR are managed by the Board. J.P. Morgan Investment Management, Inc. provides investment management, fund accounting, transfer agency and custodial services for the pool and Hilltop Securities Inc. provides administrative, marketing and participant services. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas PFIA for local government investment pools. The fund is rated AAAm by Standard and Poor's and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for an individual security.

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, 2019 and 2018, are shown below:

**As of September 30, 2018:**

Description	Maturity Date	Fair Value Measurements Used	Reported Value	% of Total	Weighted Average Maturity (Years)
Local Government Investment					
Pools:					
TexPool	N/A	N/A	\$ 3,897,522	8.05%	0.08
TexStar	N/A	N/A	4,465,917	9.22%	0.09
Texas Class	N/A	N/A	<u>6,660,141</u>	13.75%	0.14
Total			<u>15,023,580</u>		
Certificates of Deposit:					
Legacy Texas	12/21/18	N/A	4,600,000	9.50%	0.22
Texas Bank	02/27/19	N/A	900,000	1.86%	0.14
Texas Bank	03/24/19	N/A	1,200,000	2.48%	0.48
Legacy Texas	09/05/19	N/A	3,000,000	6.19%	0.93
LegacyTexas	09/24/21	N/A	<u>2,000,000</u>	4.13%	2.99
Total			<u>11,700,000</u>		
Municipal Securities:					
Altoona WI-Municipal Bonds	12/18/18	Level 2	<u>294,829</u>	0.61%	0.17
Total			<u>294,829</u>		
U.S. Government Securities:					
US Treasury Bonds	3/31/19	Level 1	298,818	0.62%	0.50
US Treasury Bonds	10/31/19	Level 1	1,974,563	4.08%	1.08
Freddie Mac	10/2/19	Level 1	4,931,100	10.18%	1.01
Federal Farm Credit Bonds	11/16/18	Level 2	1,996,400	4.12%	0.13
Federal Home Loan Bank Bonds	9/11/20	Level 1	999,900	2.06%	1.95
Federal Home Loan Bank Bonds	7/14/21	Level 1	1,716,390	3.54%	2.79
Federal Home Loan Bank Bonds	6/28/19	Level 2	986,860	2.04%	0.74
Fannie Mae	11/30/20	Level 1	1,943,800	4.01%	2.17
Fannie Mae	10/7/21	Level 1	2,866,050	5.92%	3.02
Fannie Mae	8/24/20	Level 2	1,752,462	3.62%	1.90
Fannie Mae	10/9/19	Level 1	<u>1,944,880</u>	<u>4.02%</u>	0.74
Total			<u>21,411,223</u>		
Total investments			<u>\$ 48,429,632</u>	<u>100.00%</u>	

**As of September 30, 2019:**

Description	Maturity Date	Fair Value Measurements Used	Reported Value	% of Total	Weighted Average Maturity (Years)
Local Government Investment					
Pools:					
TexPool	N/A	N/A	\$ 5,106,182	9.60%	0.09
TexStar	N/A	N/A	1,964,637	3.69%	0.05
Texas Class	N/A	N/A	<u>7,864,328</u>	14.79%	0.01
Total			<u>14,935,147</u>		
Certificates of Deposit:					
Texas Bank	11/26/19	N/A	1,500,000	2.82%	0.16
Legacy Texas	01/29/20	N/A	3,000,000	5.64%	0.33
Texas Bank	04/29/20	N/A	1,000,000	1.88%	0.58
Texas Bank	11/26/20	N/A	1,500,000	2.82%	1.16
Legacy Texas	09/24/21	N/A	<u>2,000,000</u>	3.76%	1.99
Total			<u>9,000,000</u>		
U.S. Government Securities:					
Freddie Mac	10/02/19	Level 1	4,999,850	9.40%	0.01
Fannie Mae	10/09/19	Level 1	1,998,960	3.76%	0.02
Fannie Mae	10/09/19	Level 1	4,636,752	8.72%	0.02
US Treasury Bonds	10/31/19	Level 1	1,998,820	3.76%	0.08
Private Export Funding	03/15/20	Level 1	3,026,502	5.69%	0.46
Fannie Mae	08/24/20	Level 2	1,793,808	3.37%	0.90
Federal Home Loan Bank Bonds	09/11/20	Level 1	4,037,678	7.59%	0.95
Fannie Mae	11/30/20	Level 1	1,992,920	3.75%	1.17
Federal Home Loan Bank Bonds	07/14/21	Level 1	1,782,558	3.35%	1.79
Fannie Mae	10/07/21	Level 1	<u>2,982,990</u>	<u>5.61%</u>	2.02
Total			<u>29,250,838</u>		
Total investments			<u>\$ 53,185,985</u>	<u>100.00%</u>	

**B. Interfund Transfers**

Transfers of resources during 2019 and 2018 occurred between the Utility System and other funds of the City as follows:

**2019:**

Transfers In	Transfers Out	Amount
City's General Fund	Utility System	\$ 5,398,419
TIRZ	Utility System	33,238
Other Governmental	Utility System	2,871,626
Storm Water Utility	Utility System	<u>14,925</u>
Total Transfers		<u>\$ 8,318,208</u>

**2018:**

Transfers In	Transfers Out	Amount
City's General Fund	Utility System	\$ 5,423,148
Other Governmental	Utility System	<u>296,429</u>
Total Transfers		<u>\$ 5,719,577</u>

Transfers were used 1) to transfer franchise fees to the City's General Fund from the Utility System; and 2) to transfer funds from the Utility System to the City's General Fund for return on investment of the City-owned utility system.

