

City of Lacy Lakeview, Texas
Financial Statements and
Supplementary Information
September 30, 2021
(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, 2021, 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, 2021, 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.

September 16, 2022

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, 2021. Please read it in conjunction with the City’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$10,575,365 (*net position*). Of this amount, \$3,675,549 represents unrestricted net position, which may be used to meet the government’s ongoing obligations to citizens and creditors.
- The government’s total net position increased by \$1,348,751 during the year.
- For business-type activities and the water and sewer fund, the City recognized a special item for the year ended September 30, 2020 – a \$1,970,491 loss from termination of the Waco Metropolitan Area Regional Sewer System (“WMARSS”) interlocal cooperation agreement, which resulted in the City no longer recognizing its undivided interest in the facilities and operations of WMARSS.
- During the current year, the City issued \$1,251,000 general obligation refunding bonds to refund \$1,195,000 of existing general obligation refunding bonds. The refunding transaction was undertaken to reduce debt service payments over the next six years and resulted in an economic gain of \$64,425.
- As of the close of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$4,809,511, an increase of \$569,025 from the prior year. Approximately 74% of the fund balance, \$3,540,851 (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 \$3,540,851, or approximately 107% 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 three 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, the hotel-motel fund and the grant 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 \$10,575,365 at the close of the most recent fiscal year.

City of Lacy Lakeview Net Position September 30, 2021 and 2020

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 5,842,273	4,531,735	5,607,292	5,992,606	11,449,565	10,524,341
Capital assets, net	<u>1,645,218</u>	<u>1,611,997</u>	<u>4,532,121</u>	<u>4,178,645</u>	<u>6,177,339</u>	<u>5,790,642</u>
Total assets	<u>7,487,491</u>	<u>6,143,732</u>	<u>10,139,413</u>	<u>10,171,251</u>	<u>17,626,904</u>	<u>16,314,983</u>
Deferred outflows of resources	<u>233,203</u>	<u>226,541</u>	<u>166,379</u>	<u>143,399</u>	<u>399,582</u>	<u>369,940</u>
Other current liabilities	961,015	223,198	650,281	403,701	1,611,296	626,899
Noncurrent liabilities	<u>1,115,339</u>	<u>1,636,302</u>	<u>4,061,511</u>	<u>4,896,649</u>	<u>5,176,850</u>	<u>6,532,951</u>
Total liabilities	<u>2,076,354</u>	<u>1,859,500</u>	<u>4,711,792</u>	<u>5,300,350</u>	<u>6,788,146</u>	<u>7,159,850</u>
Deferred inflows of resources	<u>483,971</u>	<u>220,859</u>	<u>179,004</u>	<u>77,600</u>	<u>662,975</u>	<u>298,459</u>
Net position:						
Net investment in capital assets	1,411,941	1,272,735	4,128,621	3,360,825	5,540,562	4,633,560
Restricted	1,268,237	1,018,838	91,017	12,010	1,359,254	1,030,848
Unrestricted	<u>2,480,191</u>	<u>1,998,341</u>	<u>1,195,358</u>	<u>1,563,865</u>	<u>3,675,549</u>	<u>3,562,206</u>
Total net position	<u>\$ 5,160,369</u>	<u>4,289,914</u>	<u>5,414,996</u>	<u>4,936,700</u>	<u>10,575,365</u>	<u>9,226,614</u>

By far, the largest portion of the City’s net position (52%) 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 \$5,540,562 at September 30, 2021 represents an increase of \$907,002 from the prior year primarily due to sewer system additions and principal repayments on long-term debt.

An additional portion of the City’s net position (13%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,675,549 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, 2021 and 2020

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Program revenues:						
Charges for services	\$ 207,351	193,893	3,261,883	3,207,516	3,469,234	3,401,409
Operating grants and contributions	-	14,212	-	-	-	14,212
General revenues:						
Property taxes	1,502,018	1,337,594	-	-	1,502,018	1,337,594
Sales taxes	1,683,607	1,925,662	-	-	1,683,607	1,925,662
Franchise taxes	318,740	338,585	-	-	318,740	338,585
Other taxes	605,024	470,824	-	-	605,024	470,824
Interest income	18,045	20,110	2,687	15,898	20,732	36,008
Other income	-	-	40,205	29,167	40,205	29,167
Total revenues	<u>4,334,785</u>	<u>4,300,880</u>	<u>3,304,775</u>	<u>3,252,581</u>	<u>7,639,560</u>	<u>7,553,461</u>
Expenses:						
General government	342,634	405,730	-	-	342,634	405,730
Public safety	2,003,583	2,206,778	-	-	2,003,583	2,206,778
Streets	357,443	368,651	-	-	357,443	368,651
Municipal court	182,338	195,672	-	-	182,338	195,672
Culture and recreation	341,888	349,149	-	-	341,888	349,149
Interest and amortization on long-term debt	8,174	12,454	-	-	8,174	12,454
Water and sewer	-	-	3,054,749	2,875,119	3,054,749	2,875,119
	<u>3,236,060</u>	<u>3,538,434</u>	<u>3,054,749</u>	<u>2,875,119</u>	<u>6,290,809</u>	<u>6,413,553</u>

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Increase in net position before special item and transfers	1,098,725	762,446	250,026	377,462	1,348,751	1,139,908
Special item - loss from termination of WMARSS interlocal agreement	-	-	-	(1,970,491)	-	(1,970,491)
Transfers	(228,270)	15,000	228,270	(15,000)	-	-
Increase (decrease) in net position	870,455	777,446	478,296	(1,608,029)	1,348,751	(830,583)
Net position, beginning of the year	4,289,914	3,512,468	4,936,700	6,544,729	9,226,614	10,057,197
Net position, end of the year	\$ 5,160,369	4,289,914	5,414,996	4,936,700	10,575,365	9,226,614

The City's net position increased by \$1,348,751 during the current fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental activities. Governmental activities increased the City's net position by \$870,455.

