

City of Lacy Lakeview, Texas
Financial Statements and
Supplementary Information
September 30, 2019
(With Independent Auditor's Report Thereon)

City of Lacy Lakeview, Texas

Table of Contents

	<u>Page</u>
Independent Auditor’s Report	i
Management’s Discussion and Analysis	iii
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Net Position – Proprietary Fund	7
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund	8
Statement of Cash Flows – Proprietary Fund	9
Notes to Financial Statements	10
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – General Fund	39
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Hotel-Motel Fund	40
Schedule of Changes in Net Pension Liability and Related Ratios	41
Schedule of Pension Contributions and Notes to Schedule of Pension Contributions	42
Schedule of Changes in Total OPEB Liability and Related Ratios	43
Schedule of OPEB Contributions and Notes to Schedule of Contributions	44



JAYNES REITMEIER BOYD & THERRELL, P.C.
Certified Public Accountants
5400 Bosque Blvd., Ste. 600 | Waco, TX 76710
P.O. Box 7616 | Waco, TX 76714
Main 254.776.4190 | Fax 254.776.8489 | jrbt.com

INDEPENDENT AUDITOR'S REPORT

The Honorable Members of City Council
City of Lacy Lakeview, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Lacy Lakeview, Texas (the "City") as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this included 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 respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Lacy Lakeview, Texas as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii through ix, the budgetary comparison information on pages 39 and 40, and other required supplementary information on pages 41 through 44 (collectively, "the required supplementary 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.

Jaynes, Reitmeier, Boyd & Threll, P.C.

September 4, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lacy Lakeview, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Lacy Lakeview, Texas for the fiscal year ended September 30, 2019. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$10,057,197 (*net position*). Of this amount, \$3,000,906 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$555,506 during the year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,541,784, an increase of \$498,403 from the prior year. Approximately 74% of the fund balance, \$2,622,446 (unassigned fund balance), is available for spending at the government's discretion.
- At the end of the current fiscal year, unrestricted fund balance (the total of the *committed, assigned and unassigned* components of *fund balance*) for the general fund was \$2,622,446, or approximately 81% of total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highways and streets, sanitation, and culture and recreation. The business-type activities of the City include water and sewer operations.

The government-wide financial statements can be found on pages 1 – 2 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *government funds* and *governmental activities*.

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, and the hotel-motel fund, each of which is considered to be a major fund.

The basic governmental fund financial statements can be found on pages 3 through 6 of this report.

Proprietary fund. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations. The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 7 - 9 of this report.

Notes to the financial statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10 - 38 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City’s budgetary data for the general fund and information related to the net pension and total OPEB liabilities. Required supplementary information can be found on pages 39 through 44 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government’s financial position. In the case of the City of Lacy Lakeview, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$10,057,197 at the close of the most recent fiscal year.

**City of Lacy Lakeview
Net Position
September 30, 2019 and 2018**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 3,764,367	3,258,530	6,040,919	6,387,473	9,805,286	9,646,003
Capital assets, net	1,614,396	1,837,648	6,369,533	6,329,866	7,983,929	8,167,514
Total assets	<u>5,378,763</u>	<u>5,096,178</u>	<u>12,410,452</u>	<u>12,717,339</u>	<u>17,789,215</u>	<u>17,813,517</u>
Deferred outflows of resources	<u>441,701</u>	<u>189,616</u>	<u>230,902</u>	<u>149,426</u>	<u>672,603</u>	<u>339,042</u>
Other current liabilities	135,035	100,551	1,091,330	1,025,015	1,226,365	1,125,566
Noncurrent liabilities	<u>2,100,801</u>	<u>1,805,367</u>	<u>4,977,371</u>	<u>5,475,028</u>	<u>7,078,172</u>	<u>7,280,395</u>
Total liabilities	<u>2,235,836</u>	<u>1,905,918</u>	<u>6,068,701</u>	<u>6,500,043</u>	<u>8,304,537</u>	<u>8,405,961</u>
Deferred inflows of resources	<u>72,160</u>	<u>180,639</u>	<u>27,924</u>	<u>64,268</u>	<u>100,084</u>	<u>244,907</u>
Net position:						
Net investment in capital assets	1,148,660	1,256,807	4,949,533	4,247,855	6,098,193	5,504,662
Restricted	890,473	660,000	67,625	23,124	958,098	683,124
Unrestricted	<u>1,473,335</u>	<u>1,282,430</u>	<u>1,527,571</u>	<u>2,031,475</u>	<u>3,000,906</u>	<u>3,313,905</u>
Total net position	<u>\$ 3,512,468</u>	<u>3,199,237</u>	<u>6,544,729</u>	<u>6,302,454</u>	<u>10,057,197</u>	<u>9,501,691</u>

By far, the largest portion of the City’s net position (61%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment) less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City’s investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (10%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,000,906 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate government activities and business-type activities. The same situation held true for the prior year.

City of Lacy Lakeview
Changes in Net Position
September 30, 2019 and 2018

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Program revenues:						
Charges for services	\$ 183,870	325,165	3,083,661	3,263,732	3,267,531	3,588,897
General revenues:						
Property taxes	1,268,438	1,189,467	-	-	1,268,438	1,189,467
Sales taxes	1,476,117	1,349,991	-	-	1,476,117	1,349,991
Franchise taxes	373,953	351,034	-	-	373,953	351,034
Other taxes	553,459	600,918	-	-	553,459	600,918
Interest income	29,332	18,569	36,016	17,758	65,348	36,327
Other income	-	-	43,236	42,872	43,236	42,872
Total revenues	<u>3,885,169</u>	<u>3,835,144</u>	<u>3,162,913</u>	<u>3,324,362</u>	<u>7,048,082</u>	<u>7,159,506</u>
Expenses:						
General government	376,343	377,993	-	-	376,343	377,993
Public safety	2,299,060	2,273,541	-	-	2,299,060	2,273,541
Streets	378,093	313,487	-	-	378,093	313,487
Municipal court	194,180	188,889	-	-	194,180	188,889
Culture and recreation	308,397	435,554	-	-	308,397	435,554
Interest and amortization on long-term debt	15,865	20,629	-	-	15,865	20,629
Water and sewer	-	-	2,920,638	2,727,810	2,920,638	2,727,810
	<u>3,571,938</u>	<u>3,610,093</u>	<u>2,920,638</u>	<u>2,727,810</u>	<u>6,492,576</u>	<u>6,337,903</u>
Increase in net position	313,231	225,051	242,275	596,552	555,506	821,603
Net position, beginning of the year	<u>3,199,237</u>	<u>2,974,186</u>	<u>6,302,454</u>	<u>5,705,902</u>	<u>9,501,691</u>	<u>8,680,088</u>
Net position, end of the year	<u>\$ 3,512,468</u>	<u>3,199,237</u>	<u>6,544,729</u>	<u>6,302,454</u>	<u>10,057,197</u>	<u>9,501,691</u>

The City's net position increased by \$555,506 during the current fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental activities. Governmental activities increased the City's net position by \$313,231.

- Sales taxes increased by \$126,126 during the year, due to increased commercial activity along Interstate 35.
- Property taxes increased by \$78,971 during the year, which is primarily due to increased property values and new property being added to the tax rolls.

For the most part, other revenue and expenses paralleled the prior year activity and included a net pension expense in the current year.

Business-type activities. Business-type activities increased the City's net position by \$242,275. Key elements of this increase are as follows.