### C. Capital Assets

Capital asset activity for the years ended September 30, 2019 and 2018, was as follows:

	Beginning Balance	Additions	Transfers/ Retirements	Ending Balance
<b>September 30, 2019</b>				
Capital assets, not being depreciated:				
Land	\$ 2,877,235	\$ 394,706	\$ -	\$ 3,271,941
Construction in progress	<u>9,251,945</u>	<u>5,770,967</u>	<u>( 7,450,255)</u>	<u>7,572,657</u>
Total assets not being depreciated	<u>12,129,180</u>	<u>6,165,673</u>	<u>( 7,450,255)</u>	<u>10,844,598</u>
Capital assets, being depreciated:				
Buildings and improvements	19,181,985	-	( 626,688)	18,555,297
Other improvements	190,054,882	4,639,674	7,449,006	202,143,562
Machinery and equipment	<u>8,151,430</u>	<u>746,597</u>	<u>( 312,810)</u>	<u>8,585,217</u>
Total capital assets being depreciated	<u>217,388,297</u>	<u>5,386,271</u>	<u>6,509,508</u>	<u>229,284,076</u>
Less accumulated depreciation:				
Buildings and improvements	( 11,004,052)	( 444,097)	348,033	( 11,100,116)
Other improvements	( 71,533,582)	( 5,490,010)	-	( 77,023,592)
Machinery and equipment	<u>( 6,256,032)</u>	<u>( 418,435)</u>	<u>312,810</u>	<u>( 6,361,657)</u>
Total accumulated depreciation	<u>( 88,793,666)</u>	<u>( 6,352,542)</u>	<u>660,843</u>	<u>( 94,485,365)</u>
Total capital assets being depreciated, net	<u>128,594,631</u>	<u>( 966,271)</u>	<u>7,170,351</u>	<u>134,798,711</u>
Municipal Utility capital assets, net	<u>\$ 140,723,811</u>	<u>\$ 5,199,402</u>	<u>\$ ( 279,904)</u>	<u>\$ 145,643,309</u>
	Beginning Balance	Additions	Transfers/ Retirements	Ending Balance
<b>September 30, 2018</b>				
Capital assets, not being depreciated:				
Land	\$ 2,745,492	\$ 131,743	\$ -	\$ 2,877,235
Construction in progress	<u>5,866,129</u>	<u>8,053,659</u>	<u>( 4,667,843)</u>	<u>9,251,945</u>
Total assets not being depreciated	<u>8,611,621</u>	<u>8,185,402</u>	<u>( 4,667,843)</u>	<u>12,129,180</u>
Capital assets, being depreciated:				
Buildings and improvements	19,181,985	-	-	19,181,985
Other improvements	182,237,854	4,091,401	3,725,627	190,054,882
Machinery and equipment	<u>7,985,009</u>	<u>271,855</u>	<u>( 105,434)</u>	<u>8,151,430</u>
Total capital assets being depreciated	<u>209,404,848</u>	<u>4,363,256</u>	<u>3,620,193</u>	<u>217,388,297</u>
Less accumulated depreciation:				
Buildings and improvements	( 10,554,116)	( 449,936)	-	( 11,004,052)
Other improvements	( 66,991,896)	( 4,844,722)	303,036	( 71,533,582)
Machinery and equipment	<u>( 5,699,657)</u>	<u>( 655,482)</u>	<u>99,107</u>	<u>( 6,256,032)</u>
Total accumulated depreciation	<u>( 83,245,669)</u>	<u>( 5,950,140)</u>	<u>402,143</u>	<u>( 88,793,666)</u>
Total capital assets being depreciated, net	<u>126,159,179</u>	<u>( 1,586,884)</u>	<u>4,022,336</u>	<u>128,594,631</u>
Municipal Utility capital assets, net	<u>\$ 134,770,800</u>	<u>\$ 6,598,518</u>	<u>\$ ( 645,507)</u>	<u>\$ 140,723,811</u>