- Sales taxes decreased by \$242,055 during the year, due to decreased commercial activity along Interstate 35.
- Public safety expenditures decreased by \$203,195 during the year, which is primarily due to a decrease in public safety personnel for which no replacements have been hired.
- Transfers increased by \$243,270 during the year due to transfers for the 2021 bond principal repayments to the water and sewer fund.

Other revenue and expenses paralleled the prior year activity.

Business-type activities. Business-type activities increased the City's net position by \$478,296. Key elements of this increase are as follows.

- During 2020, the City recognized a special item – a \$1,970,491 loss from termination of the WMARSS interlocal cooperation agreement, which resulted in the City no longer recognizing its undivided interest in the facilities and operations of WMARSS. Exclusive of this special item, 2020 net position increase amounted to \$377,462.

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 \$4,809,511, an increase of \$569,025 from the prior year. Less than 1% of this total amount (\$423) 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 26% (\$1,268,237) of the total fund balance is classified as restricted. Restricted fund balance represents balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. The remaining 74% of the fund balance (\$3,540,851) 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 \$3,540,851, while total fund balance increased to \$3,588,059. 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 107% of the total general fund expenditures, while total fund balance represents 109% 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 \$5,414,996. The total increase in net position was \$478,296. 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, 2021, 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, 2021, amounts to \$6,177,339 (net of accumulated depreciation) and is an increase of \$386,697 from the prior year, primarily due to additions in sewer system facilities. 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, 2021 and 2020

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
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	1,202,096	-	-	1,202,096	1,202,096
Machinery and Equipment	3,765,563	3,626,361	893,949	885,088	4,659,512	4,511,449
Water system facilities	-	-	4,480,022	4,454,712	4,480,022	4,454,712
Sewer system facilities	-	-	5,284,777	4,770,511	5,284,777	4,770,511
Less: accumulated depreciation	<u>(4,647,323)</u>	<u>(4,541,342)</u>	<u>(6,180,313)</u>	<u>(5,985,352)</u>	<u>(10,827,636)</u>	<u>(10,526,694)</u>
	<u>\$ 1,645,218</u>	<u>1,611,997</u>	<u>4,532,121</u>	<u>4,178,645</u>	<u>6,177,339</u>	<u>5,790,642</u>

Additional information on the City’s capital assets can be found in Note 8 on pages 21-23 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 \$3,957,903. Of this amount, \$3,714,646 represents revenue bonds secured by water and sewer revenues. The City’s capital lease obligations of \$243,257 pertain to purchases of equipment.

City of Lacy Lakeview
Long-term Debt
September 30, 2021 and 2020

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenue bonds payable	\$ -	-	3,714,646	4,401,023	3,714,646	4,401,023
Capital lease obligations	225,772	328,421	17,485	34,424	243,257	362,845
Compensated absences	26,551	24,211	10,183	10,183	36,734	34,394
Net pension liability	748,651	1,176,350	276,898	413,312	1,025,549	1,589,662
Total OPEB liability	<u>114,365</u>	<u>107,320</u>	<u>42,299</u>	<u>37,707</u>	<u>156,664</u>	<u>145,027</u>
	<u>\$ 1,115,339</u>	<u>1,636,302</u>	<u>4,061,511</u>	<u>4,896,649</u>	<u>5,176,850</u>	<u>6,532,951</u>

The City’s total long-term debt decreased by \$1,356,101 (21%) 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 issued \$1,251,000 general obligation refunding bonds to refund \$1,195,000 of existing general obligation refunding bonds.

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 \$3,540,851. The City has not appropriated any of this amount for spending in the 2022 fiscal year budget. The 2022 fiscal year budget of \$3,990,878 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, 2021

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,634,218	995,046	6,629,264
Receivables	539,761	341,391	881,152
Prepaid expenses	423	86	509
Internal balances	(332,129)	332,129	-
Restricted cash	-	3,938,640	3,938,640
Capital assets not being depreciated:			
Land	201,196	53,686	254,882
Capital assets, net of accumulated depreciation			
Buildings	614,440	-	614,440
Improvements other than buildings	554,830	-	554,830
Machinery and equipment	274,752	50,511	325,263
Water system	-	1,150,764	1,150,764
Sewer system	-	3,277,160	3,277,160
Total assets	7,487,491	10,139,413	17,626,904
Deferred Outflows of Resources			
Deferred outflows of resources	233,203	166,379	399,582
Liabilities			
Accounts payable	51,954	379,813	431,767
Accrued liabilities	67,822	18,514	86,336
Customer deposits	1,050	236,135	237,185
Accrued interest payable	7,505	15,819	23,324
Unearned revenue	832,684	-	832,684
Noncurrent liabilities:			
Due within one year	114,319	776,485	890,804
Due in more than one year	1,001,020	3,285,026	4,286,046
Total liabilities	2,076,354	4,711,792	6,788,146
Deferred Inflows of Resources			
Deferred inflows of resources	483,971	179,004	662,975
Net Position			
Net investment in capital assets	1,411,941	4,128,621	5,540,562
Restricted:			
Public safety	46,785	-	46,785
Culture and recreation	1,221,452	-	1,221,452
Debt service	-	91,017	91,017
Unrestricted	2,480,191	1,195,358	3,675,549
Total net position	\$ 5,160,369	5,414,996	10,575,365