- Revenues decreased \$180,071, due to a decrease in charges for services due to more rainfall in the summer than in the prior year.
- Expenses increased \$192,828, which is primarily due to increased expenses in most categories and an increase in the net pension liability.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,541,784, an increase of \$498,403 from the prior year. Approximately 1% of this total amount (\$28,865) constitutes nonspendable fund balance. Nonspendable fund balance represents net resources that are inherently nonspendable because of their form or because they must remain intact. Approximately 25% (\$890,473) of the total fund balance is classified as restricted. Restricted fund balance represents balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. The remaining 74% of the fund balance (\$2,622,446) is reported as unassigned and represents the net residual resources.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,622,446, while total fund balance increased to \$2,694,540. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 81% of the total general fund expenditures, while total fund balance represents 83% of that same amount.

Proprietary funds. The City’s proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Total net position of the water and sewer fund at the end of the year amounted to \$6,544,729. The total growth in net position was \$242,275. Other factors concerning the finances of this fund have already been addressed in the discussion of the City’s business-type activities.

General Fund Budgetary Highlights

Original Budget Compared to Final Budget. Budgeted uses of funds, increased by \$13,313 between the original budget and final General Fund budget. The increase in uses was primarily attributable to an increase in other service and charges and personnel services. Budget overages in the general fund for the year ended September 30, 2019, were monitored by management and the City Council.

Capital Assets and Debt Administration

Capital assets. The City’s investment in capital assets for its governmental and business type activities as of September 30, 2019, amounts to \$7,983,929 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and water and sewer system facilities.

City of Lacy Lakeview Capital Assets September 30, 2019 and 2018

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 201,196	201,196	53,686	53,686	254,882	254,882
Buildings	1,123,686	1,123,686	-	-	1,123,686	1,123,686
Improvements other than buildings	1,141,215	1,141,215	-	-	1,141,215	1,141,215
Machinery and Equipment	3,575,307	3,522,638	816,179	854,515	4,391,486	4,377,153
Water system facilities	-	-	4,454,712	4,454,712	4,454,712	4,454,712
Sewer system facilities	-	-	6,940,017	6,706,957	6,940,017	6,706,957
Less: accumulated depreciation	<u>(4,427,008)</u>	<u>(4,151,087)</u>	<u>(5,895,061)</u>	<u>(5,740,004)</u>	<u>(10,322,069)</u>	<u>(9,891,091)</u>
	<u>\$ 1,614,396</u>	<u>1,837,648</u>	<u>6,369,533</u>	<u>6,329,866</u>	<u>7,983,929</u>	<u>8,167,514</u>

The City invested \$233,060 into the WMARSS Interceptor Project during the current fiscal year. Additional information on the City’s capital assets can be found in Note 9 on pages 22-24 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt and capital lease obligations of \$5,466,221. Of this amount, \$5,015,000 represents revenue bonds secured by water and sewer revenues. The City’s capitalized lease obligations of \$451,221 pertain to purchases of equipment.

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenue bonds payable	\$ -	-	5,106,400	5,791,777	5,106,400	5,791,777
Capitalized lease obligations	451,221	563,320	-	-	451,221	563,320
Compensated absences	24,509	25,948	10,183	7,397	34,692	33,345
Net pension liability	1,540,509	1,122,072	541,260	335,165	2,081,769	1,457,237
Total OPEB liability	<u>84,562</u>	<u>94,027</u>	<u>29,711</u>	<u>28,086</u>	<u>114,273</u>	<u>122,113</u>
	<u>\$ 2,100,801</u>	<u>1,805,367</u>	<u>5,687,554</u>	<u>6,162,425</u>	<u>7,788,355</u>	<u>7,967,792</u>

The City’s total long-term debt decreased by \$179,437 (2%) during the current fiscal year. This change resulted primarily from scheduled payments on revenue bonds and capital lease obligations offset by an increase in the net pension liability.

The City maintains an “AA-” rating from Standard and Poor’s.

Economic Factors and Next Year’s Budgets and Rates

At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,622,446. The City has not appropriated any of this amount for spending in the 2020 fiscal year budget. The 2020 fiscal year budget of \$3,373,054 for the general fund is a balanced budget.

Subsequent Event

As a result of the spread of the COVID – 19 coronavirus subsequent to year end, economic uncertainties have arisen which are likely to negatively impact operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Requests for Information

This financial report is designed to provide a general overview of the City of Lacy Lakeview’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should contact the City Secretary, at 501 East Craven, Lacy Lakeview, Texas 76705 or call 254-799-2458.

Basic Financial Statements

City of Lacy Lakeview, Texas

Statement of Net Position

September 30, 2019

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 3,513,523	1,053,830	4,567,353
Receivables	504,108	407,405	911,513
Prepaid expenses	28,865	8,753	37,618
Internal balances	(282,129)	282,129	-
Restricted cash	-	4,288,802	4,288,802
Capital assets not being depreciated:			
Land	201,196	53,686	254,882
Capital assets, net of accumulated depreciation			
Buildings	657,514	-	657,514
Improvements other than buildings	527,852	-	527,852
Machinery and equipment	227,834	14,570	242,404
Water system	-	1,355,607	1,355,607
Sewer system	-	4,945,670	4,945,670
Total assets	<u>5,378,763</u>	<u>12,410,452</u>	<u>17,789,215</u>
Deferred Outflows of Resources			
Deferred outflows of resources	<u>441,701</u>	<u>230,902</u>	<u>672,603</u>
Liabilities			
Accounts payable	63,487	121,356	184,843
Accrued liabilities	53,883	24,858	78,741
Customer deposits	3,150	226,664	229,814
Accrued interest payable	14,515	18,452	32,967
Noncurrent liabilities:			
Due within one year	138,758	700,000	838,758
Due in more than one year	<u>1,962,043</u>	<u>4,977,371</u>	<u>6,939,414</u>
Total liabilities	<u>2,235,836</u>	<u>6,068,701</u>	<u>8,304,537</u>
Deferred Inflows of Resources			
Deferred inflows of resources	<u>72,160</u>	<u>27,924</u>	<u>100,084</u>
Net Position			
Net investment in capital assets	1,148,660	4,949,533	6,098,193
Restricted:			
Public safety	43,229	-	43,229
Culture and recreation	847,244	-	847,244
Debt service	-	67,625	67,625
Unrestricted	<u>1,473,335</u>	<u>1,527,571</u>	<u>3,000,906</u>
Total net position	<u>\$ 3,512,468</u>	<u>6,544,729</u>	<u>10,057,197</u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas
Statement of Activities
Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating	Capital	Governmental Activities	Business-type Activities	Total
			Grants and Contributions	Grants and Contributions			
Governmental activities:							
General government	\$ 376,343	127,332	-	-	(249,011)	-	(249,011)
Public safety	2,299,060	-	-	-	(2,299,060)	-	(2,299,060)
Streets	378,093	-	-	-	(378,093)	-	(378,093)
Municipal court	194,180	56,538	-	-	(137,642)	-	(137,642)
Culture and recreation	308,397	-	-	-	(308,397)	-	(308,397)
Interest on long-term debt	15,865	-	-	-	(15,865)	-	(15,865)
Total governmental activities	<u>3,571,938</u>	<u>183,870</u>	<u>-</u>	<u>-</u>	<u>(3,388,068)</u>	<u>-</u>	<u>(3,388,068)</u>
Business-type activities:							
Water and sewer	<u>2,920,638</u>	<u>3,083,661</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,023</u>	<u>163,023</u>
Total business-type activities	<u>2,920,638</u>	<u>3,083,661</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,023</u>	<u>163,023</u>
Total	<u>\$ 6,492,576</u>	<u>3,267,531</u>	<u>-</u>	<u>-</u>	<u>(3,388,068)</u>	<u>163,023</u>	<u>(3,225,045)</u>
General revenues:							
Property taxes					1,268,438	-	1,268,438
Sales taxes					1,476,117	-	1,476,117
Franchise taxes					373,953	-	373,953
Hotel/motel taxes					463,120	-	463,120
Other					90,339	43,236	133,575
Interest income					29,332	36,016	65,348
Total general revenues					<u>3,701,299</u>	<u>79,252</u>	<u>3,780,551</u>
Change in net position					313,231	242,275	555,506
Net position - beginning of year					<u>3,199,237</u>	<u>6,302,454</u>	<u>9,501,691</u>
Net position - ending					<u>\$ 3,512,468</u>	<u>6,544,729</u>	<u>10,057,197</u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

