

City of Lacy Lakeview, Texas
Financial Statements and
Supplementary Information
September 30, 2020
(With Independent Auditor's Report Thereon)

City of Lacy Lakeview, Texas

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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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this 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, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 x, 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, Keitmeier, Boyd & Howell, P.C.

September 14, 2021

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, 2020. 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 \$9,226,614 (*net position*). Of this amount, \$3,562,206 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 decreased by \$830,583 during the year.
- For business-type activities and the water and sewer fund, the City recognized a special item – a \$1,970,491 loss from termination of the Waco Metropolitan Area Regional Sewer System ("WMARSS") interlocal cooperation agreement, which results in the City no longer recognizing its undivided interest in the facilities and operations of WMARSS. Additional information on the termination of WMARSS is included in Note 4 to the financial statements.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,240,486, an increase of \$698,702 from the prior year. Approximately 75% of the fund balance, \$3,196,211 (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 \$3,196,211, or approximately 93% 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) 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.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes (*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, streets, municipal court, 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 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 hotel-motel 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 over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$9,226,614 at the close of the most recent fiscal year.

City of Lacy Lakeview Net Position September 30, 2020 and 2019

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 4,531,735	3,764,367	5,992,606	6,040,919	10,524,341	9,805,286
Capital assets, net	1,611,997	1,614,396	4,178,645	6,369,533	5,790,642	7,983,929
Total assets	<u>6,143,732</u>	<u>5,378,763</u>	<u>10,171,251</u>	<u>12,410,452</u>	<u>16,314,983</u>	<u>17,789,215</u>
Deferred outflows of resources	<u>226,541</u>	<u>441,701</u>	<u>143,399</u>	<u>230,902</u>	<u>369,940</u>	<u>672,603</u>
Other current liabilities	223,198	135,035	403,701	1,091,330	626,899	1,226,365
Noncurrent liabilities	1,636,302	2,100,801	4,896,649	4,977,371	6,532,951	7,078,172
Total liabilities	<u>1,859,500</u>	<u>2,235,836</u>	<u>5,300,350</u>	<u>6,068,701</u>	<u>7,159,850</u>	<u>8,304,537</u>
Deferred inflows of resources	<u>220,859</u>	<u>72,160</u>	<u>77,600</u>	<u>27,924</u>	<u>298,459</u>	<u>100,084</u>
Net position:						
Net investment in capital assets	1,272,735	1,148,660	3,360,825	4,949,533	4,633,560	6,098,193
Restricted	1,018,838	890,473	12,010	67,625	1,030,848	958,098
Unrestricted	<u>1,998,341</u>	<u>1,473,335</u>	<u>1,563,865</u>	<u>1,527,571</u>	<u>3,562,206</u>	<u>3,000,906</u>
Total net position	<u>\$ 4,289,914</u>	<u>3,512,468</u>	<u>4,936,700</u>	<u>6,544,729</u>	<u>9,226,614</u>	<u>10,057,197</u>

By far, the largest portion of the City's net position (50%) 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. The City's investment in capital assets, net of related debt of \$4,633,560 at September 30, 2020 represents a decrease of \$1,464,633 from the prior year primarily due to the termination of the WMARSS interlocal cooperation agreement which results in the City no longer recognizing its undivided interest in the facilities and operations of WMARSS.

An additional portion of the City's net position (11%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,562,206 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
 Years Ended September 30, 2020 and 2019

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Program revenues:						
Charges for services	\$ 193,893	183,870	3,207,516	3,083,661	3,401,409	3,267,531
Operating grants and contributions	14,212	-	-	-	14,212	-
General revenues:						
Property taxes	1,337,594	1,268,438	-	-	1,337,594	1,268,438
Sales taxes	1,925,662	1,476,117	-	-	1,925,662	1,476,117
Franchise taxes	338,585	373,953	-	-	338,585	373,953
Other taxes	470,824	553,459	-	-	470,824	553,459
Interest income	20,110	29,332	15,898	36,016	36,008	65,348
Other income	-	-	29,167	43,236	29,167	43,236
Total revenues	4,300,880	3,885,169	3,252,581	3,162,913	7,553,461	7,048,082
Expenses:						
General government	405,730	376,343	-	-	405,730	376,343
Public safety	2,206,778	2,299,060	-	-	2,206,778	2,299,060
Streets	368,651	378,093	-	-	368,651	378,093
Municipal court	195,672	194,180	-	-	195,672	194,180
Culture and recreation	349,149	308,397	-	-	349,149	308,397
Interest and amortization on long-term debt	12,454	15,865	-	-	12,454	15,865
Water and sewer	-	-	2,875,119	2,920,638	2,875,119	2,920,638
	3,538,434	3,571,938	2,875,119	2,920,638	6,413,553	6,492,576

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Increase in net position before special item and transfers	762,446	313,231	377,462	242,275	1,139,908	555,506
Special item - loss from termination of WMARSS interlocal agreement	-	-	(1,970,491)	-	(1,970,491)	-
Transfers	15,000	-	(15,000)	-	-	-
Increase (decrease) in net position	777,446	313,231	(1,608,029)	242,275	(830,583)	555,506
Net position, beginning of the year	3,512,468	3,199,237	6,544,729	6,302,454	10,057,197	9,501,691
Net position, end of the year	\$ 4,289,914	3,512,468	4,936,700	6,544,729	9,226,614	10,057,197

The City's net position decreased by \$830,583 during the current fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities and business-type activities.

Governmental activities. Governmental activities increased the City's net position by \$777,446.

- Sales taxes increased by \$449,545 during the year, due to increased commercial activity along Interstate 35.
- Property taxes increased by \$69,156 during the year, which is primarily due to increased property values and new property being added to the tax rolls.