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas
Statement of Activities
Year Ended September 30, 2021

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-type Activities	Total
			Grants and Contributions	Grants and Contributions			
Governmental activities:							
General government	\$ 342,634	148,838	-	-	(193,796)	-	(193,796)
Public safety	2,003,583	-	-	-	(2,003,583)	-	(2,003,583)
Streets	357,443	-	-	-	(357,443)	-	(357,443)
Municipal court	182,338	58,513	-	-	(123,825)	-	(123,825)
Culture and recreation	341,888	-	-	-	(341,888)	-	(341,888)
Interest on long-term debt	8,174	-	-	-	(8,174)	-	(8,174)
Total governmental activities	<u>3,236,060</u>	<u>207,351</u>	<u>-</u>	<u>-</u>	<u>(3,028,709)</u>	<u>-</u>	<u>(3,028,709)</u>
Business-type activities:							
Water and sewer	3,054,749	3,261,883	-	-	-	207,134	207,134
Total business-type activities	<u>3,054,749</u>	<u>3,261,883</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>207,134</u>	<u>207,134</u>
Total	\$ <u>6,290,809</u>	<u>3,469,234</u>	<u>-</u>	<u>-</u>	<u>(3,028,709)</u>	<u>207,134</u>	<u>(2,821,575)</u>
General revenues:							
Property taxes					1,502,018	-	1,502,018
Sales taxes					1,683,607	-	1,683,607
Franchise taxes					318,740	-	318,740
Hotel/motel taxes					475,672	-	475,672
Other					129,352	40,205	169,557
Interest income					18,045	2,687	20,732
Transfers					(228,270)	228,270	-
Total general revenues and transfers					<u>3,899,164</u>	<u>271,162</u>	<u>4,170,326</u>
Change in net position					870,455	478,296	1,348,751
Net position - beginning of year					<u>4,289,914</u>	<u>4,936,700</u>	<u>9,226,614</u>
Net position - ending					\$ <u>5,160,369</u>	<u>5,414,996</u>	<u>10,575,365</u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

Balance Sheet –
Governmental Funds

September 30, 2021

	<u>General</u>	<u>Hotel - Motel</u>	<u>Grant</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and investments	\$ 3,612,373	1,185,976	835,869	5,634,218
Receivables (net of allowance for uncollectibles);				
Taxes	323,782	158,161	-	481,943
Others	57,818	-	-	57,818
Prepaid expenses	423	-	-	423
Total assets	\$ <u>3,994,396</u>	<u>1,344,137</u>	<u>835,869</u>	<u>6,174,402</u>
<u>Liabilities</u>				
Accounts payable	\$ 48,769	-	3,185	51,954
Accrued liabilities	67,822	-	-	67,822
Customer deposits payable	1,050	-	-	1,050
Unearned revenue	-	-	832,684	832,684
Due to other funds	209,444	122,685	-	332,129
Total liabilities	<u>327,085</u>	<u>122,685</u>	<u>835,869</u>	<u>1,285,639</u>
<u>Deferred Inflows of Resources</u>				
Unavailable revenue	79,252	-	-	79,252
<u>Fund Balances</u>				
Nonspendable	423	-	-	423
Restricted	46,785	1,221,452	-	1,268,237
Unassigned	3,540,851	-	-	3,540,851
Total fund balances	<u>3,588,059</u>	<u>1,221,452</u>	<u>-</u>	<u>4,809,511</u>
Total liabilities, deferred inflows of resources, and fund balances	\$ <u>3,994,396</u>	<u>1,344,137</u>	<u>835,869</u>	<u>6,174,402</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, 2021

Total fund balances	\$ 4,809,511
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.	1,645,218
Deferred inflows of resources are not available to pay current period expenditures and, therefore, are deferred in the funds.	79,252
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,373,612)</u>
Net position of governmental activities	<u><u>\$ 5,160,369</u></u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

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

Year Ended September 30, 2021

	General	Hotel - Motel	Grant	Total Governmental Funds
Revenue:				
Taxes:				
Property	\$ 1,495,729	-	-	1,495,729
Sales	1,683,607	-	-	1,683,607
Franchise	318,740	-	-	318,740
Other	9,756	475,672	-	485,428
License and permits	41,449	-	-	41,449
Fines and forfeitures	64,442	-	-	64,442
Charges for services	107,389	-	-	107,389
Interest income	15,685	2,360	-	18,045
Miscellaneous	119,596	-	-	119,596
Total revenue	<u>3,856,393</u>	<u>478,032</u>	<u>-</u>	<u>4,334,425</u>
Expenditures:				
Current:				
General government	341,093	-	-	341,093
Public safety	2,049,373	-	-	2,049,373
Streets	344,108	-	-	344,108
Municipal court	192,741	-	-	192,741
Cultural and recreation	105,177	238,141	-	343,318
Debt service:				
Principal	102,561	-	-	102,561
Interest	11,598	-	-	11,598
Capital outlay	152,338	-	-	152,338
Total expenditures	<u>3,298,989</u>	<u>238,141</u>	<u>-</u>	<u>3,537,130</u>
Excess (deficiency) of revenue over (under) expenditures	<u>557,404</u>	<u>239,891</u>	<u>-</u>	<u>797,295</u>
Other financing sources (uses):				
Transfers out	<u>(228,270)</u>	<u>-</u>	<u>-</u>	<u>(228,270)</u>
Total other financing sources (uses)	<u>(228,270)</u>	<u>-</u>	<u>-</u>	<u>(228,270)</u>
Net changes in fund balances	329,134	239,891	-	569,025
Fund balances, beginning of year	<u>3,258,925</u>	<u>981,561</u>	<u>-</u>	<u>4,240,486</u>
Fund balances, at end of year	<u>\$ 3,588,059</u>	<u>1,221,452</u>	<u>-</u>	<u>4,809,511</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, 2021