Balance Sheet –
Governmental Funds

September 30, 2019

	<u>General</u>	<u>Hotel - Motel</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash and investments	\$ 2,643,322	870,201	3,513,523
Receivables (net of allowance for uncollectibles);			
Taxes	315,271	105,728	420,999
Others	83,109	-	83,109
Prepaid expenses	28,865	-	28,865
Total assets	<u>\$ 3,070,567</u>	<u>975,929</u>	<u>4,046,496</u>
<u>Liabilities</u>			
Accounts payable	\$ 57,487	6,000	63,487
Accrued liabilities	53,883	-	53,883
Due to other funds	159,444	122,685	282,129
Customer deposits	3,150	-	3,150
Total liabilities	<u>273,964</u>	<u>128,685</u>	<u>402,649</u>
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	102,063	-	102,063
<u>Fund Balances</u>			
Nonspendable	28,865	-	28,865
Restricted	43,229	847,244	890,473
Unassigned	2,622,446	-	2,622,446
Total fund balances	<u>2,694,540</u>	<u>847,244</u>	<u>3,541,784</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,070,567</u>	<u>975,929</u>	<u>4,046,496</u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position

September 30, 2019

Total fund balances	\$	3,541,784
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,614,396
Deferred inflows of resources are not available to pay current period expenditures and, therefore, are deferred in the funds.		102,063
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(1,745,775)</u>
Net position of governmental activities	\$	<u><u>3,512,468</u></u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds

Year Ended September 30, 2019

	<u>General</u>	<u>Hotel - Motel</u>	<u>Total Governmental Funds</u>
Revenue:			
Taxes:			
Property	\$ 1,267,984	-	1,267,984
Sales	1,476,117	-	1,476,117
Franchise	373,953	-	373,953
Other	11,003	463,120	474,123
License and permits	45,160	-	45,160
Fines and forfeitures	87,048	-	87,048
Charges for services	82,172	-	82,172
Interest income	27,905	1,427	29,332
Miscellaneous	79,336	-	79,336
Total revenue	<u>3,450,678</u>	<u>464,547</u>	<u>3,915,225</u>
Expenditures:			
Current:			
General government	352,346	-	352,346
Public safety	2,049,080	-	2,049,080
Streets	333,757	-	333,757
Municipal court	191,016	-	191,016
Cultural and recreation	91,498	206,606	298,104
Debt service:			
Principal	141,836	-	141,836
Interest	18,871	-	18,871
Capital outlay	61,548	-	61,548
Total expenditures	<u>3,239,952</u>	<u>206,606</u>	<u>3,446,558</u>
Excess (deficiency) of revenue over (under) expenditures	<u>210,726</u>	<u>257,941</u>	<u>468,667</u>
Other financing sources (uses):			
Proceeds from issuance of capital leases	29,736	-	29,736
Total other financing sources (uses)	<u>29,736</u>	<u>-</u>	<u>29,736</u>
Net changes in fund balances	240,462	257,941	498,403
Fund balances, beginning of year	<u>2,454,078</u>	<u>589,303</u>	<u>3,043,381</u>
Fund balances, at end of year	<u>\$ 2,694,540</u>	<u>847,244</u>	<u>3,541,784</u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities

Year Ended September 30, 2019

Net change in fund balances - total governmental funds	\$	498,403
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$284,800) exceeded the capital asset additions (\$61,548) in the current period.</p>		(223,252)
<p>Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds</p>		(30,056)
<p>The issuance of long-term debt (e.g., bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		116,544
<p>Governmental funds report contributions to pension/OPEB plans as expenditures, where as pension/OPEB expense is recognized in the statement of activities. This is the amount by which pension expense/OPEB exceeded contributions to the plans in the current period.</p>		<u>(48,408)</u>
Change in net position of governmental activities	\$	<u><u>313,231</u></u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

Statement of Net Position
Proprietary Fund

September 30, 2019

	<u>Business-type activities- Enterprise Fund</u>
	<u>Water and Sewer</u>
Assets	
Current assets:	
Cash and investments	\$ 1,053,830
Receivables (net of allowance for uncollectibles)	407,405
Due from other funds	282,129
Prepaid expenses	8,753
Total current assets	<u>1,752,117</u>
Noncurrent assets:	
Restricted cash	4,288,802
Capital assets:	
Land	53,686
Water system	4,454,712
Sewer system	6,940,017
Equipment	816,179
Less: accumulated depreciation	<u>(5,895,061)</u>
Total capital assets, net	<u>6,369,533</u>
Total noncurrent assets	<u>10,658,335</u>
Total assets	<u>12,410,452</u>
Deferred Outflows of Resources	
Deferred outflows of resources	<u>230,902</u>

(Continued)

	<u>Business-type activities- Enterprise Fund</u>
	<u>Water and Sewer</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 121,356
Accrued liabilities	43,310
Payable from restricted assets:	
Customer deposits	226,664
Revenue bonds - current	<u>700,000</u>
Total current liabilities	<u>1,091,330</u>
Noncurrent liabilities:	
Net pension liability	541,260
OPEB liability	29,711
Revenue bonds payable	4,406,400
Total noncurrent liabilities	<u>4,977,371</u>
Total liabilities	<u>6,068,701</u>
Deferred Inflows of Resources	
Deferred inflows of resources	<u>27,924</u>
Net Position	
Invested in capital assets, net of related debt	4,949,533
Restricted for debt service	67,625
Unrestricted	<u>1,527,571</u>
Total net position	<u>\$ 6,544,729</u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

Statement of Revenues, Expenses and Changes in Net Position -
Proprietary Fund

Year Ended September 30, 2019

	Business-type activities- Enterprise Fund
	Water and Sewer
Operating revenue:	
Charges for sales and services:	
Water sales	\$ 1,893,252
Sewer charges	1,108,525
Other charges	81,884
Total operating revenues	3,083,661
Operating expenses:	
Costs of sales and services	1,314,838
Administration	1,252,423
Depreciation	202,168
Total operating expenses	2,769,429
Operating income	314,232
Nonoperating revenue (expenses):	
Interest expense	(151,209)
Miscellaneous revenue	43,236
Interest revenue	36,016
Total nonoperating revenue (expenses)	(71,957)
Change in net position	242,275
Net position, at beginning of year	6,302,454
Net position, at end of year	\$ 6,544,729

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

Statement of Cash Flows -
Proprietary Fund

Year Ended September 30, 2019

	Business-type activities- Enterprise Fund
	Water and Sewer
Cash flows from operating activities:	
Receipts from customers and users	\$ 3,118,070
Payments to suppliers	(1,919,708)
Payments to employees	(537,287)
Net cash provided by operating activities	661,075
Cash flows from capital and related financing activities:	
Miscellaneous revenue	43,236
Acquisition of capital assets	(241,835)
Principal paid on debt	(680,000)
Interest and fiscal charge paid on debt	(154,242)
Net cash used in capital and related financing activities	(1,032,841)
Cash flows from investing activities:	
Earnings on investments	36,016
Net cash provided by investing activities	36,016
Net decrease in cash and cash equivalents	(335,750)
Cash and cash equivalents, at beginning of year	5,678,382
Cash and cash equivalents, at end of year	\$ 5,342,632
Cash flows from operating activities:	
Operating income	\$ 314,232
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	202,168
Change in assets and liabilities:	
Decrease (increase) in assets:	
Due from other funds	(28,285)
Customer receivables	34,409
Prepays	4,680
Deferred outflows	(90,649)
Increase (decrease) in liabilities:	
Accounts payable	25,076
Accrued liabilities	4,386
Customer deposits	21,059
Compensated absences	2,787
Net pension liability	206,095
OPEB liability	1,461
Deferred inflows	(36,344)
Net cash provided by operating activities	\$ 661,075

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

Notes to Financial Statements

September 30, 2019

(1) Nature of Operations and Reporting Entity

The City of Lacy Lakeview, Texas (the “City”) is a home-rule municipal corporation organized and existing under the provisions of the Constitution of the State of Texas. The City operates under a Council-Manager form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accompanying financial statements present the City and any of its component units, entities for which the government is considered financially accountable. The City did not identify any entities for which it is financially accountable.