Other revenue and expenses paralleled the prior year activity.

Business-type activities. Business-type activities decreased the City's net position by \$1,608,029. Key elements of this decrease are as follows.

- The City recognized a special item – a \$1,970,491 loss from termination of the WMARSS interlocal cooperation agreement, which results in the City no longer recognizing its undivided interest in the facilities and operations of WMARSS. Additional information on the termination of WMARSS is included in Note 4 to the financial statements.

Other revenue and expenses paralleled the prior year activity.

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 \$4,240,486, an increase of \$698,702 from the prior year. Approximately 1% of this total amount (\$25,437) 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 24% (\$1,018,838) 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 75% of the fund balance (\$3,196,211) 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 \$3,196,211, while total fund balance increased to \$3,258,925. 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 93% of the total general fund expenditures, while total fund balance represents 95% 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 \$4,936,700. The total decline in net position was \$1,608,029. 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. There were no differences between the original budget and the final amended budget. During the year, sales tax revenues exceed budgetary estimates due to better than anticipated activity. Budget overages in the general fund for the year ended September 30, 2020, were funded by revenues in excess of budgeted amounts from sales taxes.

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, 2020, amounts to \$5,790,642 (net of accumulated depreciation) and is a decrease of \$2,193,287 from the prior year, primarily due to the termination of the WMARSS interlocal cooperation agreement, which results in the City no longer recognizing its undivided interest in the facilities of WMARSS. 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, 2020 and 2019**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
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	1,202,096	1,141,215	-	-	1,202,096	1,141,215
Machinery and Equipment	3,626,361	3,575,307	885,088	816,179	4,511,449	4,391,486
Water system facilities	-	-	4,454,712	4,454,712	4,454,712	4,454,712
Sewer system facilities	-	-	4,770,511	6,940,017	4,770,511	6,940,017
Less: accumulated depreciation	<u>(4,541,342)</u>	<u>(4,427,008)</u>	<u>(5,985,352)</u>	<u>(5,895,061)</u>	<u>(10,526,694)</u>	<u>(10,322,069)</u>
	<u>\$ 1,611,997</u>	<u>1,614,396</u>	<u>4,178,645</u>	<u>6,369,533</u>	<u>5,790,642</u>	<u>7,983,929</u>

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 \$4,763,868. Of this amount, \$4,401,023 represents revenue bonds secured by water and sewer revenues. The City's capital lease obligations of \$362,845 pertain to purchases of equipment.

**City of Lacy Lakeview
Long-term Debt
September 30, 2020 and 2019**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenue bonds payable	\$ -	-	4,401,023	5,106,400	4,401,023	5,106,400
Capital lease obligations	328,421	451,221	34,424	-	362,845	451,221
Compensated absences	24,211	24,509	10,183	10,183	34,394	34,692
Net pension liability	1,176,350	1,540,509	413,312	541,260	1,589,662	2,081,769
Total OPEB liability	<u>107,320</u>	<u>84,562</u>	<u>37,707</u>	<u>29,711</u>	<u>145,027</u>	<u>114,273</u>
	<u>\$ 1,636,302</u>	<u>2,100,801</u>	<u>4,896,649</u>	<u>5,687,554</u>	<u>6,532,951</u>	<u>7,788,355</u>

The City's total long-term debt decreased by \$1,255,404 (16%) during the current fiscal year. This change resulted primarily from scheduled principal payments on the City's outstanding debt and a decrease 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 \$3,196,211. The City has not appropriated any of this amount for spending in the 2021 fiscal year budget. The 2021 fiscal year budget of \$3,631,873 for the general fund is a balanced budget.

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, 2020

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 4,271,452	1,128,323	5,399,775
Receivables	541,975	384,600	926,575
Prepaid expenses	25,437	7,902	33,339
Internal balances	(307,129)	307,129	-
Restricted cash	-	4,164,652	4,164,652
Capital assets not being depreciated:			
Land	201,196	53,686	254,882
Capital assets, net of accumulated depreciation			
Buildings	635,977	-	635,977
Improvements other than buildings	571,976	-	571,976
Machinery and equipment	202,848	56,907	259,755
Water system	-	1,241,510	1,241,510
Sewer system	-	2,826,542	2,826,542
Total assets	<u>6,143,732</u>	<u>10,171,251</u>	<u>16,314,983</u>
Deferred Outflows of Resources			
Deferred outflows of resources	<u>226,541</u>	<u>143,399</u>	<u>369,940</u>
Liabilities			
Accounts payable	152,335	134,132	286,467
Accrued liabilities	60,022	20,013	80,035
Customer deposits	-	233,737	233,737
Accrued interest payable	10,841	15,819	26,660
Noncurrent liabilities:			
Due within one year	109,911	731,850	841,761
Due in more than one year	<u>1,526,391</u>	<u>4,164,799</u>	<u>5,691,190</u>
Total liabilities	<u>1,859,500</u>	<u>5,300,350</u>	<u>7,159,850</u>
Deferred Inflows of Resources			
Deferred inflows of resources	<u>220,859</u>	<u>77,600</u>	<u>298,459</u>
Net Position			
Net investment in capital assets	1,272,735	3,360,825	4,633,560
Restricted:			
Public safety	37,277	-	37,277
Culture and recreation	981,561	-	981,561
Debt service	-	12,010	12,010
Unrestricted	<u>1,998,341</u>	<u>1,563,865</u>	<u>3,562,206</u>
Total net position	<u>\$ 4,289,914</u>	<u>4,936,700</u>	<u>9,226,614</u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas
Statement of Activities
Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 405,730	125,639	14,212	-	(265,879)	-	(265,879)
Public safety	2,206,778	-	-	-	(2,206,778)	-	(2,206,778)
Streets	368,651	-	-	-	(368,651)	-	(368,651)
Municipal court	195,672	68,254	-	-	(127,418)	-	(127,418)
Culture and recreation	349,149	-	-	-	(349,149)	-	(349,149)
Interest on long-term debt	12,454	-	-	-	(12,454)	-	(12,454)
Total governmental activities	<u>3,538,434</u>	<u>193,893</u>	<u>14,212</u>	<u>-</u>	<u>(3,330,329)</u>	<u>-</u>	<u>(3,330,329)</u>
Business-type activities:							
Water and sewer	<u>2,875,119</u>	<u>3,207,516</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,397</u>	<u>332,397</u>
Total business-type activities	<u>2,875,119</u>	<u>3,207,516</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,397</u>	<u>332,397</u>
Total	\$ <u>6,413,553</u>	<u>3,401,409</u>	<u>14,212</u>	<u>-</u>	<u>(3,330,329)</u>	<u>332,397</u>	<u>(2,997,932)</u>
General revenues:							
Property taxes					1,337,594	-	1,337,594
Sales taxes					1,925,662	-	1,925,662
Franchise taxes					338,585	-	338,585
Hotel/motel taxes					371,184	-	371,184
Other					99,640	29,167	128,807
Interest income					20,110	15,898	36,008
Special item - loss from termination of interlocal agreement					-	(1,970,491)	(1,970,491)
Transfers					15,000	(15,000)	-
Total general revenues and transfers					<u>4,107,775</u>	<u>(1,940,426)</u>	<u>2,167,349</u>
Change in net position					777,446	(1,608,029)	(830,583)
Net position - beginning of year					<u>3,512,468</u>	<u>6,544,729</u>	<u>10,057,197</u>
Net position - ending					<u>\$ 4,289,914</u>	<u>4,936,700</u>	<u>9,226,614</u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