## D. Long-term Liabilities

Long-term liability activity for the years ended September 30, 2019 and 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>September 30, 2019</b>					
Bonds payable:					
Revenue bonds	\$ 31,855,000	\$ -	\$ 2,675,000	\$ 29,180,000	\$ 2,805,000
Revenue bonds-private placement	10,130,000		530,000	9,600,000	530,000
Issuance premium/discount	<u>4,110,282</u>	<u>-</u>	<u>242,972</u>	<u>3,867,310</u>	<u>-</u>
Total bonds payable	<u>46,095,282</u>	<u>-</u>	<u>3,447,972</u>	<u>42,647,310</u>	<u>3,335,000</u>
State infrastructure loans	37,632	-	37,632	-	-
Capital lease obligation	363,141	-	36,361	326,780	37,300
Compensated absences	<u>933,564</u>	<u>357,432</u>	<u>384,650</u>	<u>906,345</u>	<u>153,844</u>
Municipal Utility long-term liabilities	<u>\$ 47,429,619</u>	<u>\$ 357,432</u>	<u>\$ 3,906,615</u>	<u>\$ 43,880,436</u>	<u>\$ 3,526,144</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>September 30, 2018</b>					
Bonds payable:					
Revenue bonds	\$ 35,780,000	\$ -	\$ 3,925,000	\$ 31,855,000	\$ 2,675,000
Revenue bonds-private placement	10,660,000		530,000	10,130,000	530,000
Issuance premium/discount	<u>4,353,255</u>	<u>-</u>	<u>242,973</u>	<u>4,110,282</u>	<u>-</u>
Total bonds payable	<u>50,793,255</u>	<u>-</u>	<u>4,697,973</u>	<u>46,095,282</u>	<u>3,205,000</u>
State infrastructure loans	73,886	-	36,254	37,632	37,632
Capital lease obligation	398,588	-	35,447	363,141	36,362
Compensated absences	<u>934,604</u>	<u>454,850</u>	<u>455,890</u>	<u>933,564</u>	<u>158,548</u>
Municipal Utility long-term liabilities	<u>\$ 52,200,333</u>	<u>\$ 454,850</u>	<u>\$ 5,225,564</u>	<u>\$ 47,429,619</u>	<u>\$ 3,437,542</u>

Bonds payable at September 30, 2019 and 2018, consist of the following individual issues:

	2019	2018
\$41,565,000 2015 Utility System Revenue Refunding & Improvement Bonds, due in annual installments through September 1, 2035, 2.00% - 5.00%.	29,180,000	31,855,000
\$11,220,000 2016 Tax & Utility System Revenue COs, due in annual installments through September 1, 2036, 0.00% - 1.74%.	<u>9,600,000</u>	<u>10,130,000</u>
	<u>\$ 38,780,000</u>	<u>\$ 41,985,000</u>

The annual debt payment requirements for bonds payable as of September 30, 2019, are as follows:

Fiscal Year	Revenue Bonds		
	Principal	Interest	Total
2020	\$ 2,805,000	\$ 706,344	\$ 3,511,344
2021	2,950,000	636,219	3,586,219
2022	3,090,000	562,469	3,652,469
2023	2,455,000	485,219	2,940,219
2024	2,570,000	423,844	2,993,844
2025-2029	8,390,000	1,269,413	9,659,413
2030-2034	5,620,000	597,750	6,217,750
2035	<u>1,300,000</u>	<u>32,500</u>	<u>1,332,500</u>
	<u>\$ 29,180,000</u>	<u>\$ 4,713,758</u>	<u>\$ 33,893,758</u>

Fiscal Year	Revenue Bonds-Private Placement		
	Principal	Interest	Total
2020	\$ 530,000	\$ 109,612	\$ 639,612
2021	530,000	108,976	638,976
2022	530,000	107,545	637,545
2023	535,000	105,530	640,530
2024	535,000	102,589	637,589
2025-2029	2,755,000	436,535	3,191,535
2030-2034	2,940,000	249,456	3,189,456
2035-2036	<u>1,245,000</u>	<u>32,441</u>	<u>1,277,441</u>
	<u>\$ 9,600,000</u>	<u>\$ 1,252,684</u>	<u>\$ 10,852,684</u>

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.

Additionally, certain obligations that were marketed as private placements have been separately identified; however, the terms of these obligations are not significantly different than other obligations and do not have substantive acceleration clauses. Should the City default on these bonds, any registered owner of the obligations is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make payment.

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, 2019 and 2018.

	2019		2018	
	Required	Actual	Required	Actual
Reserve fund	\$ 3,067,616	\$ 3,312,027	\$ 3,067,616	\$ 3,239,661
Bond fund	404,775	1,002,579	405,087	942,045

## 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, 2019, the Utility System does not have any bonds considered defeased.

## Notes Payable

The following is a summary of notes payable as of September 30, 2019 and 2018:

Description and Terms	2019	2018
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.	\$ -	\$ 37,631

## Lease Agreements

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, 2019, are as follows:

Fiscal Year	Capital Lease
2020	\$ 45,731
2021	45,731
2022	45,731
2023	45,731
2024	45,731
2025-2027	<u>137,192</u>
Total minimum lease payments	365,847
Less: amount representing interest	<u>( 39,067)</u>
Present value of minimum lease payments	<u>\$ 326,780</u>

### III. OTHER INFORMATION

#### A. Retirement Plan

**Plan Description.** The Utility System participates as one of 887 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.tmrs.com](http://www.tmrs.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 payment 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 13.35% and 13.25% in calendar years 2018 and 2019, respectively. The Utility System's contributions to TMRS for the year ended September 30, 2019, were \$610,891 and were equal to the required contributions.