(2) Summary of Significant Accounting Policies(a) Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, and proprietary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Lacy Lakeview, TexasNotes to Financial Statements
(Continued)(2) Summary of Significant Accounting Policies (continued)(a) Government-wide and fund financial statements (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

(b) Measurement focus, basis of accounting and financial statement presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured, such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus*, and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Fines and miscellaneous revenues are considered to be measurable and available only when cash is received by the City.

City of Lacy Lakeview, TexasNotes to Financial Statements
(Continued)(2) Summary of Significant Accounting Policies (continued)(b) Measurement focus, basis of accounting
and financial statement presentation (continued)

The proprietary fund is reported using the *economic resources measurement focus*, and the *accrual basis of accounting*.

The City reports the following major governmental funds:

General Fund – The general fund is the City’s primary operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

Hotel/Motel Fund – The fund is used to account for occupancy taxes collected and used to promote tourism that benefits the local hotels and motels.

The City reports the following major proprietary fund:

Water and Sewer Fund - The water and sewer fund accounts for the activities of the water distribution system, the sewage treatment plant, sewage pumping stations and collection systems.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the water and sewer enterprise funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

City of Lacy Lakeview, TexasNotes to Financial Statements
(Continued)(2) Summary of Significant Accounting Policies (continued)(c) Deposits and cash equivalents

The City's cash and cash equivalents for purposes of reporting cash flows of the proprietary fund consist of cash on hand, demand deposits, and deposits in the City's internal cash and public funds investment pools.

State statutes authorize the City to invest in U.S. Treasury and agency securities, commercial paper, guaranteed investment contracts, repurchase agreements, and certain governmental investment pools. The City's local investment policy limits the City to invest in U.S. Treasury and agency securities, certificates of deposit, fully collateralized repurchase agreements secured by U.S. Treasury and agency securities, and public funds investment pools.

Investments are reported at fair value, except for public funds investment pools. The public funds investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the amortized cost of the pool shares.

(d) Receivables and payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 120 days comprise the trade accounts receivable allowance for uncollectibles.

(e) Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

(f) Restricted assets

Restricted cash accounts in the water and sewer fund are used to report (1) unspent bond proceeds, (2) customer deposits, (3) bond reserve funds, and (4) resources set aside for debt service and capital asset acquisition of the Waco Metropolitan Area Regional Sewer System, as more fully discussed in Note 4.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(2) Summary of Significant Accounting Policies (continued)

(g) Capital assets

Capital assets, which include land, buildings, improvements, machinery and equipment, and water and sewer facilities are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City has elected to report general infrastructure assets prospectively from October 1, 2003 as permitted by Governmental Accounting Standards Board Statement No. 34. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Improvements other than buildings	10 - 50
Water and sewer systems	5 - 50
Machinery and equipment	5 - 10

(h) Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

City of Lacy Lakeview, TexasNotes to Financial Statements
(Continued)(2) Summary of Significant Accounting Policies (continued)(i) Pensions

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

(j) Other Post-Employment Benefits (“OPEB”)

The fiduciary net position of the City’s defined benefit life insurance plan (OPEB Plan) has been determined using the flow of economic resources measurement focus and the full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, and information about assets, liabilities, and additions to/deductions from the OPEB Plan’s net position. Benefit payments are recognized when due and payable in accordance with benefit terms. There are no investments as this is a pay-as-you-go plan.

(k) Deferred outflows and 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 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.

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.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(2) Summary of Significant Accounting Policies (continued)

(l) Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(m) Fund balance

In the fund financial statements, governmental fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through a resolution. Assigned fund balances are constrained by the intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by City management based upon City Council direction. The order of spending available resources is as follows: restricted, committed, assigned, and unassigned.

The following detail of fund balances by classification is shown for governmental funds:

	<u>General</u>	<u>Hotel - Motel</u>	<u>Total</u>
Fund balances:			
Nonspendable:			
Prepaid expenses	\$ 28,865	-	28,865
Restricted for:			
Public safety	43,229	-	43,229
Culture and recreation	-	847,244	847,244
Unassigned	<u>2,622,446</u>	<u>-</u>	<u>2,622,446</u>
	<u>\$ 2,694,540</u>	<u>847,244</u>	<u>3,541,784</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(2) Summary of Significant Accounting Policies (continued)

(n) Net position

In the government-wide and proprietary fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent bond proceeds.

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

(3) Reconciliation of Government-wide and Fund Financial Statements

(a) Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Position

The governmental funds balance sheet includes a reconciliation between *fund balances – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, “long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$1,745,775 difference are as follows:

Accrued interest payable	\$ 14,515
Capital leases	451,221
Compensated absences	24,509
Net pension/OPEB liability, and related deferred outflows / inflows of \$369,541 (to be amortized as pension expense)	<u>1,255,530</u>
Net adjustment to reduce <i>fund balance - total government funds</i> to arrive at <i>net position - governmental activities</i>	<u><u>\$ 1,745,775</u></u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(3) Reconciliation of Government-wide and Fund Financial Statements (continued)

(b) Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental funds' statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "The issuance of long-term debt (e.g., bonds, notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. The details of this \$116,544 difference are as follows:

Principal repayments on capital leases	\$ 141,836
Issuance of capital leases	(29,736)
Accrued interest	<u>4,444</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	
	<u>\$ 116,544</u>

(4) Undivided Interest in Waco Area Metropolitan Area Regional Sewer System

During 2004, the City entered into an agreement with the City of Waco, Texas to acquire a 3.4% undivided interest in the facilities and operations of the Waco Metropolitan Area Regional Sewer System ("WMARSS"). The City believes that its purchase and operation of the system will increase the efficiency and effectiveness of providing sewer treatment services to its citizens.

Under an interlocal agreement, a WMARSS board consists of the city managers from each of the seven participating cities. The operation and administration of the system is subject to joint control by the cities through the WMARSS board; however, a separate legal entity was not created. The agreement allows the cities to pool resources and share the costs, risks, and rewards of providing services. Further, each city retains an ongoing financial interest and ongoing financial responsibility in the operations of the system. The City has

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(4) **Undivided Interest in Waco Area
Metropolitan Area Regional Sewer System (continued)**

reported its share of assets, liabilities, equity, revenues and expenses that are associated with this joint activity in its enterprise fund as follows:

Capital assets	\$	<u>1,985,881</u>
Net position	\$	<u><u>1,985,881</u></u>
Operating expenses	\$	<u>256,548</u>
Change in net position	\$	<u><u>256,548</u></u>

As more fully described in Note 17, effective October 1, 2019, the City terminated its participation in WMARSS and entered into a wholesale wastewater contract with the City of Waco, Texas.

(5) **Budgets and Budgetary Accounting**

The City prepares its budget on a basis consistent with generally accepted accounting principles for all governmental funds.