Net change in fund balances - total governmental funds	\$	569,025
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions (\$139,202) exceeded depreciation expense (\$105,981) in the current period.		33,221
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		360
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.		103,645
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 contributions exceeded pension/OPEB expense to the plans in the current period.		<u>164,204</u>
Change in net position of governmental activities	\$	<u><u>870,455</u></u>

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

Statement of Net Position
Proprietary Fund

September 30, 2021

	<u>Business-type activities- Enterprise Fund</u>
	<u>Water and Sewer</u>
Assets	
Current assets:	
Cash and investments	\$ 995,046
Receivables (net of allowance for uncollectibles)	341,391
Due from other funds	332,129
Prepaid expenses	86
Total current assets	<u>1,668,652</u>
Noncurrent assets:	
Restricted cash	3,938,640
Capital assets:	
Land	53,686
Water system	4,480,022
Sewer system	5,284,777
Equipment	893,949
Less: accumulated depreciation	<u>(6,180,313)</u>
Total capital assets, net	<u>4,532,121</u>
Total noncurrent assets	<u>8,470,761</u>
Total assets	<u>10,139,413</u>
Deferred Outflows of Resources	
Deferred outflows of resources	<u>166,379</u>

(Continued)

	Business-type activities- Enterprise Fund
	<u>Water and Sewer</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 379,813
Accrued liabilities	34,333
Payable from restricted assets:	
Customer deposits	236,135
Revenue bonds - current	759,000
Capital leases - current	<u>17,485</u>
Total current liabilities	<u>1,426,766</u>
Noncurrent liabilities:	
Compensated absences	10,183
Net pension liability	276,898
OPEB liability	42,299
Revenue bonds payable	<u>2,955,646</u>
Total noncurrent liabilities	<u>3,285,026</u>
Total liabilities	<u>4,711,792</u>
Deferred Inflows of Resources	
Deferred inflows of resources	<u>179,004</u>
Net Position	
Invested in capital assets, net of related debt	4,128,621
Restricted for debt service	91,017
Unrestricted	<u>1,195,358</u>
Total net position	<u>\$ 5,414,996</u>

City of Lacy Lakeview, Texas

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

Year Ended September 30, 2021

	Business-type activities- Enterprise Fund
	Water and Sewer
Operating revenue:	
Charges for sales and services:	
Water sales	\$ 2,010,418
Sewer charges	1,173,206
Other charges	78,259
Total operating revenues	3,261,883
Operating expenses:	
Costs of sales and services	1,492,713
Administration	1,239,360
Depreciation	194,961
Total operating expenses	2,927,034
Operating income	334,849
Nonoperating revenue (expenses):	
Interest expense	(88,037)
Bond issuance costs	(39,678)
Miscellaneous revenue	40,205
Interest revenue	2,687
Total nonoperating revenue (expenses)	(84,823)
Income before transfers	250,026
Transfers in	228,270
Change in net position	478,296
Net position, at beginning of year	4,936,700
Net position, at end of year	\$ 5,414,996

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

**Statement of Cash Flows -
Proprietary Fund**

Year Ended September 30, 2021

	Business-type activities- Enterprise Fund
	Water and Sewer
Cash flows from operating activities:	
Receipts from customers and users	\$ 3,305,092
Payments to suppliers	(1,931,484)
Payments to employees	(601,870)
Net cash provided by operating activities	771,738
Cash flows from noncapital financing activities:	
Transfers from other funds	228,270
Net cash provided by noncapital financing activities	228,270
Cash flows from capital and related financing activities:	
Miscellaneous revenue	40,205
Acquisition of capital assets	(548,437)
Principal paid on debt	(753,939)
Interest and fiscal charge paid on debt	(99,813)
Net cash used in capital and related financing activities	(1,361,984)
Cash flows from investing activities:	
Earnings on investments	2,687
Net cash provided by investing activities	2,687
Net decrease in cash and cash equivalents	(359,289)
Cash and cash equivalents, at beginning of year	5,292,975
Cash and cash equivalents, at end of year	\$ 4,933,686
Cash flows from operating activities:	
Operating income	\$ 334,849
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	194,961
Change in assets and liabilities:	
Decrease (increase) in assets:	
Due from other funds	(25,000)
Receivables	43,209
Prepaid expenses	7,816
Deferred outflows	(6,658)
Increase (decrease) in liabilities:	
Accounts payable	245,681
Accrued liabilities	4,900
Customer deposits	2,398
Net pension liability	(136,414)
OPEB liability	4,592
Deferred inflows	101,404
Net cash provided by operating activities	\$ 771,738
Non-cash capital and related financial activities:	
Proceeds from issuance of refunding bonds used for payment of bond issuance costs and payment to refunded bond escrow agent	\$ 1,251,000

See accompanying notes to financial statements.

City of Lacy Lakeview, Texas

Notes to Financial Statements

September 30, 2021

(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 compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

The City reports the following major governmental funds:

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

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

Grant Fund – The fund is used to account for the resources received from the American Rescue Plan Act of 2021 to respond to and recover from the COVID-19 public health emergency.