Actuarial assumptions:

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with 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.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
Total	100.0%	

## 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 Utility System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	<u>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>
<b>December 31, 2018:</b>			
Utility System's proportionate share of the net pension liability	\$ 7,480,455	\$ 3,810,966	\$ 805,177
<b>December 31, 2017:</b>			
Utility System's proportionate share of the net pension liability/(asset)	\$ 5,443,702	\$ 1,841,550	\$( 1,223,348)

**Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At September 30, 2019 and 2018, the Utility System reported a liability of \$3,810,966 and \$1,841,550, respectively, of its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, 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, 2018 through December 31, 2018. At December 31, 2018 and 2017, the Utility System's proportion was 20.81% and 21.39%, respectively.

For the year ended September 30, 2019 and 2018, the Utility System recognized pension expense of \$921,510 and \$523,665, respectively. At September 30, 2019 and 2018, 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>
<b>September 30, 2019:</b>		
Differences between expected and actual economic experience	\$ -	\$ 136,326
Changes in actuarial assumptions	41,510	-
Difference between projected and actual investment earnings	1,150,104	-
Contributions subsequent to the measurement date	<u>465,369</u>	<u>-</u>
Totals as of September 30, 2019	\$ <u>1,656,983</u>	\$ <u>136,326</u>
<b>September 30, 2018:</b>		
Differences between expected and actual economic experience	\$ -	\$ 157,686
Changes in actuarial assumptions	82,191	-
Difference between projected and actual investment earnings	-	589,653
Contributions subsequent to the measurement date	<u>471,382</u>	<u>-</u>
Totals as of September 30, 2018	\$ <u>553,573</u>	\$ <u>747,339</u>

\$465,472 and \$471,382 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, 2019 and 2018, 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</u> <u>Ended September 30,</u>	<u>As of</u> <u>September 30, 2019</u>
2020	\$ 383,855
2021	127,394
2022	127,555
2023	416,485

<u>For the Year</u> <u>Ended September 30,</u>	<u>As of</u> <u>September 30, 2018</u>
2019	\$ (45,931)
2020	( 30,657)
2021	( 294,325)
2022	( 294,158)
2023	( 77)

**A. Postemployment Benefits Other Than Pensions (OPEB) - TMRS Supplemental Death Benefits Fund**

**Plan Description.** The City voluntarily participates in a single-employer other postemployment benefit (OPEB) plan administered by TMRS. The Plan is a group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). The Plan is established and administered in accordance with the TMRS Act identically to the City's pension plan. SDBF includes coverage for both active and retired members, and assets are commingled for the payment of such benefits. Therefore, the Plan does not qualify as an OPEB Trust in accordance with paragraph 4 of GASB Statement No. 75.

**Benefits Provided.** The SDBF provides group-term life insurance to the Utility System's employees who are active members in TMRS, including or not including retirees. The City Council opted into this program via an ordinance, and 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.

Payments from this fund are similar to group-term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. 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). The death benefit for retirees is considered another employment benefit and is a fixed amount of \$7,500.

**Contributions.** The Utility System contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.17% for 2019 and 0.18% for 2018, of which 0.04% and 0.04%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. 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 prefund retiree term life insurance during employees' entire careers. The Utility System's contributions to the SDBF for the years ended September 30, 2019 and 2018 were \$6,092 and \$1,721, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

**Total OPEB Liability**

*Actuarial Assumptions and Other Inputs.* The Total OPEB Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate	2.5% per annum
Actuarial cost method	Entry age normal
Discount rate	3.71%
Projected salary increases	3.5% to 10.5% including inflation

Administrative expenses for the SDBF are paid through the TMRS Pension Trust Fund and are wholly accounted for under the provisions of GASB Statement No. 68.

Salary increases were based on a service-related table.

Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male 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 became disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. As such, a single discount rate of 3.71% was used to measure the total OPEB liability. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of December 31, 2018. The discount rate changed from 3.31% at December 31, 2017 to 3.71% as of December 31, 2018.

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Utility System’s proportionate share of the total OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rates that were used in measuring the total OPEB liability.

	<u>1% Decrease in Discount Rate (2.71%)</u>	<u>Discount Rate (3.71%)</u>	<u>1% Increase in Discount Rate (4.71%)</u>
<b>December 31, 2018:</b>			
Utility System's proportionate share of total OPEB liability	\$ 267,329	\$ 225,590	\$ 193,101
	<u>1% Decrease in Discount Rate (2.31%)</u>	<u>Discount Rate (3.31%)</u>	<u>1% Increase in Discount Rate (4.31%)</u>
<b>December 31, 2017:</b>			
Utility System's proportionate share of total OPEB liability	\$ 268,429	\$ 222,475	\$ 186,776

**OPEB Liability.** At September 30, 2019 and 2018, the Utility System reported a liability of \$225,590 and \$222,475, respectively of its proportionate share of the total OPEB TMRS SDBF liability. The total OPEB liability was measured as of December 31, 2018, and the total OPEB liability was determined by an actuarial valuation as of that date. The Utility System’s proportion of the total OPEB 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, 2018 through December 31, 2018. At December 31, 2018 and 2017, the Utility System’s proportion was 21.39% and 20.81%, respectively.

**OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB.** For the year ended September 30, 2019, the Utility System recognized OPEB expense of \$12,909. There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

At September 30, 2019, the Utility System reported deferred outflows of resources related to TMRS – SDBF other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>September 30, 2019:</b>		
Differences between expected and actual economic experience	\$ 9,336	\$ -
Changes in actuarial assumptions	11,925	13,049
Contributions subsequent to the measurement date	<u>4,567</u>	<u>-</u>
Totals as of September 30, 2019	<u>\$ 25,827</u>	<u>\$ 13,049</u>
<b>September 30, 2018:</b>		
Changes in actuarial assumptions	\$ 15,065	\$ -
Contributions subsequent to the measurement date	<u>1,412</u>	<u>-</u>
Totals as of September 30, 2018	<u>\$ 16,477</u>	<u>\$ -</u>

\$4,567 and \$1,412 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the years ending September 30, 2020 and September 30, 2019, respectively. Other amounts of the reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>For the Year Ended September 30,</u>	<u>As of September 30, 2019</u>
2020	\$ 2,037
2021	2,037
2022	2,037
2023	2,037
2024	318
Thereafter	( 255)
<u>For the Year Ended September 30,</u>	<u>As of September 30, 2018</u>
2019	\$ 2,805
2020	2,805
2021	2,805
2022	2,805
2023	2,805
Thereafter	1,040

**B. Postemployment Benefits Other Than Pensions (OPEB) – 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 it has the authority to establish and amend the benefit terms and financing arrangements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

**Benefits and Contributions.** 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.

Retirees are responsible for payment of premiums for any dependent coverage, and the City pays the retirees premiums. The Utility System's contributions to the OPEB for the year ended September 30, 2019, were \$107,071, which equal benefit payments for retirees.

*Actuarial Methods and Assumptions*

Significant methods and assumptions were as follows:

Actuarial Valuation Date	December 31, 2018
Actuarial Cost Method	Individual Entry-Age Normal
Inflation Rate	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Demographic Assumptions	Based on the experience study covering the four year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System (TMRS). The standard TMRS retirement rates were adjusted to reflect the impact of the City's retiree medical plan design.
Mortality	For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used 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.
Health care cost trend rates	For Pre-65, initial rate of 7.20% declining to an ultimate rate of 5.00% after 12 years; Ultimate trend rate includes a 0.75% adjustment for the excise tax. For post-65, initial rate of 6.50% declining to an ultimate rate of 4.25% after 15 years.
Participation rates	It was assumed that 90% of retirees who are eligible for the City subsidy and 3% of those who are not eligible for the City subsidy would choose to receive health care benefits through the City.
Discount rate	The discount rate changed from 3.31% as of December 31, 2017 to 3.71% as of December 31, 2018.

Projections 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 its 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.

A Single Discount Rate of 3.71% was used to measure the total OPEB liability. This Single Discount Rate was based on the municipal bond rates as of the measurement date. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2018. The discount rate changed from 3.31% at December 31, 2017 to 3.71% as of December 31, 2018.

*Discount Rate Sensitivity Analysis*

The following schedule shows the impact of the total OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rates that were used in measuring the total OPEB liability.

	<u>1% Decrease in Discount Rate (2.71%)</u>	<u>Discount Rate (3.71%)</u>	<u>1% Increase in Discount Rate (4.71%)</u>
<b>December 31, 2018:</b>			
Utility System's proportionate share of the Total OPEB liability	\$ 4,859,187	\$ 4,178,194	\$ 3,624,176
	<u>1% Decrease in Discount Rate (2.31%)</u>	<u>Discount Rate (3.31%)</u>	<u>1% Increase in Discount Rate (4.31%)</u>
<b>December 31, 2017:</b>			
Utility System's proportionate share of the Total OPEB liability	\$ 5,352,275	\$ 4,544,871	\$ 3,894,848

*Healthcare Cost Trend Rate Sensitivity Analysis*

The following schedule shows the impact of the total OPEB liability if the Healthcare Cost Trend Rate used was 1% less than and 1% greater than what was used in measuring the total OPEB liability.