The following procedures are implemented by the City in establishing budgetary data:

- Prior to the beginning of each fiscal year, the Mayor submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing those expenditures.
- Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
- The budgets are then legally enacted by the City Council. Formal budgetary integration is employed for the general fund and debt service fund.
- Budget revisions are made during the year.
- Actual expenditures and operating transfers out may not legally exceed budget appropriations at the individual function level. However, budgetary control is maintained at the department level.
- Actual expenditures exceeded budget amounts in the municipal court, interest expense and capital outlays.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(6) Deposits and Investments

A summary of the City's cash and cash equivalents at September 30, 2019 follows:

Cash in bank and certificates of deposit	\$ 7,322,747	
Public funds investments pool:		
Texas Local Government Investment Pool ("TexPool")	1,533,408	<u> </u>
 Total cash and cash equivalents	 \$ 8,856,155	 <u> </u>

The public funds investment pools have been created pursuant to the Interlocal Corporation Act of the State of Texas. The City has delegated the authority to hold legal title to TexPool, as custodians and to make investment purchases with the City's funds.

TexPool. The State Comptroller of Public Accounts (the "Comptroller") is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company (the "Trust Company") which is authorized to operate TexPool. Additionally, the 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. There are no maximum transaction amounts and withdrawals from TexPool may be made daily. TexPool uses amortized cost rather than fair value to report net assets share prices.

Custodial Credit Risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. City policy requires all deposits to be fully secured in accordance with the Texas Government Code, Chapter 2257, by either surety bonds, letters of credit of the United States or its agencies and instrumentalities, or by eligible securities held by an independent third-party custodian.

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City would not be able to recover the value of its investment or collateralized securities that are in the possession of an outside third party. The City's investment policy requires that the purchase of investment securities be settled on a delivery basis and that ownership of all securities be perfected in the name of the City.

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair value by: (a) structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, (b) investing operating funds primarily in shorter-term securities, (c) diversifying maturities and staggering purchase dates to minimize the impact of market movements over time. It is the City's policy not to

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(6) Deposits and Investments (continued)

invest in securities maturing more than one year from the date of purchase. For repurchase agreements, the maximum maturity is 90 days. At September 30, 2019, the weighted average maturity of TexPool is 36 days.

Credit risk. The City's investment policy limits investments in government investment pools and money market mutual funds to those that are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. At September 30, 2019, TexPool is rated AAAM by Standard & Poor's.

(7) Receivables

Receivables as of September 30, 2019 for the City's individual major funds, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	<u>Other Governmental</u>	<u>Water and Sewer</u>	<u>Total</u>
Receivables:				
Property taxes	\$ 48,934	-	-	48,934
Sales Taxes	266,337	-	-	266,337
Hotel occupancy taxes	-	105,728	-	105,728
Accounts	<u>83,109</u>	<u>-</u>	<u>449,325</u>	<u>532,434</u>
Gross receivables	398,380	105,728	449,325	953,433
Lease allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>41,920</u>	<u>41,920</u>
	<u>\$ 398,380</u>	<u>105,728</u>	<u>407,405</u>	<u>911,513</u>

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. The net assessed value upon which the 2018 levy was based was \$361,449,870.

Taxes are due by January 31 following the October 1 levy date, current tax collections for the year ended September 30, 2019 were 98.75% of the tax levy.

(8) Interfund Receivables and Payables

The composition of interfund balances as of September 30, 2019, is as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water and sewer		General	\$ 159,444
Water and sewer		Hotel/motel	122,685
Total			<u>\$ 282,129</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(9) Capital Assets

Capital asset activity for the year ended September 30, 2019 was as follows:

	Balance October 1, 2018	Additions	Deletions	Balance September 30, 2019
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Governmental activities:</u>				
Capital assets, not depreciated:				
Land	\$ 201,196	-		201,196
Total capital assets not being depreciated	<u>201,196</u>	<u>-</u>	<u>-</u>	<u>201,196</u>
Capital assets, being depreciated:				
Buildings	1,123,686	-	-	1,123,686
Improvements other than buildings	1,141,215	-	-	1,141,215
Machinery and equipment	3,522,638	61,548	8,879	3,575,307
Total capital assets being depreciated	<u>5,787,539</u>	<u>61,548</u>	<u>8,879</u>	<u>5,840,208</u>
Less: accumulated depreciation for:				
Buildings	444,635	21,537	-	466,172
Improvements other than buildings	595,778	17,585	-	613,363
Machinery and equipment	3,110,674	245,678	8,879	3,347,473
Total accumulated depreciation	<u>4,151,087</u>	<u>284,800</u>	<u>8,879</u>	<u>4,427,008</u>
Total capital assets, being depreciated, net	<u>1,636,452</u>	<u>(223,252)</u>	<u>-</u>	<u>1,413,200</u>
Governmental activities capital assets, net	<u>\$ 1,837,648</u>	<u>(223,252)</u>	<u>-</u>	<u>1,614,396</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(9) Capital Assets (continued)

	<u>Balance October 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2019</u>
<u>Business-type activities:</u>				
Capital assets, not depreciated:				
Land	\$ 53,686	-	-	53,686
Total capital assets not being depreciated	<u>53,686</u>	<u>-</u>	<u>-</u>	<u>53,686</u>
Capital assets, being depreciated:				
Water system	4,454,712	-	-	4,454,712
Sewer system	6,706,957	233,060	-	6,940,017
Equipment	854,515	8,775	47,111	816,179
Total capital assets being depreciated	<u>12,016,184</u>	<u>241,835</u>	<u>47,111</u>	<u>12,210,908</u>
Less accumulated depreciation for:				
Water system	2,986,356	112,749	-	3,099,105
Sewer system	1,917,552	76,795	-	1,994,347
Equipment	836,096	12,624	47,111	801,609
Total accumulated depreciation	<u>5,740,004</u>	<u>202,168</u>	<u>47,111</u>	<u>5,895,061</u>
Total capital assets, being depreciated, net	<u>6,276,180</u>	<u>39,667</u>	<u>-</u>	<u>6,315,847</u>
Business-type activities capital assets, net	<u>\$ 6,329,866</u>	<u>39,667</u>	<u>-</u>	<u>6,369,533</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(9) Capital Assets (continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 18,939
Public safety	216,392
Streets	40,652
Culture and recreation	<u>8,817</u>
Total depreciation expense - governmental activities	<u>\$ 284,800</u>
Business-type activities:	
Water and sewer	<u>\$ 202,168</u>

(10) Long-Term Liabilities

Long-term liabilities consist of bonded indebtedness, capital leases, compensated absences, a net pension liability, and a total OPEB liability. The City issues revenue bonds to provide funds for the acquisition and construction of major capital facilities and pledges income derived from the acquired or constructed assets to pay debt service. For the governmental activities, compensated absences, the net pension liability, and total OPEB liability are generally liquidated by the general fund.

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

	October 1, 2018	Additions	Retirements	September 30, 2019	Due Within One Year
Governmental activities:					
Capital leases	\$ 563,320	29,736	141,835	451,221	131,406
Compensated absences	25,948	-	1,439	24,509	7,352
Net pension liability	1,122,072	929,066	510,629	1,540,509	-
Total OPEB liability	<u>94,027</u>	<u>-</u>	<u>9,465</u>	<u>84,562</u>	<u>-</u>
Total governmental activities	<u>\$ 1,805,367</u>	<u>958,802</u>	<u>663,368</u>	<u>2,100,801</u>	<u>138,758</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(10) Long-Term Liabilities (continued)

	<u>October 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2019</u>	<u>Due Within One Year</u>
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 5,695,000	-	680,000	5,015,000	700,000
Plus: deferred premiums	<u>96,777</u>	-	<u>5,377</u>	<u>91,400</u>	-
Total bonds payable	<u>5,791,777</u>	-	<u>685,377</u>	<u>5,106,400</u>	<u>700,000</u>
Compensated absences	7,397	2,786	-	10,183	-
Net pension liability	335,165	326,428	120,333	541,260	-
Total OPEB liability	<u>28,086</u>	<u>1,789</u>	<u>164</u>	<u>29,711</u>	-
Total business-type activities	\$ <u><u>6,162,425</u></u>	<u><u>331,003</u></u>	<u><u>805,874</u></u>	<u><u>5,687,554</u></u>	<u><u>700,000</u></u>