**Balance Sheet –
Governmental Funds**

September 30, 2020

	<u>General</u>	<u>Hotel - Motel</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash and investments	\$ 3,248,020	1,023,432	4,271,452
Receivables (net of allowance for uncollectibles);			
Taxes	393,808	85,997	479,805
Others	62,170	-	62,170
Prepaid expenses	<u>25,437</u>	<u>-</u>	<u>25,437</u>
Total assets	\$ <u><u>3,729,435</u></u>	<u><u>1,109,429</u></u>	<u><u>4,838,864</u></u>
<u>Liabilities</u>			
Accounts payable	\$ 147,152	5,183	152,335
Accrued liabilities	60,022	-	60,022
Due to other funds	<u>184,444</u>	<u>122,685</u>	<u>307,129</u>
Total liabilities	<u><u>391,618</u></u>	<u><u>127,868</u></u>	<u><u>519,486</u></u>
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	<u>78,892</u>	<u>-</u>	<u>78,892</u>
<u>Fund Balances</u>			
Nonspendable	25,437	-	25,437
Restricted	37,277	981,561	1,018,838
Unassigned	<u>3,196,211</u>	<u>-</u>	<u>3,196,211</u>
Total fund balances	<u><u>3,258,925</u></u>	<u><u>981,561</u></u>	<u><u>4,240,486</u></u>
Total liabilities, deferred inflows of resources, and fund balances	\$ <u><u>3,729,435</u></u>	<u><u>1,109,429</u></u>	<u><u>4,838,864</u></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, 2020

Total fund balances	\$ 4,240,486
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.	1,611,997
Deferred inflows of resources are not available to pay current period expenditures and, therefore, are deferred in the funds.	78,892
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,641,461)</u>
Net position of governmental activities	<u>\$ 4,289,914</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, 2020

	<u>General</u>	<u>Hotel - Motel</u>	<u>Total Governmental Funds</u>
Revenue:			
Taxes:			
Property	\$ 1,337,855	-	1,337,855
Sales	1,925,662	-	1,925,662
Franchise	338,585	-	338,585
Other	7,874	371,184	379,058
Intergovernmental	14,212	-	14,212
License and permits	39,740	-	39,740
Fines and forfeitures	91,164	-	91,164
Charges for services	85,899	-	85,899
Interest income	20,798	(688)	20,110
Miscellaneous	91,766	-	91,766
Total revenue	<u>3,953,555</u>	<u>370,496</u>	<u>4,324,051</u>
Expenditures:			
Current:			
General government	384,874	-	384,874
Public safety	2,142,293	-	2,142,293
Streets	326,327	-	326,327
Municipal court	194,174	-	194,174
Cultural and recreation	105,639	236,179	341,818
Debt service:			
Principal	139,852	-	139,852
Interest	16,303	-	16,303
Capital outlay	111,935	-	111,935
Total expenditures	<u>3,421,397</u>	<u>236,179</u>	<u>3,657,576</u>
Excess (deficiency) of revenue over (under) expenditures	<u>532,158</u>	<u>134,317</u>	<u>666,475</u>
Other financing sources (uses):			
Proceeds from issuance of capital leases	17,227	-	17,227
Transfers in	15,000	-	15,000
Total other financing sources (uses)	<u>32,227</u>	<u>-</u>	<u>32,227</u>
Net changes in fund balances	564,385	134,317	698,702
Fund balances, beginning of year	<u>2,694,540</u>	<u>847,244</u>	<u>3,541,784</u>
Fund balances, at end of year	\$ <u><u>3,258,925</u></u>	<u><u>981,561</u></u>	<u><u>4,240,486</u></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, 2020

Net change in fund balances - total governmental funds \$ 698,702

Amounts reported for governmental activities in the statement of activities are different because:

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 (\$114,334) exceeded the capital asset additions (\$111,935) in the current period. (2,399)

Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (23,171)

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. 126,772

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. (22,458)

Change in net position of governmental activities \$ 777,446

See accompanying notes to financial statements.