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate Assumption</u>	<u>1% Increase</u>
<b>December 31, 2018:</b>			
Utility System's proportionate share of the net pension liability	\$ 3,546,470	\$ 4,178,194	\$ 4,981,226
<b>December 31, 2017:</b>			
Utility System's proportionate share of the net pension liability	\$ 3,760,389	\$ 4,124,514	\$ 5,564,283

*OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB*

For the year ended September 30, 2018, the Utility System recognized OPEB expense of \$256,871. At September 30, 2019, the Utility System reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b>September 30, 2019:</b>		
Differences between expected and actual experience	\$ 8,073	\$ 522,188
Changes in actuarial assumptions	309,257	-
Contributions subsequent to the measurement date	<u>85,520</u>	<u>-</u>
Totals as of September 30, 2019	<u>\$ 402,850</u>	<u>\$ 522,188</u>
<b>September 30, 2018:</b>		
Differences between expected and actual experience	\$ 9,163	\$ -
Changes in actuarial assumptions	305,863	-
Contributions subsequent to the measurement date	<u>82,114</u>	<u>-</u>
Totals as of September 30, 2018	<u>\$ 397,140</u>	<u>\$ -</u>

\$85,520 and \$82,114 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date are due to benefit payments the Utility System paid with own assets and will be recognized as a reduction of the total OPEB liability for the years ending September 30, 2020 and September 30, 2019, respectively. Other amounts of the reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>For the Year Ended September 30,</u>	<u>As of September 30, 2019</u>
2019	\$( 21,243)
2020	( 21,243)
2021	( 21,243)
2022	( 21,243)
2023	( 21,243)
Thereafter	( 98,644)

<u>For the Year Ended September 30,</u>	<u>As of September 30, 2018</u>
2019	\$ 37,480
2020	37,480
2021	37,480
2022	37,480
2023	37,480
Thereafter	127,626

**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). 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.

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	94,368,342	94,368,342	2,500
Mobile equipment	3,622,078	3,622,078	1,000
Boiler and machinery	11,000,000	N/A	2,500
Sewage backup	50,000	N/A	500

\*Actual cash value

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.

The City has a self-insured employee and retiree health plans, effective January 1, 2018. TML Multistate Intergovernmental Employee Benefits Pool (IEBP) is the third-party administrator for the employee and pre-65 retiree health plans. Claims and other plan administration services are performed by TML Multistate IEBP. All participating funds make payments to an Internal Service Fund for their portion of health plan cost.

Financial responsibility in a self-insured funding arrangement is on the City, the risk of losses exceeding an affordable threshold is transferred to an insurance company through the purchase of stop-loss insurance with Companion Life Insurance Company. Stop-loss insurance protects the City from plan claims costs exceeding a specified deductible during the plan year.

Specific and Aggregate Excess Loss Insurance

The City has specific excess loss insurance to cover specific claims incurred by plan participants. The City has a \$125,000 specific deductible for each medical plan member.

The City also has coverage for aggregate claims incurred under the self-insured health plan. Under this coverage, aggregate claims in excess of an estimate annual aggregate attachment point of \$3,544,807 would be covered up to an aggregate benefit period reimbursement maximum of \$1,000,000.

The City establishes the insurance claim liability based on estimates of the ultimate cost of claims reported but unsettled and of claims incurred but not reported. A claims payable was reported in the City's governmental activities financial statements in the amount of \$239,698.

**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, 2019, and 2018, the City held CRRs with a cost of \$578,703 and \$460,580, 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), Bryan Texas Utilities and EDF Trading North America, LLC, through 2021, 2020, and 2019, respectively. Under the terms of the agreements, the City purchases its full power requirements for its retail customer base. 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. 87, *Leases* – This statement changes the recognition requirements for certain lease assets and liabilities for leases that are currently classified as operating leases. This statement will become effective for the City in fiscal year 2021.

## **H. Subsequent Event**

On January 14, 2020, the City Council approved the issuance of \$27,845,000 of General Obligation Refunding Bonds, Series 2020. These obligations have a varying interest rate of 2.125% - 4.00% and will mature on March 2034. These obligations will be used to refund a portion of the City's outstanding debt and is secured by the City's available tax revenues.

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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, 2019

Measurement Date December 31,	2014	2015
Municipal Utility System's proportion of the net pension liability	22.36%	22.44%
Municipal Utility System's proportionate share of the net pension liability	\$ 1,945,541	\$ 3,352,193
Municipal Utility System's covered payroll	4,169,600	4,406,604
Municipal Utility System's proportionate share of the net pension liability as a percentage of its covered payroll	46.59%	76.07%
Plan fiduciary net position as a percentage of the total pension liability	90.94%	85.50%

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

	2016	2017	2018
	22.25%	21.39%	20.81%
\$	3,391,472	\$ 1,841,550	\$ 3,810,966
	4,565,891	4,494,670	4,524,507
	74.28%	40.97%	84.23%
	86.05%	92.56%	85.00%

**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, 2019

Fiscal Year September 30,	2014	2015	2016
Contractually required contribution	\$ 656,192	\$ 609,555	\$ 616,651
Contributions in relation to the contractually required contribution	( 656,192)	( 609,555)	( 616,651)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Municipal Utility System's covered-employee payroll	\$ 4,118,312	\$ 4,324,265	\$ 4,724,310
Contributions as a percentage of covered-employee payroll	15.93%	14.10%	13.05%