Business-type activities long-term liabilities at September 30, 2019, consisted of the following:

<u>Series</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
2010 General obligation refunding bond	\$ 3,035,000	2.00% to 4.25%	\$ 1,420,000
2013 Combination tax revenue certificates of obligation	1,540,000	2.20%	990,000
2015 Tax notes	2,000,000	1.69%	885,000
2016 Combination tax and revenue certificate of obligation	1,965,000	1.00% to 2.10%	<u>1,720,000</u>
			\$ <u><u>5,015,000</u></u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(10) Long-Term Liabilities (continued)

The annual debt service requirements to be paid on business-type activities long term debt outstanding at September 30, 2019:

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 700,000	137,650	837,650
2021	715,000	119,849	834,849
2022	740,000	101,653	841,653
2023	335,000	82,673	417,673
2024	335,000	73,053	408,053
2025-2029	1,395,000	220,334	1,615,334
2030-2035	550,000	87,150	637,150
2036	245,000	11,000	256,000
	<u>\$ 5,015,000</u>	<u>833,362</u>	<u>5,848,362</u>

Capital Leases Obligations

The City leases certain equipment under noncancelable capital leases that expire over the next five years. Assets under capital leases at September 30, 2019 consisted of the following:

Equipment	\$ 391,353
Vehicles	171,694
Less: accumulated amortization	<u>(443,667)</u>
	<u>\$ 119,380</u>

The present values of future minimum capital lease payments as of September 30, 2019 are:

<u>Fiscal Year</u>	
2020	\$ 147,168
2021	109,665
2022	109,665
2023	98,687
2024	<u>25,620</u>
Total minimum lease payments	490,805
Less amounts representing interest at 2.67% to 5.29%	<u>(39,584)</u>
Obligations under capital leases	<u>\$ 451,221</u>

City of Lacy Lakeview, TexasNotes to Financial Statements
(Continued)(10) Long-Term Liabilities (continued)

The City is required under provisions of the revenue bond ordinances to maintain interest and sinking funds adequate for payments of principal and interest and has pledged certain net operating revenues (after the payment of operation and maintenance expenses) of the water and sewer fund to repay \$8.5 million in revenue bonds issued from 2010 to 2016. Proceeds from the bonds provided financing for the construction of water and sewer system facilities. The total principal and interest remaining to be paid on the bonds is \$5.0 million. Principal and interest paid for the current year (including defeased debt) and total of pledged net operating revenues of the water and sewer fund were \$680,000 and \$153,253, respectively. The City is in compliance with all significant financial limitations and restrictions mentioned above.

(11) Defined Benefit Pension Plan***Plan Description***

The City 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 agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (“CAFR”) that can be obtained at www.tmr.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(11) Defined Benefit Pension Plan (continued)

Employees covered by benefit terms: At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	23
Inactive employees entitled to but not yet receiving benefits	29
Active employees	<u>50</u>
	<u>102</u>

Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 14.65% and 14.57% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019 were \$311,789 and were equal to the required contributions.

Net Pension Liability

The City's 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.

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

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(11) Defined Benefit Pension Plan (continued)

gender-distinct RP2000 Combined Healthy Mortality Table 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 become disabled. The rates are projected on a fully generational basis by scale BB to account for the 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, TMRS 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, the actuarial firm 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%
Totals	<u>100.0%</u>	

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(11) Defined Benefit Pension Plan (continued)

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

Changes in the Net Pension Liability

		Increase (Decrease)		
		Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2017	\$	<u>8,258,742</u>	<u>6,801,505</u>	<u>1,457,237</u>
Changes for the year:				
Service cost		345,176	-	345,176
Interest		557,342	-	557,342
Difference between expected and actual experience		(35,834)	-	(35,834)
Contributions - employer		-	303,182	(303,182)
Contributions - employee		-	146,973	(146,973)
Net investment income		-	(203,860)	203,860
Benefit payments, including refunds of employee contributions		(348,832)	(348,832)	-
Administrative expense		-	(3,938)	3,938
Other changes		-	(205)	205
Net changes		<u>517,852</u>	<u>(106,680)</u>	<u>624,532</u>
Balance at December 31, 2018	\$	<u><u>8,776,594</u></u>	<u><u>6,694,825</u></u>	<u><u>2,081,769</u></u>

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(11) Defined Benefit Pension Plan (continued)

	<u>1% Decrease in Discount Rate (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase in Discount Rate (7.75%)</u>
City's net pension liability	\$ <u>3,577,293</u>	<u>2,081,769</u>	<u>890,429</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

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

For the year ended September 30, 2019, the City recognized pension expense of \$428,071. At September 30, 2019, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the measurement date	\$ 235,030	-
Differences between expected and actual experience	9,885	92,465
Change in assumptions	2,104	-
Difference between projected and actual earnings on pension plan investments	<u>352,298</u>	<u>-</u>
Total	<u>\$ 599,317</u>	<u>92,465</u>

The \$235,070 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	
2019	\$ 88,213
2020	15,157
2021	37,965
2022	<u>130,487</u>
	<u>\$ 271,822</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(12) Other Post-Employment Benefits (“OPEB”)

Plan Description

The City also participates in a defined benefit group term life insurance plan administered by the Texas Municipal Retirement System (“TMRS”) known as the Supplemental Death Benefits Fund (“SDBF”). The City elected, by ordinance, to provide group term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. As the TMRS SDBF covers both active and retired members, with no segregation of assets, the SDBF does not meet the definition of a trust under paragraph 4 of Governmental Accounting Standards Board (“GASB”) No 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (i.e. no assets are accumulated for OPEB). As such, the SDBF is considered to be a single-employer unfunded OPEB plan with benefit payments treated as being equal to the City’s yearly contributions for retirees.

Benefits Provided

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 a fixed amount of \$7,500.

Employees covered by benefit terms: At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees current receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>50</u>
	<u><u>74</u></u>

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The City’s contributions to the SDBF for the year ended September 30, 2019 were \$630, respectively, which equaled the required contribution for the year.

Total OPEB Liability

The City’s total OPEB liability was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(12) Other Post-Employment Benefits (“OPEB”) (continued)

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

Inflation	2.5% per year
Salary increases	3.5% to 10.5% per year, including inflation
Discount rate	3.71% (based on the Fidelity Index’s “20-Year Municipal GO AA index” rate as of December 31, 2017)
Overall payroll growth	3.0% per year
Administrative expenses	All administrative expenses are paid through the TMRS Pension Trust

Mortality rates for service retirees were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with a scale BB. For disabled retirees, the RP2000 Combined Mortality Table with Blue Collar Adjustment were used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with a scale BB to account for the 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 changes in the total OPEB liability for the measurement period ending December 31, 2018 was as follows:

	Total OPEB Liability
Balance at December 31, 2017	\$ <u>122,113</u>
Changes for the year:	
Service cost	6,719
Interest	4,143
Differences between expected and active experience	(9,215)
Changes in assumptions or other inputs	(8,857)
Benefit payments **	(630)
Net changes	<u>(7,840)</u>
Balance at December 31, 2018	\$ <u><u>114,273</u></u>

**Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer’s yearly contribution for retirees.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(12) Other Post-Employment Benefits (“OPEB”) (continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate: The following presents the total OPEB liability of the City, calculated using the discount rate of 3.71%, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.71%) or one percentage point higher (4.71%) than the current rate:

	<u>1% Decrease in Discount Rate (2.71%)</u>	<u>Current Discount Rate (3.71%)</u>	<u>1% Increase in Discount Rate (4.71%)</u>
City's total OPEB liability	\$ <u>138,281</u>	<u>114,273</u>	<u>95,857</u>

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

For the year ended September 30, 2019, the City recognized OPEB expense of \$9,540. At September 30, 2019, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the measurement date	\$ 630	7,615
Change in assumptions	<u>6,831</u>	<u>7,319</u>
Total	<u>\$ 7,461</u>	<u>14,934</u>

The \$630 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 year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31:</u>	
2019	\$ (1,322)
2020	(1,322)
2021	(1,322)
2022	(1,755)
2023	<u>(2,382)</u>
	<u>\$ (8,103)</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(13) Deferred Outflows and Inflows of Resources

The statement of financial position and the balance sheet includes the following deferred outflows/inflows of resources at September 30, 2019:

	<u>Statements of Net Position</u>		<u>Balance Sheet</u>
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>General</u>
Deferred outflows of resources:			
Deferred charge on refunding	\$ -	73,140	-
Net pension liability	436,180	155,822	-
Total OPEB liability	<u>5,521</u>	<u>1,940</u>	<u>-</u>
	<u>\$ 441,701</u>	<u>230,902</u>	<u>-</u>
Deferred inflows of resources:			
Unavailable property tax revenues	\$ -	-	48,934
Unavailable fine and forfeiture revenue	-	-	53,129
Net pension liability	61,109	24,041	-
Total OPEB liability	<u>11,051</u>	<u>3,883</u>	<u>-</u>
	<u>\$ 72,160</u>	<u>27,924</u>	<u>102,063</u>

Deferred Outflows of Resources: The deferred charge on refunding, resulting from the difference in the carrying value of refunded debt and its reacquisition price, is amortized over the shorter of the life of the refunded debt or refunding debt. Post-measurement date contributions will be recognized as a reduction of the net pension liability in the following fiscal year. The pension related net differences between projected and actual experience, and difference between projected and actual investment earnings will be amortized into pension/OPEB expense.

Deferred Inflows of Resources: The governmental funds, under the modified accrual basis of accounting, report unavailable revenues from property taxes, which is deferred and recognized as an inflow of resources in the period that the amounts become available. The pension related change in assumptions will be amortized into pension/OPEB expense.

(14) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City has joined together with other governments in Texas to form the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability, property, and workmen's

City of Lacy Lakeview, TexasNotes to Financial Statements
(Continued)(14) Risk Management (continued)

compensation coverages. The City pays a quarterly contribution to the pool for its insurance coverage. The agreement for formation of the Texas Municipal League Intergovernmental Risk Pool provides that the Pool will be self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits.

The Texas Municipal League Intergovernmental Risk Pool has published its own financial report, which can be obtained by writing the Texas Municipal League Intergovernmental Risk Pool, 1821 Rutherford Lane, Austin, Texas 78754.

(15) Commitments and Contingencies

The City has contracted with private companies for the collection and disposal of refuse. The City negotiated a collection contract, with an effective date of June 1, 2009, for a term of five years, with the option to renew and extend the contract for another three years. The contract has been extended until July 31, 2020. Under the terms of the contract, the City will be responsible for billing and collection of all waste collection fees and will pay collection fees to the companies on a monthly basis as authorized in the contract regardless of the amount collected from residents.

There are currently claims and lawsuits pending against the City. It is the opinion of City management that there is no pending litigation against the City that, if decided against the City, would have a material adverse effect upon the operations of the City.

(16) Tax Abatements

The City of Lacy Lakeview negotiates property tax abatements on an individual basis. All abatements are governed by Section 312 of the Texas Tax Code and the City of Lacy Lakeview Guidelines and Policy Statement which are revised and adopted every two years in accordance with state law. These guidelines permit the City to abate property taxes for a variety of economic development purposes such as business relocation, retention, and expansion and include abatements for real and personal property improvements.

City guidelines generally limit abatements to periods up to ten years. Abatements may be granted up to 100% of taxable values through a direct reduction of the applicant's property tax bill based upon the location of the property, square footage of the property, and/or the type of economic development commitments made to the City. Each abatement is supported by an agreement that enumerates the criteria under which compliance will be assessed annually and the manner in which tax revenue may be recaptured if the stated criteria are not met. Examples of compliance requirements and related commitments by recipients include addition of total minimum number of full-time jobs and minimum number of jobs for residents of the City as well as property improvement values.

City of Lacy Lakeview, TexasNotes to Financial Statements
(Continued)(16) Tax Abatements (continued)

The City has not made any commitments as part of the agreements other than to reduce taxes, and they are not subject to any tax abatement agreements entered into by other governmental entities or by component units. Gross dollar amounts by which the City's tax revenues were reduced during the fiscal year as a result of tax abatement agreements were \$9 million of combined commercial real and personal property.

(17) Subsequent Events

Effective October 1, 2019, the City of Waco executed a termination agreement with the City, the City of Bellmead, Texas, the City of Hewitt, Texas, the City of Woodway, Texas, the City of Lorena, Texas, and the City of Robinson, Texas, (collectively, the participating cities in WMARSS). The agreement terminates the operation and management agreements, discontinues all WMARSS operations, accepts the conveyance of WMARSS assets to the City of Waco, and allows the conveyance of certain WMARSS easements to the City of Waco and the City of Lorena. Simultaneously, the City entered into a wholesale wastewater contract with the City of Waco to become a customer of the City of Waco's solely-owned wastewater system. The City of Waco did not pay cash consideration or assume bonded indebtedness of the participating cities in return for the transfer of ownership interests. Under the existing arrangement, WMARSS participating cities have shared in percentages of the operations and maintenance and capital project expenditures. Under the new arrangement, costs will be recovered by the City of Waco through rates set for operations and maintenance, capital improvements, and capacity expansion. A calculation will be performed by the City of Waco to determine whether there are amounts of certain surplus working capital reserves available to be returned to the participating cities.

As a result of the spread of the COVID – 19 coronavirus subsequent to year end, economic uncertainties have arisen which are likely to negatively impact operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

(18) Authoritative Pronouncements Not Yet Effective

A summary of pronouncements issued by the Governmental Accounting Standards Board (GASB) which may impact the City but are not yet effective follows. The City has not yet determined the effects of the adoption of these pronouncements on the financial statements.

GASB Statement No. 84, *Fiduciary Activities* (issued January 2017) – The objective of this statement is to enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019.

City of Lacy Lakeview, TexasNotes to Financial Statements
(Continued)(18) Authoritative Pronouncements Not Yet Effective (continued)

GASB Statement No. 87, *Leases* (issued June 2017) – The objective of this statement is to increase the usefulness of governments’ financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. The statement will also require notes to financial statements related to the timing, significance, and purpose of a government’s leasing arrangements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2020.