Business-type activities-
Enterprise Fund
Water and
Sewer

Liabilities

Current liabilities:

Accounts payable	\$	134,132
Accrued liabilities		35,832
Payable from restricted assets:		
Customer deposits		233,737
Revenue bonds - current		715,000
Capital leases - current		<u>16,850</u>
Total current liabilities		<u>1,135,551</u>

Noncurrent liabilities:

Compensated absences		10,183
Capital leases		17,574
Net pension liability		413,312
OPEB liability		37,707
Revenue bonds payable		<u>3,686,023</u>
Total noncurrent liabilities		<u>4,164,799</u>
Total liabilities		<u>5,300,350</u>

Deferred Inflows of Resources

Deferred inflows of resources		<u>77,600</u>
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Net Position

Invested in capital assets, net of related debt		3,360,825
Restricted for debt service		12,010
Unrestricted		<u>1,563,865</u>
Total net position	\$	<u><u>4,936,700</u></u>

City of Lacy Lakeview, Texas

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

Year Ended September 30, 2020

	<u>Business-type activities- Enterprise Fund</u>
	<u>Water and Sewer</u>
Operating revenue:	
Charges for sales and services:	
Water sales	\$ 2,004,247
Sewer charges	1,148,473
Other charges	54,796
Total operating revenues	<u>3,207,516</u>
Operating expenses:	
Costs of sales and services	1,282,051
Administration	1,247,245
Depreciation	203,703
Total operating expenses	<u>2,732,999</u>
Operating income	<u>474,517</u>
Nonoperating revenue (expenses):	
Interest expense	(142,120)
Miscellaneous revenue	29,167
Interest revenue	15,898
Total nonoperating revenue (expenses)	<u>(97,055)</u>
Income before special item and transfers	377,462
Special item - loss from termination of WMARSS interlocal agreement	(1,970,491)
Transfers out	<u>(15,000)</u>
Change in net position	(1,608,029)
Net position, at beginning of year	<u>6,544,729</u>
Net position, at end of year	<u>\$ 4,936,700</u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

**Statement of Cash Flows -
Proprietary Fund**

Year Ended September 30, 2020

	<u>Business-type activities- Enterprise Fund</u>
	<u>Water and Sewer</u>
Cash flows from operating activities:	
Receipts from customers and users	\$ 3,230,321
Payments to suppliers	(1,949,890)
Payments to employees	(570,478)
Net cash provided by operating activities	<u>709,953</u>
Cash flows from noncapital financing activities:	
Transfers to other funds	<u>(15,000)</u>
Net cash provided used in noncapital financing activities	<u>(15,000)</u>
Cash flows from capital and related financing activities:	
Miscellaneous revenue	29,167
Proceeds from disposal of capital assets	242,419
Acquisition of capital assets	(156,816)
Principal paid on debt	(734,485)
Interest and fiscal charge paid on debt	(140,793)
Net cash used in capital and related financing activities	<u>(760,508)</u>
Cash flows from investing activities:	
Earnings on investments	<u>15,898</u>
Net cash provided by investing activities	<u>15,898</u>
Net decrease in cash and cash equivalents	(49,657)
Cash and cash equivalents, at beginning of year	<u>5,342,632</u>
Cash and cash equivalents, at end of year	<u>\$ 5,292,975</u>
Cash flows from operating activities:	
Operating income	\$ 474,517
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	203,703
Change in assets and liabilities:	
Decrease (increase) in assets:	
Due from other funds	(25,000)
Receivables	22,805
Prepaid expenses	851
Deferred outflows	78,166
Increase (decrease) in liabilities:	
Accounts payable	12,776
Accrued liabilities	5,338
Customer deposits	7,073
Net pension liability	(127,948)
OPEB liability	7,996
Deferred inflows	49,676
Net cash provided by operating activities	<u>\$ 709,953</u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

Notes to Financial Statements

September 30, 2020

(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 non-fiduciary activities of the primary government. 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, Texas**Notes 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 nonoperating revenues and expenses.

City of Lacy Lakeview, Texas**Notes 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, and (3) bond reserve funds.

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.

(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

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

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.

(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.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(2) Summary of Significant Accounting Policies (continued)

(l) Long-term obligations (continued)

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	\$ 25,437	-	25,437
Restricted for:			
Public safety	37,277	-	37,277
Culture and recreation	-	981,561	981,561
Unassigned	<u>3,196,211</u>	<u>-</u>	<u>3,196,211</u>
	<u>\$ 3,258,925</u>	<u>981,561</u>	<u>4,240,486</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.

(o) Transfers

Transfers of \$15,000 from the water and sewer fund to the general fund are used to finance certain general fund expenditures.

(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 \$1,641,461 difference are as follows:

Accrued interest payable	\$ 10,841
Capital leases	328,421
Compensated absences	24,211
Net pension/OPEB liability, and related deferred outflows of \$226,541 and inflows of \$220,859 (to be amortized as pension expense)	1,277,988
Net adjustment to reduce <i>fund balance - total government funds</i> to arrive at <i>net position - governmental activities</i>	\$ <u>1,641,461</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 \$126,772 difference are as follows:

Principal payments on capital leases	\$ 140,027
Issuance of capital leases	(17,227)
Accrued interest	<u>3,972</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>\$ 126,772</u>

(4) Termination of Agreement for Undivided Interest in Waco Area Metropolitan Area Regional Sewer System

During 2004, the City entered into an interlocal cooperation agreement with the City of Waco, Texas, the City of Bellmead, Texas, the City of Hewitt, Texas, the City of Lorena, Texas, and the City of Robinson, Texas to acquire an undivided interest in the facilities and operations of the Waco Metropolitan Area Regional Sewer System ("WMARSS"). Effective October 1, 2019, the member cities terminated their agreement with the City of Waco which resulted in the termination of operation and maintenance agreements, discontinuance of all WMARSS operations, acceptance of the conveyance of WMARSS assets to the City of Waco, and conveyance of certain WMARSS easements to the City of

City of Lacy Lakeview, Texas**Notes to Financial Statements
(Continued)****(4) Termination of Agreement for Undivided Interest in
Waco Area Metropolitan Area Regional Sewer System (continued)**

Waco and the City. 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. Under the previous arrangement, WMARSS member cities shared in percentages of the operations and maintenance of capital project expenditures. Under the new arrangement, costs are recovered by the City of Waco through rates set for operations and maintenance, capital improvements, and capacity expansion. The impact of this termination to the City is a special item loss of \$1,970,491.