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

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

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

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

(d) Receivables and payables

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

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

(e) Prepaid expenses

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

(f) Restricted assets

Restricted cash accounts in the water and sewer fund are used to report (1) unspent bond proceeds, (2) customer deposits, 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, TexasNotes 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	\$ 423	-	423
Restricted for:			
Public safety	46,785	-	46,785
Culture and recreation	-	1,221,452	1,221,452
Unassigned	<u>3,540,851</u>	<u>-</u>	<u>3,540,851</u>
	<u>\$ 3,588,059</u>	<u>1,221,452</u>	<u>4,809,511</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 \$228,270 from the general fund to the water and sewer fund are used to finance certain water and sewer 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 \$1,373,612 difference are as follows:

Accrued interest payable	\$ 7,505
Capital leases	225,772
Compensated absences	26,551
Net pension/OPEB liability, and related deferred outflows of \$233,203 and inflows of \$483,971 (to be amortized as pension expense)	1,113,784
Net adjustment to reduce <i>fund balance - total government funds</i> to arrive at <i>net position - governmental activities</i>	\$ <u>1,373,612</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 \$103,645 difference are as follows:

Principal payments on capital leases	\$ 102,649
Accrued interest	<u>996</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>\$ 103,645</u>

(4) 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.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(4) Budgets and Budgetary Accounting (continued)

- 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.

(5) Deposits and Investments

A summary of the City's cash and cash equivalents at September 30, 2021 follows:

Cash on hand	\$	550
Cash in bank		9,016,020
Public funds investments pool:		
Texas Local Government Investment Pool ("TexPool")		1,551,334
Total cash and cash equivalents	\$	10,567,904

TexPool. TexPool is a public funds investments pool created pursuant to an inter-local contract under the laws of the State of Texas and is governed by the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexPool is governed by the Comptroller of Public Accounts through the Texas Treasury Safekeeping Trust Company. The Comptroller is the sole officer, director, and shareholder of the Trust Company. The Comptroller and the Texas Treasury Safekeeping Trust Company have contracted with Federated Investors, Inc. as administrator and investment manager for the TexPool portfolio. 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 position to compute 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.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(5) Deposits and Investments (continued)

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 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, 2021, the weighted average maturity of TexPool is 37 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, 2021, TexPool is rated AAAM by Standard & Poor's.

(6) Receivables

Receivables as of September 30, 2021 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	\$ 54,962	-	-	54,962
Sales taxes	268,820	-	-	268,820
Hotel occupancy taxes	-	158,161	-	158,161
Other	<u>640,771</u>	<u>-</u>	<u>385,797</u>	<u>1,026,568</u>
Gross receivables	964,553	158,161	385,797	1,508,511
Lease allowance for uncollectibles	<u>582,953</u>	<u>-</u>	<u>44,406</u>	<u>627,359</u>
	<u>\$ 381,600</u>	<u>158,161</u>	<u>341,391</u>	<u>881,152</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(6) Receivables (continued)

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 2021 levy was based was \$415,245,107.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 2021 were 99% of the tax levy.

(7) Interfund Receivables and Payables

The composition of interfund balances as of September 30, 2021, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water and sewer	General	\$ 209,444
Water and sewer	Hotel/motel	122,685
Total		<u>\$ 332,129</u>

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

(8) Capital Assets

Capital asset activity for the year ended September 30, 2021 was as follows:

	<u>Balance October 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2021</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>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(8) Capital Assets (continued)

	Balance October 1, 2020	Additions	Deletions	Balance September 30, 2021
<u>Governmental activities: (continued)</u>				
Capital assets, being depreciated:				
Buildings	1,123,686	-	-	1,123,686
Improvements other than buildings	1,202,096	-	-	1,202,096
Machinery and equipment	3,626,361	139,202	-	3,765,563
Total capital assets being depreciated	<u>5,952,143</u>	<u>139,202</u>	<u>-</u>	<u>6,091,345</u>
Less: accumulated depreciation for:				
Buildings	487,709	21,537	-	509,246
Improvements other than buildings	630,120	17,146	-	647,266
Machinery and equipment	3,423,513	67,298	-	3,490,811
Total accumulated depreciation	<u>4,541,342</u>	<u>105,981</u>	<u>-</u>	<u>4,647,323</u>
Total capital assets, being depreciated, net	<u>1,410,801</u>	<u>33,221</u>	<u>-</u>	<u>1,444,022</u>
Governmental activities capital assets, net	<u>\$ 1,611,997</u>	<u>33,221</u>	<u>-</u>	<u>1,645,218</u>
<u>Business-type activities:</u>				
Capital assets, not depreciated:				
Land	\$ 53,686	-	-	53,686
Total capital assets not being depreciated	<u>53,686</u>	<u>-</u>	<u>-</u>	<u>53,686</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(8) Capital Assets (continued)

	Balance October 1, 2020	Additions	Deletions	Balance September 30, 2021
<u>Business-type activities: (continued)</u>				
Capital assets, being depreciated:				
Water system	4,454,712	25,310	-	4,480,022
Sewer system	4,770,511	514,266	-	5,284,777
Equipment	885,088	8,861	-	893,949
Total capital assets being depreciated	<u>10,110,311</u>	<u>548,437</u>	<u>-</u>	<u>10,658,748</u>
Less accumulated depreciation for:				
Water system	3,213,202	116,056	-	3,329,258
Sewer system	1,943,969	63,648	-	2,007,617
Equipment	828,181	15,257	-	843,438
Total accumulated depreciation	<u>5,985,352</u>	<u>194,961</u>	<u>-</u>	<u>6,180,313</u>
Total capital assets, being depreciated, net	<u>4,124,959</u>	<u>353,476</u>	<u>-</u>	<u>4,478,435</u>
Business-type activities capital assets, net	<u>\$ 4,178,645</u>	<u>353,476</u>	<u>-</u>	<u>4,532,121</u>

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

Governmental activities:	
General government	\$ 20,315
Public safety	53,797
Streets	26,463
Culture and recreation	5,406
Total depreciation expense - governmental activities	<u>\$ 105,981</u>
Business-type activities:	
Water and sewer	<u>\$ 194,961</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(9) 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.