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

2017	2018	2019
\$ 624,225	\$ 608,941	\$ 610,891
( 624,225)	( 608,941)	( 610,891)
\$ -	\$ -	\$ -
\$ 4,709,359	\$ 4,560,581	\$ 4,602,079
13.25%	13.35%	13.27%

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

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE MUNICIPAL UTILITY SYSTEM'S PROPORTIONATE  
SHARE OF THE TOTAL OPEB LIABILITY  
SUPPLEMENTAL DEATH BENEFIT FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2019

Measurement Date December 31,	2017	2018
Municipal Utility System's proportion of the total OPEB liability	21.39%	20.81%
Municipal Utility System's proportionate share of the total OPEB liability	\$ 222,475	\$ 225,590
Municipal Utility System's covered-employee payroll	4,494,670	4,524,507
Municipal Utility System's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	4.95%	4.99%

Notes to Schedule:

No assets are accumulated in trust for the SDB plan to pay related benefits that meets the criteria in paragraph four of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

This schedule is required to have 10 years of information, but the information prior to 2017 is not available.

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

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE MUNICIPAL UTILITY SYSTEM'S PROPORTIONATE  
SHARE OF THE TOTAL OPEB LIABILITY  
RETIREE HEALTH BENEFIT PLAN

FOR THE YEAR ENDED SEPTEMBER 30, 2019

Measurement Date December 31,	2017	2018
Municipal Utility System's proportion of the total OPEB liability	23.57%	23.57%
Municipal Utility System's proportionate share of the total OPEB liability	\$ 4,124,514	\$ 4,178,194
Municipal Utility System's covered-employee payroll	3,939,232	4,687,431
Municipal Utility System's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	104.70%	89.14%

Notes to Schedule:

No assets are accumulated in a trust for the SDB plan to pay related benefits that meets the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

This schedule is required to have 10 years of information, but the information prior to 2017 is not available.

## **CAPITAL ASSETS**

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

SCHEDULES OF CAPITAL ASSETS  
SEPTEMBER 30, 2019 AND 2018

	2019	2018
Land	\$ 3,271,941	\$ 2,877,235
Buildings and improvements	18,555,297	19,181,985
Other improvements	202,143,562	190,054,882
Machinery and equipment	8,585,217	8,151,430
Construction in progress	7,572,657	9,251,945
	240,128,674	229,517,477
Less accumulated depreciation	( 94,485,365)	( 88,793,666)
Totals	\$ 145,643,309	\$ 140,723,811

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

SCHEDULE OF CAPITAL ASSETS BY FUNCTION AND ACTIVITY

SEPTEMBER 30, 2019

<u>Function and Activity</u>	<u>Total</u>	<u>Land</u>	<u>Buildings and Improvements</u>
Administration	\$ 5,646,419	\$ 529,942	\$ 3,431,676
Water production	28,411,303	1,055,502	11,519,741
Water distribution	77,530,468	1,140,892	35,619
Wastewater	54,781,037	181,986	3,231,643
Electric production	1,192,894	11,334	336,618
Electric distribution	<u>72,566,553</u>	<u>352,285</u>	<u>-</u>
Total capital assets	<u>\$ 240,128,674</u>	<u>\$ 3,271,941</u>	<u>\$ 18,555,297</u>

<u>Other Improvements</u>	<u>Machinery and Equipment</u>	<u>Construction in Progress</u>
\$ 1,244,940	\$ 439,861	\$ -
12,948,983	1,625,064	1,262,013
72,689,887	988,363	2,675,707
45,256,255	2,476,216	3,634,937
13,203	831,739	-
<u>69,990,294</u>	<u>2,223,974</u>	<u>-</u>
<u>\$ 202,143,562</u>	<u>\$ 8,585,217</u>	<u>\$ 7,572,657</u>

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

SCHEDULE OF CHANGES IN CAPITAL ASSETS  
BY FUNCTION AND ACTIVITY  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Function and Activity	Balance 09/30/18	Additions	Deletions	Balance 09/30/19
Administration	\$ 5,440,181	\$ 245,793	\$( 39,555)	\$ 5,646,419
Water production	27,806,608	1,310,547	( 705,852)	28,411,303
Water distribution	73,515,132	10,318,030	( 6,302,694)	77,530,468
Wastewater	51,807,557	4,268,988	( 1,295,508)	54,781,037
Electric production	1,192,894	-	-	1,192,894
Electric distribution	<u>69,755,105</u>	<u>2,988,856</u>	<u>( 177,408)</u>	<u>72,566,553</u>
Total capital assets	<u>\$ 229,517,477</u>	<u>\$ 19,132,214</u>	<u>\$( 8,521,017)</u>	<u>\$ 240,128,674</u>

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## **STATISTICAL SECTION**

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

PLEDGED REVENUE COVERAGE

SEPTEMBER 30, 2019  
(UNAUDITED)