(5) Budgets and Budgetary Accounting

The City prepares its budget on a basis consistent with generally accepted accounting principles.

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 hotel/motel 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 public safety, principal payments, interest expense and capital outlay. These budget overages were funded by revenues in excess of budgeted amounts from sales taxes.

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, 2020 follows:

Cash on hand	\$	550
Cash in bank		8,016,495
Public funds investments pool:		
Texas Local Government Investment Pool ("TexPool")		<u>1,547,382</u>
 Total cash and cash equivalents	 \$	 <u><u>9,564,427</u></u>

TexPool. TexPool is a public funds investments pool 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. The State Comptroller of Public Accounts (the "Comptroller") is the sole officer, director, and shareholder of TexPool and exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. 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. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. 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

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(6) Deposits and Investments (continued)

and staggering purchase dates to minimize the impact of market movements over time. It is the City's policy not to 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, 2020, the weighted average maturity of TexPool is 38 days.

Credit risk. For an investment, credit risk is the risk that an investment issuer or other counterparty to an investment will not fulfill obligation. The City's investment policy limits investments in government investment pools to those that are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. At September 30, 2020, TexPool is rated AAAM by Standard & Poor's.

(7) Receivables

Receivables as of September 30, 2020 for the City's individual major funds, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	<u>Hotel- Motel</u>	<u>Water and Sewer</u>	<u>Total</u>
Receivables:				
Property taxes	\$ 48,673	-	-	48,673
Sales taxes	345,135	-	-	345,135
Hotel occupancy taxes	-	85,997	-	85,997
Accounts	<u>62,170</u>	<u>-</u>	<u>431,185</u>	<u>493,355</u>
Gross receivables	455,978	85,997	431,185	973,160
Lease allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>46,585</u>	<u>46,585</u>
	<u>\$ 455,978</u>	<u>85,997</u>	<u>384,600</u>	<u>926,575</u>

The appraisal of property within the City is the responsibility of the McLennan County Appraisal District (the "District"). The District is required under the Property Tax Code to assess all property on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of the property must be reviewed by the District every four years.

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 2020 levy was based was \$321,937,744.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 2020 were 99% of the tax levy.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(8) Interfund Receivables and Payables

The composition of interfund balances as of September 30, 2020, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water and sewer	General	\$ 184,444
Water and sewer	Hotel/motel	122,685
Total		<u>\$ 307,129</u>

The outstanding balances between funds result mainly from the time lag between the dates that payments between funds were made.

(9) Capital Assets

Capital asset activity for the year ended September 30, 2020 was as follows:

	<u>Balance October 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2020</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	60,881	-	1,202,096
Machinery and equipment	<u>3,575,307</u>	<u>51,054</u>	<u>-</u>	<u>3,626,361</u>
Total capital assets being depreciated	<u>5,840,208</u>	<u>111,935</u>	<u>-</u>	<u>5,952,143</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)(9) Capital Assets (continued)

	Balance October 1, 2019	Additions	Deletions	Balance September 30, 2020
<u>Governmental activities: (continued)</u>				
Less: accumulated depreciation for:				
Buildings	466,172	21,537	-	487,709
Improvements other than buildings	613,363	16,757	-	630,120
Machinery and equipment	<u>3,347,473</u>	<u>76,040</u>	-	<u>3,423,513</u>
Total accumulated depreciation	<u>4,427,008</u>	<u>114,334</u>	-	<u>4,541,342</u>
Total capital assets, being depreciated, net	<u>1,413,200</u>	<u>(2,399)</u>	-	<u>1,410,801</u>
Governmental activities capital assets, net	<u>\$ 1,614,396</u>	<u>(2,399)</u>	<u>-</u>	<u>1,611,997</u>
<u>Business-type activities:</u>				
Capital assets, not depreciated:				
Land	<u>\$ 53,686</u>	-	-	<u>53,686</u>
Total capital assets not being depreciated	<u>53,686</u>	-	-	<u>53,686</u>
Capital assets, being depreciated:				
Water system	4,454,712	-	-	4,454,712
Sewer system	6,940,017	156,816	(2,326,322)	4,770,511
Equipment	<u>816,179</u>	<u>68,909</u>	-	<u>885,088</u>
Total capital assets being depreciated	<u>12,210,908</u>	<u>225,725</u>	<u>(2,326,322)</u>	<u>10,110,311</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)(9) Capital Assets (continued)

	Balance October 1, 2019	Additions	Deletions	Balance September 30, 2020
<u>Business-type activities: (continued)</u>				
Less accumulated depreciation for:				
Water system	3,099,105	114,097	-	3,213,202
Sewer system	1,994,347	63,034	(113,412)	1,943,969
Equipment	801,609	26,572	-	828,181
Total accumulated depreciation	<u>5,895,061</u>	<u>203,703</u>	<u>(113,412)</u>	<u>5,985,352</u>
Total capital assets, being depreciated, net	<u>6,315,847</u>	<u>22,022</u>	<u>(2,212,910)</u>	<u>4,124,959</u>
Business-type activities capital assets, net	\$ <u>6,369,533</u>	<u>22,022</u>	<u>(2,212,910)</u>	<u>4,178,645</u>