Long-term liability activity for the year ended September 30, 2021, was as follows:

	October 1, 2020	Additions	Retirements	September 30, 2021	Due Within One Year
Governmental activities:					
Capital leases	\$ 328,421	-	102,649	225,772	106,354
Compensated absences	24,211	2,340	-	26,551	7,965
Net pension liability	1,176,350	749,095	1,176,794	748,651	-
Total OPEB liability	<u>107,320</u>	<u>23,666</u>	<u>16,621</u>	<u>114,365</u>	<u>-</u>
 Total governmental activities	 <u>\$ 1,636,302</u>	 <u>775,101</u>	 <u>1,296,064</u>	 <u>1,115,339</u>	 <u>114,319</u>
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 4,315,000	1,251,000	1,932,000	3,634,000	759,000
Plus: deferred premiums	<u>86,023</u>	<u>-</u>	<u>5,377</u>	<u>80,646</u>	<u>-</u>
Total bonds payable	4,401,023	1,251,000	1,937,377	3,714,646	759,000
Capital leases	34,424	-	16,939	17,485	17,485
Compensated absences	10,183	-	-	10,183	-
Net pension liability	413,312	277,063	413,477	276,898	-
Total OPEB liability	<u>37,707</u>	<u>10,739</u>	<u>6,147</u>	<u>42,299</u>	<u>-</u>
 Total business-type activities	 <u>\$ 4,896,649</u>	 <u>1,538,802</u>	 <u>2,373,940</u>	 <u>4,061,511</u>	 <u>776,485</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(9) Long-Term Liabilities (continued)

Business-type activities long-term liabilities at September 30, 2021, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
2013 Combination tax revenue certificates of obligation	\$ 1,540,000	2.20%	785,000
2015 Tax notes	2,000,000	1.69%	300,000
2016 Combination tax and revenue certificate of obligation	1,965,000	1.00% to 2.10%	1,550,000
2021 General obligation refunding bond	1,251,000	0..97%	<u>999,000</u>
			<u>\$ 3,634,000</u>

The annual debt service requirements to be paid on business-type activities long term debt outstanding at September 30, 2021:

Year Ended September 30,	Principal	Interest	Total
2022	\$ 759,000	71,980	830,980
2023	346,000	60,240	406,240
2024	343,000	54,603	397,603
2025	353,000	48,996	401,996
2026	359,000	43,241	402,241
2027-2031	889,000	140,255	1,029,255
2032-2036	<u>585,000</u>	<u>53,700</u>	<u>638,700</u>
	<u>\$ 3,634,000</u>	<u>473,015</u>	<u>4,107,015</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, 2021 consisted of the following:

Equipment	\$ 477,489
Vehicles	171,694
Less: accumulated amortization	<u>(567,527)</u>
	<u>\$ 81,656</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(9) Long-Term Liabilities (continued)

The present values of future minimum capital lease payments as of September 30, 2021 are:

<u>Fiscal Year</u>	
2022	\$ 132,485
2023	98,687
2024	<u>25,620</u>
Total minimum lease payments	256,792
Less amounts representing interest at 3.39% to 5.29%	<u>(13,535)</u>
Obligations under capital leases	<u>\$ 243,257</u>

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 \$6.75 million in revenue bonds issued from 2013 to 2021. 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 \$4.1 million. Principal and interest paid for the current year and total of pledged net operating revenues of the water and sewer fund were \$834,500 and \$136,948, respectively. The City is in compliance with all significant financial limitations and restrictions mentioned above.

Current Refunding of Debt

In June 2021, the City issued \$1,251,000 of General Obligation Refunding Bonds Series 2021 to refund \$1,195,000 of existing 2010 series general obligation refunding bonds. The true interest costs of the refunding bonds is 0.97% with a final maturity of August 2027. The reacquisition price exceeded the net carrying amount of the refunded debt by \$80,125. The refunding transaction was undertaken to reduce total debt service payments by \$66,497 over the next six years, resulting in an economic gain of \$64,425.

(10) Defined Benefit Pension Plan

Plan Description

The City participates as one of 895 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (“TMRS”). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the “TMRS Act”) as an agent multiple-employer retirement system for employees of participating Texas cities.

City of Lacy Lakeview, Texas

Notes to Financial Statements (Continued)

(10) Defined Benefit Pension Plan (continued)

The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available annual comprehensive financial report (“ACFR”) 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 based on the sum of the member’s contributions, with interest, and the City-financed monetary credits with interest. The retiring member may select one of seven monthly benefit 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.