Fiscal Year	Utility System Revenue Bonds					
	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service (3)		Coverage
				Principal	Interest	
2009/10	44,648,091	34,190,600	10,457,491	2,615,000	2,015,352	2.26%
2010/11	48,143,263	32,655,996	15,487,267	2,715,000	1,912,988	3.35%
2011/12	40,639,256	24,787,800	15,851,456	2,840,000	1,787,416	3.43%
2012/13	44,969,078	29,429,195	15,539,883	2,985,000	1,655,952	3.35%
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	3,655,000	1,993,819	3.64%
2015/16	48,168,116	27,060,795	21,107,321	3,775,000	1,879,236	3.73%
2016/17	55,248,870	33,996,480	21,252,390	4,455,000	1,841,520	3.38%
2017/18	61,408,938	35,511,658	25,897,280	3,205,000	1,656,050	5.33%
2018/19	60,710,535	35,092,460	25,618,075	3,335,000	1,522,300	5.27%

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.

(3) Principal and interest payments due for the following fiscal year.

**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)
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	92,705
2013	371,982,863	1,019,131	94,161
2014	389,421,402	1,066,908	100,111
2015	386,452,762	1,058,775	92,249
2016	387,044,014	1,060,395	96,067
2017	392,239,811	1,074,630	101,940
2018	432,494,992	1,184,918	114,570
2019	* 423,529,191	** 1,160,354	*** 100,048

\* 15.8% Increase since 2010 (KWHR)  
 \*\* 15.8% Increase since 2010 (KWHR)  
 \*\*\* 10.8% Increase since 2010 (KWHR)

**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 Gallons)</u>	<u>Daily Average (1,000 Gallons)</u>	<u>Peak Day (1,000 Gallons)</u>
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
2018	1,389,963	3,808	8,544
2019	* 1,171,155	** 3,209	*** 8,491

\* 5.8% Increase since 2010

\*\* 5.8% Increase since 2010

\*\*\* 16.1% Increase since 2010

25,250 pop. - 120.13 gals per day per person (2010)

31,836 pop. - 100.79 gals per day per person (2019)

**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 Gallons)</u>	<u>Daily Average (1,000 Gallons)</u>	<u>Peak Day (1,000 Gallons)</u>
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
2018	774,291	2,121	4,084
2019	* 903,310	** 2,475	*** 5,349

\* 9.5% Increase since 2010  
 \*\* 9.5% Increase since 2010  
 \*\*\* 22.7% Decrease since 2010

25,250 pop. - 89.53 gals per day per person (2010)  
 31,836 pop. - 77.74 gals per day per person (2019)

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

MISCELLANEOUS STATISTICS

SEPTEMBER 30, 2019  
(UNAUDITED)

Date of incorporation	January 2, 1858
Form of government	Council/Manager
Number of full-time employees (excluding police and fire):	236
Area in square miles	28.96
Facilities and Services	
Miles of streets	261.74
Number of street lights	2,028
Culture and Recreation:	
Public libraries	1
Total library holdings	94,069
Community centers	3
Parks	26
Park acreage	856.00
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	4,627
Police Protection:	
Number of stations	1
Number of police personnel and officers	86
Number of patrol units	27
Number of law violations:	
Arrests	1,552
Violations other than parking	1,479
Parking violations	54

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

MISCELLANEOUS STATISTICS

SEPTEMBER 30, 2019  
(UNAUDITED)

Sanitary Sewer System:	
Miles of sanitary sewers	213.00
Number of treatment plants	1
Number of service connections	11,831
Daily average treatment in gallons	2,450
Permitted daily capacity of treatment plant in gallons	4,500,000
Water System:	
Miles of water mains	288.47
Number of service connections	12,304
Number of fire hydrants	1,678
Daily average consumption in gallons	3,253,200
Maximum daily capacity of plant in gallons	14,000
Total water storage capacity	7,600
Annual water sales in gallons	1,171,153,000
Electric Distribution System:	
Miles of distribution lines	363
Number of service connections	15,196
Total system peak demand (kw)	98,000
Annual kilowatt-hour sales (kwh)	421,511,975
Other Community Facilities:	
Education:	
Number of elementary schools	7
Number of elementary school instructors	263
Number of secondary schools	4
Number of secondary school instructors	258
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

SEPTEMBER 30, 2019  
(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)	\$19.55 customer charge plus \$.0424 per KWH
Large General Service - 1 (Demand 20 - 200)	\$42.50 customer charge \$3.96 per KW demand \$0.0232 per KWH
Large General Service - 2 (Demand 200 - 1000)	\$100.00 customer charge \$4.65 per KVA demand \$0.0240 per KWH
Large General Service - 3 (Demand 1000 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
-------------	---------------------------------------------------

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, 2019  
(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)	\$0.10830
Per Cu. Ft. (3,501-5,000)	\$0.12590
Per Cu. Ft. (all over 5,000)	\$0.14800

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 December, January and February.

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.