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

Governmental activities:	
General government	\$ 18,493
Public safety	48,689
Streets	40,652
Culture and recreation	6,500
Total depreciation expense - governmental activities	<u>\$ 114,334</u>
Business-type activities:	
Water and sewer	<u>\$ 203,703</u>

(10) Long-Term Liabilities

Long-term liabilities consist of revenue bonds, 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.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(10) Long-Term Liabilities (continued)

Long-term liability activity for the year ended September 30, 2020, was as follows:

	October 1, 2019	Additions	Retirements	September 30, 2020	Due Within One Year
Governmental activities:					
Capital leases	\$ 451,221	17,227	140,027	328,421	102,649
Compensated absences	24,509	-	298	24,211	7,262
Net pension liability	1,540,509	916,650	1,280,809	1,176,350	-
Total OPEB liability	<u>84,562</u>	<u>26,130</u>	<u>3,372</u>	<u>107,320</u>	<u>-</u>
Total governmental activities	\$ <u>2,100,801</u>	<u>960,007</u>	<u>1,424,506</u>	<u>1,636,302</u>	<u>109,911</u>
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 5,015,000	-	700,000	4,315,000	715,000
Plus: deferred premiums	<u>91,400</u>	<u>-</u>	<u>5,377</u>	<u>86,023</u>	<u>-</u>
Total bonds payable	<u>5,106,400</u>	<u>-</u>	<u>705,377</u>	<u>4,401,023</u>	<u>715,000</u>
Capital leases	-	68,909	34,485	34,424	16,850
Compensated absences	10,183	-	-	10,183	-
Net pension liability	541,260	322,066	450,014	413,312	-
Total OPEB liability	<u>29,711</u>	<u>9,181</u>	<u>1,185</u>	<u>37,707</u>	<u>-</u>
Total business-type activities	\$ <u>5,687,554</u>	<u>400,156</u>	<u>1,191,061</u>	<u>4,896,649</u>	<u>731,850</u>

Business-type activities long-term liabilities at September 30, 2020, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
2010 General obligation refunding bond	\$ 3,035,000	2.00% to 4.25%	\$ 1,195,000
2013 Combination tax revenue certificates of obligation	1,540,000	2.20%	890,000
2015 Tax notes	2,000,000	1.69%	595,000
2016 Combination tax and revenue certificate of obligation	1,965,000	1.00% to 2.10%	<u>1,635,000</u>
			\$ <u>4,315,000</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, 2020:

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	350,000	63,433	413,433
2026-2030	1,150,000	178,011	1,328,011
2031-2035	565,000	70,650	635,650
2036	125,000	3,750	128,750
	<u>\$ 4,315,000</u>	<u>693,072</u>	<u>5,008,072</u>

Capital Leases Obligations

The City leases certain equipment under noncancelable capital leases that expire over the next four years. Assets under capital leases at September 30, 2020 consisted of the following:

Equipment	\$ 477,489
Vehicles	171,694
Less: accumulated amortization	<u>(519,910)</u>
	<u>\$ 129,273</u>

The present values of future minimum capital lease payments as of September 30, 2020 are:

<u>Fiscal Year</u>	
2021	\$ 132,574
2022	132,574
2023	98,687
2024	<u>25,620</u>
Total minimum lease payments	389,455
Less amounts representing interest at 3.39% to 5.29%	<u>(26,610)</u>
Obligations under capital leases	<u>\$ 362,845</u>

City of Lacy Lakeview, Texas**Notes 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 \$837,649 and \$136,948, 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 888 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.tmrs.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	24
Inactive employees entitled to but not yet receiving benefits	28
Active employees	<u>51</u>
	<u>103</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 14.57% and 14.61% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020 were \$329,636 and were equal to the required contributions.

Net Pension Liability

The City's net pension liability was measured as of December 31, 2019, 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, 2019 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%. Based on the size of the City, rates are multiplied by an additional factor of 100%. 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>
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	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	Plan Fiduciary	Net Pension
		Liability	Net Position	Liability
		(a)	(b)	(a) - (b)
Balance at December 31, 2018	\$	8,776,594	6,694,824	2,081,770
Changes for the year:				
Service cost		367,766	-	367,766
Interest		595,744	-	595,744
Difference between expected and actual experience		3,724	-	3,724
Change in assumptions		48,643	-	48,643
Contributions - employer		-	321,431	(321,431)
Contributions - employee		-	156,687	(156,687)
Net investment income		-	1,035,889	(1,035,889)
Benefit payments, including refunds of employee contributions		(269,267)	(269,267)	-
Administrative expense		-	(5,848)	5,848
Other changes		-	(174)	174
Net changes		746,610	1,238,718	(492,108)
Balance at December 31, 2019	\$	9,523,204	7,933,542	1,589,662

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)

	1% Decrease in Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ <u>3,190,993</u>	<u>1,589,662</u>	<u>308,686</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.tmrs.com.

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

For the year ended September 30, 2020, the City recognized pension expense of \$343,820.

At September 30, 2020, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 238,535	-
Differences between expected and actual experience	2,909	49,995
Change in assumptions	37,999	-
Difference between projected and actual earnings on pension plan investments, net	<u>-</u>	<u>233,587</u>
Total	<u>\$ 279,443</u>	<u>283,582</u>

The \$238,535 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, 2021. 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>	
2020	\$ (90,182)
2021	(67,374)
2022	25,148
2023	<u>(110,266)</u>
	<u>\$ (242,674)</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 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, 2019 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	8
Active employees	51
	<u>77</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, 2020 were \$895, respectively, which equaled the required contribution for the year.