Required Supplementary Information

City of Lacy Lakeview, Texas

Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund

Year Ended September 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue:				
Taxes:				
Property	\$ 1,279,236	1,279,236	1,267,984	(11,252)
Sales	1,250,000	1,250,000	1,476,117	226,117
Franchise	350,000	350,000	373,953	23,953
Other	15,000	15,000	11,003	(3,997)
License and permits	46,090	46,090	45,160	(930)
Fines and forfeitures	130,000	130,000	87,048	(42,952)
Charges for services	82,618	82,618	82,172	(446)
Interest income	19,600	19,600	27,905	8,305
Miscellaneous	54,530	67,843	79,336	11,493
Total revenue	<u>3,227,074</u>	<u>3,240,387</u>	<u>3,450,678</u>	<u>210,291</u>
Expenditures:				
Current:				
General government	392,137	404,268	352,346	51,922
Public safety	2,039,719	2,049,750	2,049,080	670
Streets	326,750	334,302	333,757	545
Parks	112,784	107,804	91,498	16,306
Municipal court	199,978	187,847	191,016	(3,169)
Debt service:				
Principal	135,706	156,416	141,836	14,580
Interest	-	-	18,871	(18,871)
Capital outlay	20,000	-	61,548	(61,548)
Total expenditures	<u>3,227,074</u>	<u>3,240,387</u>	<u>3,239,952</u>	<u>435</u>
Excess of revenue over expenditures	<u>-</u>	<u>-</u>	<u>210,726</u>	<u>210,726</u>
Other financing sources (uses):				
Proceeds on sale of capital assets	<u>-</u>	<u>-</u>	<u>29,736</u>	<u>29,736</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>29,736</u>	<u>29,736</u>
Change in fund balance	-	-	240,462	240,462
Fund balance, at beginning of year	<u>2,454,078</u>	<u>2,454,078</u>	<u>2,454,078</u>	<u>-</u>
Fund balance, at end of year	<u>\$ 2,454,078</u>	<u>2,454,078</u>	<u>2,694,540</u>	<u>240,462</u>

See accompanying independent auditor's report.

City of Lacy Lakeview, Texas

Schedule of Revenues, Expenditures and Changes
in Fund Balance – Budget and Actual – Hotel – Motel Fund

Year Ended September 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue:				
Taxes:				
Hotel - motel	\$ 400,000	400,000	463,120	63,120
Interest income	300	300	1,427	1,127
Total revenue	<u>400,300</u>	<u>400,300</u>	<u>464,547</u>	<u>64,247</u>
Expenditures:				
Current:				
Culture and recreation	400,300	400,300	206,606	193,695
Total expenditures	<u>400,300</u>	<u>400,300</u>	<u>206,606</u>	<u>193,695</u>
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>257,941</u>	<u>257,942</u>
Fund balance, at beginning of year	<u>589,303</u>	<u>589,303</u>	<u>589,303</u>	<u>-</u>
Fund balance, at end of year	<u><u>\$ 589,303</u></u>	<u><u>589,303</u></u>	<u><u>589,303</u></u>	<u><u>-</u></u>

See accompanying independent auditor's report.

City of Lacy Lakeview, Texas

Schedule of Changes in Net Pension Liability and Related Ratios

Last Five Measurement Dates

	December 31,				
	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	\$ 345,176	339,092	327,117	302,835	256,056
Interest (on the Total Pension Liability)	557,342	520,430	486,105	455,126	409,373
Difference between expected and actual experience	(35,834)	(41,218)	(116,697)	97,765	161,622
Change of assumptions	-	-	-	20,788	-
Benefit payments, including refunds of employee contributions	<u>(348,832)</u>	<u>(200,184)</u>	<u>(187,802)</u>	<u>(190,001)</u>	<u>(203,653)</u>
Net change in Total Pension Liability	517,852	618,120	508,723	686,513	623,398
Total Pension Liability - beginning	<u>8,258,742</u>	<u>7,640,622</u>	<u>7,131,899</u>	<u>6,445,386</u>	<u>5,821,988</u>
Total Pension Liability - ending (a)	<u>\$ 8,776,594</u>	<u>8,258,742</u>	<u>7,640,622</u>	<u>7,131,899</u>	<u>6,445,386</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 303,182	302,308	271,364	261,812	240,146
Contributions - employee	146,973	144,646	139,879	135,453	131,638
Net investment income	(203,860)	798,931	350,949	7,349	260,564
Benefit payments, including refunds of employee contributions	(348,832)	(200,184)	(187,802)	(190,001)	(203,653)
Administrative expense	(3,938)	(4,137)	(3,961)	(4,476)	(2,720)
Other	<u>(206)</u>	<u>(210)</u>	<u>(213)</u>	<u>(220)</u>	<u>(224)</u>
Net change in Plan Fiduciary Net Position	(106,681)	1,041,354	570,216	209,917	425,751
Plan Fiduciary Net Position - Beginning	<u>6,801,505</u>	<u>5,760,151</u>	<u>5,189,935</u>	<u>4,980,018</u>	<u>4,554,267</u>
Plan Fiduciary Net Position - ending (b)	<u>\$ 6,694,824</u>	<u>6,801,505</u>	<u>5,760,151</u>	<u>5,189,935</u>	<u>4,980,018</u>
Net Pension Liability - ending (a) - (b)	<u>\$ 2,081,770</u>	<u>1,457,237</u>	<u>1,880,471</u>	<u>1,941,964</u>	<u>1,465,368</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	76.28%	82.36%	75.39%	72.77%	77.26%
Covered payroll	\$ 2,099,611	2,066,375	1,998,269	1,935,048	1,869,604
Net Pension Liability as a percentage of covered employee payroll	99.15%	70.52%	94.10%	100.36%	78.38%

Note: Effective October 1, 2014, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68. Information for years prior to 2014 is not available.

See accompanying independent auditor's report.

City of Lacy Lakeview, Texas
Schedule of Pension Contributions

		Fiscal Years Ended				
		September 30,				
		2019	2018	2017	2016	2015
Actuarially determined contribution	\$	311,789	304,636	300,208	271,831	260,015
Contributions in relation to the actuarially determined contribution		<u>311,786</u>	<u>304,636</u>	<u>300,208</u>	<u>271,831</u>	<u>260,015</u>
Contribution deficiency (excess)	\$	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	\$	<u>2,099,595</u>	<u>2,066,375</u>	<u>1,998,269</u>	<u>1,935,048</u>	<u>1,869,604</u>
Contributions as a percentage of covered payroll		<u>14.85%</u>	<u>14.74%</u>	<u>15.02%</u>	<u>14.05%</u>	<u>13.91%</u>

Notes to Schedule of Pension Contributions

Valuation Date:

Note Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	27 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 – 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Other	There were no benefit changes during the year.

Note: The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, An Amendment of GASB Statement No. 27*, effective October 1, 2014. Information for years prior to 2015 is not available.

City of Lacy Lakeview, Texas

Schedule of Changes in Total OPEB Liability and Related Ratios

Last Measurement Date

	December 31,	
	2018	2017
Total OPEB Liability		
Service cost	\$ 6,719	5,786
Interest (on the Total OPEB Liability)	4,143	3,973
Differences between expected and actual experience	(9,215)	
Change of assumptions	(8,857)	10,463
Benefit payments **	(630)	(620)
Net change in Total OPEB Liability	(7,840)	19,602
Total OPEB Liability - beginning	122,113	102,511
Total OPEB Liability - ending	114,273	\$ 122,113
Covered payroll	2,049,611	\$ 2,066,375
Total OPEB Liability as a percentage of covered payroll	5.44%	5.91%

** Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the City's yearly contributions for retirees.

Note: The City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Other than Pensions* (OPEB) effective October 1, 2017. Information for years prior to 2018 is not available.

City of Lacy Lakeview, Texas
Schedule of OPEB Contributions
Fiscal Years Ended

	September 30,	
	2019	2018
Actuarially determined contribution	\$ 630	620
Contributions in relation to the actuarially determined contribution	630	620
Contribution deficiency (excess)	\$ -	-
Covered payroll	\$ 2,049,311	2,066,375
Contributions as a percentage of covered payroll	0.03%	0.03%

Notes to Schedule of OPEB Contributions

Valuation Date:

Note Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Inflation	2.5%
Salary Increases	3.50% to 10.50%, including inflation
Discounted Rate	3.71%
Retirees' share of benefit-related costs	\$-0-
Administrative expenses	All administrative expenses are paid through the Pension Trust of TMRS and are accounted for under reporting requirements under GASB Statement No. 68.
Mortality – service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Mortality – disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.
Other	There were no benefit changes during the year.

Note: The City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Other than Pensions (OPEB)* effective October 1, 2017. Information for years prior to 2018 is not available.

See accompanying independent auditor's report.