Employees covered by benefit terms: At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	23
Inactive employees entitled to but not yet receiving benefits	31
Active employees	<u>47</u>
	<u>101</u>

Contributions

Member contribution rates in TMRS are either 5%, 6%, or 7% of member’s total compensation, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal actuarial cost method. The City’s contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

Employees for the City were required to contribute 7% of their annual compensation during the fiscal year. The contribution rates for the City were 14.40% and 14.86% in calendar years 2020 and 2021, respectively. The City’s contributions to TMRS for the year ended September 30, 2021 were \$340,950 and were equal to the required contributions.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(10) Defined Benefit Pension Plan (continued)

Net Pension Liability

The City's net pension liability was measured as of December 31, 2020, 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, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by scale UMP to account for future mortality improvements. For disabled annuitants, the Same mortality tables for healthy retirees are 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 is applied, for males and females, respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates ("APRs") are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(10) Defined Benefit Pension Plan (continued)

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 in fiscal year 2021 are summarized in the following table:

	<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	<u>10.0%</u>	7.75%
Total	<u><u>100.0%</u></u>	

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

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(10) Defined Benefit Pension Plan (continued)

Changes in the Net Pension Liability

		Increase (Decrease)		
		Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2019	\$	<u>9,523,204</u>	<u>7,933,542</u>	<u>1,589,662</u>
Changes for the year:				
Service cost		375,962	-	375,962
Interest		646,147	-	646,147
Difference between expected and actual experience		(504,819)	-	(504,819)
Contributions - employer		-	324,765	(324,765)
Contributions - employee		-	157,873	(157,873)
Net investment income		-	602,816	(602,816)
Benefit payments, including refunds of employee contributions		(277,259)	(277,259)	-
Administrative expense		-	(3,897)	3,897
Other changes		-	(154)	154
Net changes		<u>240,031</u>	<u>804,144</u>	<u>(564,113)</u>
Balance at December 31, 2020	\$	<u><u>9,763,235</u></u>	<u><u>8,737,686</u></u>	<u><u>1,025,549</u></u>

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

	1% Decrease in Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability (asset) \$	<u>2,682,720</u>	<u>1,025,549</u>	<u>(299,699)</u>

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

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(10) Defined Benefit Pension Plan (continued)

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

For the year ended September 30, 2021, the City recognized pension expense of \$121,949.

At September 30, 2021, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the measurement date	\$ 249,984	-
Differences between expected and actual experience	2,094	412,347
Change in assumptions	27,355	-
Difference between projected and actual earnings on pension plan investments, net	<u>-</u>	<u>221,075</u>
Total	<u>\$ 279,433</u>	<u>633,422</u>

The \$249,984 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, 2022. 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>	
2021	\$ (188,014)
2022	(95,492)
2023	(230,906)
2024	<u>(89,561)</u>
	<u>\$ (603,973)</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements (Continued)

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

Plan Description

The City also participates in a defined benefit group-term life insurance plan administered by the 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 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, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees current receiving benefits	16
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>47</u>
	<u><u>71</u></u>

Contributions

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

The City’s contributions to the SDBF for the year ended September 30, 2021 were \$902, and were equal to the required contributions.

Total OPEB Liability

The City’s total OPEB liability was measured as of December 31, 2020, and was determined by an actuarial valuation as of that date.

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

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

Actuarial assumptions: The total OPEB liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.5% to 11.5%, including inflation
Discount rate	2.00% (based on the Fidelity Index’s “20-Year Municipal GO AA index” rate as of December 31, 2020)
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, 2020 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, 2020 was as follows:

	Total OPEB Liability
Balance at December 31, 2019	\$ <u>145,027</u>
Changes for the year:	
Service cost	7,668
Interest	4,081
Differences between expected and active experience	(21,866)
Changes in assumptions or other inputs	22,656
Benefit payments **	<u>(902)</u>
Net changes	<u>11,637</u>
Balance at December 31, 2020	\$ <u><u>156,664</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)

(11) 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 2.00%, 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 (1.00%) or one percentage point higher (3.00%) than the current rate:

	<u>1% Decrease in Discount Rate (1.00%)</u>	<u>Current Discount Rate (2.00%)</u>	<u>1% Increase in Discount Rate (3.00%)</u>
City's total OPEB liability	\$ <u>195,145</u>	<u>156,664</u>	<u>127,445</u>

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

For the year ended September 30, 2021, the City recognized OPEB expense of \$13,892.

At September 30, 2021, 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	\$ 902	-
Differences between expected and actual experience	-	25,310
Changes in assumptions	<u>39,122</u>	<u>4,243</u>
Total	<u>\$ 40,024</u>	<u>29,553</u>

The \$902 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, 2022. 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>	
2021	\$ 2,143
2022	1,710
2023	1,083
2024	3,465
2025	1,128
Thereafter	<u>40</u>
	<u>\$ 9,569</u>

City of Lacy Lakeview, Texas

Notes to Financial Statements
(Continued)

(12) 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, 2021:

	<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	\$ -	80,125	-
Net pension liability	203,986	75,447	-
Total OPEB liability	<u>29,217</u>	<u>10,807</u>	<u>-</u>
	<u>\$ 233,203</u>	<u>166,379</u>	<u>-</u>
Deferred inflows of resources:			
Unavailable property tax revenues	\$ -	-	54,962
Unavailable fine and forfeiture revenue	-	-	24,290
Net pension liability	462,398	171,024	-
Total OPEB liability	<u>21,573</u>	<u>7,980</u>	<u>-</u>
	<u>\$ 483,971</u>	<u>179,004</u>	<u>79,252</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, TexasNotes to Financial Statements
(Continued)**(13) 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.

(14) Commitments and Contingencies

The City has contracted with a private company 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.