Total OPEB Liability

The City’s total OPEB liability was measured as of December 31, 2019, 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, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.5% to 11.5% per year, including inflation
Discount rate	2.75% (based on the Fidelity Index’s “20-Year Municipal GO AA index” rate as of December 31, 2019)
Administrative expenses	All administrative expenses are paid through the TMRS Pension Trust.

Mortality rates for service retirees were based on the 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. For disabled retirees, the 2019 Municipal Retirees of Texas Mortality Tables were used with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

The changes in the total OPEB liability for the measurement period ending December 31, 2019 was as follows:

	Total OPEB Liability
Balance at December 31, 2018	\$ <u>114,273</u>
Changes for the year:	
Service cost	6,267
Interest	4,339
Differences between expected and active experience	(3,662)
Changes in assumptions or other inputs	24,705
Benefit payments **	<u>(895)</u>
Net changes	<u>30,754</u>
Balance at December 31, 2019	\$ <u><u>145,027</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 2.75%, 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 (1.75%) or one percentage point higher (3.75%) than the current rate:

	<u>1% Decrease in Discount Rate (1.75%)</u>	<u>Current Discount Rate (2.75%)</u>	<u>1% Increase in Discount Rate (3.75%)</u>
City's total OPEB liability	\$ <u>177,713</u>	<u>145,027</u>	<u>120,125</u>

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

For the year ended September 30, 2020, the City recognized OPEB expense of \$12,624.

At September 30, 2020, 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	\$ 895	-
Differences between expected and actual experience	-	9,096
Changes in assumptions	<u>25,799</u>	<u>5,781</u>
Total	<u>\$ 26,694</u>	<u>14,877</u>

The \$895 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, 2021. 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>	
2020	\$ 2,018
2021	2,018
2022	1,585
2023	958
2024	3,340
Thereafter	<u>1,003</u>
	<u>\$ 10,922</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, 2020:

	<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	\$ -	63,803	-
Net pension liability	206,788	72,655	-
Total OPEB liability	<u>19,753</u>	<u>6,941</u>	<u>-</u>
	<u>\$ 226,541</u>	<u>143,399</u>	<u>-</u>
Deferred inflows of resources:			
Unavailable property tax revenues	\$ -	-	48,673
Unavailable fine and forfeiture revenue	-	-	30,219
Net pension liability	209,850	73,732	-
Total OPEB liability	<u>11,009</u>	<u>3,868</u>	<u>-</u>
	<u>\$ 220,859</u>	<u>77,600</u>	<u>78,892</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 and total OPEB liability in the following fiscal year. The pension related differences between expected and actual experience and the pension and OPEB related change in assumptions 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 and fines and forfeitures, which is deferred and recognized as an inflow of resources, in the period that the amounts become available. The pension and OPEB related differences between expected and actual experience, and the pension related change in assumptions and difference in projected and actual earnings on pension plan investments, net, will be amortized into pension/OPEB expense.

City of Lacy Lakeview, Texas**Notes to Financial Statements
(Continued)****(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 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 August 1, 2016, 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, 2026. 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.

(16) Tax Abatements

The City 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.

(17) Authoritative Pronouncements Not Yet Effective

The following pronouncements were 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 on its financial statements.

GASB Statement No. 87, *Leases* (Statement 87) – The objective of Statement 87 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 Statement 87 were effective for financial statements for periods beginning after December 15, 2019; however, in May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (Statement 95), and delayed implementation to fiscal years beginning after June 15, 2021.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (Statement 89) – The objective of Statement 89 is to simplify accounting for interest cost incurred before the end of a construction period. It will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. The provisions of Statement 89 were effective for financial statements for periods beginning after December 15, 2019; however, in May 2020, GASB issued Statement 95 and delayed implementation to fiscal years beginning after December 15, 2020.

GASB Statement No. 91, *Conduit Debt Obligations* (Statement 91) – The objective of this statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2020.

City of Lacy Lakeview, Texas**Notes to Financial Statements
(Continued)****(17) Authoritative Pronouncements Not Yet Effective (continued)**

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (Statement 96)* – The objective of this statement is to provide guidance for subscription based information technology arrangements (SBITA). It will define SBITA contracts, provide guidance on the accounting for the SBITAs, and require disclosures regarding the SBITAs. The requirements of this statement are effective for financial statements for fiscal years beginning after June 15, 2022.

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, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue:				
Taxes:				
Property	\$ 1,343,879	1,343,879	1,337,855	(6,024)
Sales	1,363,537	1,363,537	1,925,662	562,125
Franchise	350,000	350,000	338,585	(11,415)
Other	15,000	15,000	7,874	(7,126)
Intergovernmental	-	-	14,212	14,212
License and permits	45,590	45,590	39,740	(5,850)
Fines and forfeitures	75,000	75,000	91,164	16,164
Charges for services	82,618	82,618	85,899	3,281
Interest income	23,900	23,900	20,798	(3,102)
Miscellaneous	58,530	58,530	91,766	33,236
Total revenue	<u>3,358,054</u>	<u>3,358,054</u>	<u>3,953,555</u>	<u>595,501</u>
Expenditures:				
Current:				
General government	407,324	407,324	384,874	22,450
Public safety	2,100,981	2,073,482	2,142,293	(68,811)
Streets	402,950	402,950	326,327	76,623
Municipal court	194,847	194,847	194,174	673
Culture and recreation	117,484	117,484	105,639	11,845
Debt service:				
Principal	126,468	126,468	139,852	(13,384)
Interest	-	-	16,303	(16,303)
Capital outlay	23,000	50,499	111,935	(61,436)
Total expenditures	<u>3,373,054</u>	<u>3,373,054</u>	<u>3,421,397</u>	<u>(48,343)</u>
Excess of revenue over expenditures	<u>(15,000)</u>	<u>(15,000)</u>	<u>532,158</u>	<u>547,158</u>
Other financing sources (uses):				
Proceeds from issuance of capital leases	-	-	17,227	17,227
Transfers in	15,000	15,000	15,000	-
Total other financing sources (uses)	<u>15,000</u>	<u>15,000</u>	<u>32,227</u>	<u>17,227</u>
Change in fund balance	-	-	564,385	564,385
Fund balance, at beginning of year	<u>2,694,540</u>	<u>2,694,540</u>	<u>2,694,540</u>	-
Fund balance, at end of year	<u>\$ 2,694,540</u>	<u>2,694,540</u>	<u>3,258,925</u>	<u>564,385</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, 2020

	<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	371,184	(28,816)
Interest income	300	300	(688)	(988)
Total revenue	<u>400,300</u>	<u>400,300</u>	<u>370,496</u>	<u>(29,804)</u>
Expenditures:				
Current:				
Culture and recreation	400,300	400,300	236,179	164,121
Total expenditures	<u>400,300</u>	<u>400,300</u>	<u>236,179</u>	<u>164,121</u>
 Excess (deficiency) of revenue over (under) expenditures	 -	 -	 134,317	 134,317
 Fund balance, at beginning of year	 <u>847,244</u>	 <u>847,244</u>	 <u>847,244</u>	 <u>-</u>
 Fund balance, at end of year	 <u>\$ 847,244</u>	 <u>847,244</u>	 <u>981,561</u>	 <u>134,317</u>

See accompanying independent auditor's report.

City of Lacy Lakeview, Texas

Schedule of Changes in Net Pension Liability and Related Ratios

Last Six Measurement Dates

	December 31,					
	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 367,766	345,176	339,092	327,117	302,835	256,056
Interest (on the Total Pension Liability)	595,744	557,342	520,430	486,105	455,126	409,373
Difference between expected and actual experience	3,724	(35,834)	(41,218)	(116,697)	97,765	161,622
Change of assumptions	48,643	-	-	-	20,788	-
Benefit payments, including refunds of employee contributions	<u>(269,267)</u>	<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	746,610	517,852	618,120	508,723	686,513	623,398
Total Pension Liability - beginning	<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>	<u>5,821,988</u>
Total Pension Liability - ending (a)	<u>\$ 9,523,204</u>	<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	\$ 321,431	303,182	302,308	271,364	261,812	240,146
Contributions - employee	156,687	146,973	144,646	139,879	135,453	131,638
Net investment income	1,035,889	(203,860)	798,931	350,949	7,349	260,564
Benefit payments, including refunds of employee contributions	(269,267)	(348,832)	(200,184)	(187,802)	(190,001)	(203,653)
Administrative expense	(5,848)	(3,938)	(4,137)	(3,961)	(4,476)	(2,720)
Other	<u>(174)</u>	<u>(206)</u>	<u>(210)</u>	<u>(213)</u>	<u>(220)</u>	<u>(224)</u>
Net change in Plan Fiduciary Net Position	1,238,718	(106,681)	1,041,354	570,216	209,917	425,751
Plan Fiduciary Net Position - Beginning	<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>	<u>4,554,267</u>
Plan Fiduciary Net Position - ending (b)	<u>\$ 7,933,542</u>	<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>\$ 1,589,662</u>	<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	83.31%	76.28%	82.36%	75.39%	72.77%	77.26%
Covered payroll	\$ 2,238,384	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	71.02%	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,					
	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 329,636	311,789	304,636	300,208	271,831	260,015
Contributions in relation to the actuarially determined contribution	<u>329,636</u>	<u>311,789</u>	<u>304,636</u>	<u>300,208</u>	<u>271,831</u>	<u>260,015</u>
Contribution deficiency (excess)	\$ -	-	-	-	-	-
Covered payroll	\$ <u>2,257,945</u>	<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>14.60%</u>	<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	24 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50%, 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 2019 valuation pursuant to an experience study of the period 2014 – 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP
Other	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.

See accompanying independent auditor's report.

City of Lacy Lakeview, Texas

Schedule of Changes in Total OPEB Liability and Related Ratios

Last Three Measurement Dates

	December 31,		
	2019	2018	2017
Total OPEB Liability			
Service cost	\$ 6,267	6,719	5,786
Interest (on the Total OPEB Liability)	4,339	4,143	3,973
Differences between expected and actual experience	(3,662)	(9,215)	
Change of assumptions	24,705	(8,857)	10,463
Benefit payments **	(895)	(630)	(620)
Net change in Total OPEB Liability	30,754	(7,840)	19,602
Total OPEB Liability - beginning	114,273	122,113	102,511
Total OPEB Liability - ending	<u>\$ 145,027</u>	<u>114,273</u>	<u>122,113</u>
Covered payroll	<u>\$ 2,238,384</u>	<u>2,099,611</u>	<u>2,066,375</u>
Total OPEB Liability as a percentage of covered payroll	6.48%	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 2017 is not available

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

	September 30,		
	2020	2019	2018
Actuarially determined contribution	\$ 895	630	620
Contributions in relation to the actuarially determined contribution	<u>895</u>	<u>630</u>	<u>620</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>
Covered payroll	<u>\$ 2,257,945</u>	<u>2,099,595</u>	<u>2,066,375</u>
Contributions as a percentage of covered payroll	<u>0.04%</u>	<u>0.03%</u>	<u>0.03%</u>

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	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Discounted Rate	2.75%
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	2019 Municipal Retirees of Texas Mortality Tables. The rates are Projected on a fully generational basis with Scale UMP.
Mortality – disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the 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.