(15) 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)(15) 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.

(16) 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, TexasNotes to Financial Statements
(Continued)(16) 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.

GASB Statement No. 101, *Compensated Absences* (Statement 101) – The objective of this statement is to better meet the information needs of financial statement users by aligning recognition and measurement under a unified model and amending certain previously required disclosures. The requirements of this statement are effective for financial statements for fiscal years beginning after December 15, 2023.

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, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue:				
Taxes:				
Property	\$ 1,438,234	1,438,234	1,495,729	57,495
Sales	1,500,000	1,500,000	1,683,607	183,607
Franchise	350,000	350,000	318,740	(31,260)
Other	15,000	15,000	9,756	(5,244)
License and permits	45,590	45,590	41,449	(4,141)
Fines and forfeitures	65,000	65,000	64,442	(558)
Charges for services	82,618	82,618	107,389	24,771
Interest income	23,900	23,900	15,685	(8,215)
Miscellaneous	61,530	61,530	119,596	58,066
Total revenue	<u>3,581,872</u>	<u>3,581,872</u>	<u>3,856,393</u>	<u>274,521</u>
Expenditures:				
Current:				
General government	647,734	647,734	341,093	306,641
Public safety	2,185,316	2,185,316	2,049,373	135,943
Streets	343,376	343,376	344,108	(732)
Municipal court	205,266	205,266	192,741	12,525
Culture and recreation	119,132	119,132	105,177	13,955
Debt service:				
Principal	108,048	108,048	102,561	5,487
Interest	-	-	11,598	(11,598)
Capital outlay	23,000	23,000	152,338	(129,338)
Total expenditures	<u>3,631,872</u>	<u>3,631,872</u>	<u>3,298,989</u>	<u>332,883</u>
Excess of revenue over expenditures	<u>(50,000)</u>	<u>(50,000)</u>	<u>557,404</u>	<u>607,404</u>
Other financing sources (uses):				
Transfers in	50,000	50,000	(228,270)	(278,270)
Total other financing sources (uses)	<u>50,000</u>	<u>50,000</u>	<u>(228,270)</u>	<u>(278,270)</u>
Change in fund balance	-	-	329,134	329,134
Fund balance, at beginning of year	<u>3,258,925</u>	<u>3,258,925</u>	<u>3,258,925</u>	<u>-</u>
Fund balance, at end of year	<u>\$ 3,258,925</u>	<u>3,258,925</u>	<u>3,588,059</u>	<u>329,134</u>

See accompanying independent auditors' report.

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, 2021

	<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	475,672	75,672
Interest income	300	300	2,360	2,060
Total revenue	<u>400,300</u>	<u>400,300</u>	<u>478,032</u>	<u>77,732</u>
Expenditures:				
Current:				
Culture and recreation	400,300	400,300	238,141	162,159
Total expenditures	<u>400,300</u>	<u>400,300</u>	<u>238,141</u>	<u>162,159</u>
Excess (deficiency) of revenue over (under) expenditures	-	-	239,891	239,891
Fund balance, at beginning of year	<u>981,561</u>	<u>981,561</u>	<u>981,561</u>	<u>-</u>
Fund balance, at end of year	<u>\$ 981,561</u>	<u>981,561</u>	<u>1,221,452</u>	<u>239,891</u>

See accompanying independent auditor's report.

City of Lacy Lakeview, Texas

Schedule of Changes in Net Pension Liability and Related Ratios

Last Seven Measurement Dates

	December 31,						
	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability							
Service cost	\$ 375,962	367,766	345,176	339,092	327,117	302,835	256,056
Interest (on the Total Pension Liability)	646,147	595,744	557,342	520,430	486,105	455,126	409,373
Difference between expected and actual experience	(504,819)	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>(277,259)</u>	<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	240,031	746,610	517,852	618,120	508,723	686,513	623,398
Total Pension Liability - beginning	<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>	<u>5,821,988</u>
Total Pension Liability - ending (a)	<u>\$ 9,763,235</u>	<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	\$ 324,765	321,431	303,182	302,308	271,364	261,812	240,146
Contributions - employee	157,873	156,687	146,973	144,646	139,879	135,453	131,638
Net investment income	602,816	1,035,889	(203,860)	798,931	350,949	7,349	260,564
Benefit payments, including refunds of employee contributions	(277,259)	(269,267)	(348,832)	(200,184)	(187,802)	(190,001)	(203,653)
Administrative expense	(3,897)	(5,848)	(3,938)	(4,137)	(3,961)	(4,476)	(2,720)
Other	<u>(154)</u>	<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	804,144	1,238,718	(106,681)	1,041,354	570,216	209,917	425,751
Plan Fiduciary Net Position - Beginning	<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>	<u>4,554,267</u>
Plan Fiduciary Net Position - ending (b)	<u>\$ 8,737,686</u>	<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>\$ 1,025,549</u>	<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	89.50%	83.31%	76.28%	82.36%	75.39%	72.77%	77.26%
Covered-employee payroll	\$ 2,255,323	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	45.47%	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,						
	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 340,950	329,636	311,789	304,636	300,208	271,831	260,015
Contributions in relation to the actuarially determined contribution	<u>340,950</u>	<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)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	<u>\$ 2,279,249</u>	<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-employee payroll	<u>14.96%</u>	<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	25 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 Four Measurement Dates

	December 31,			
	2020	2019	2018	2017
Total OPEB Liability				
Service cost	\$ 7,668	6,267	6,719	5,786
Interest (on the Total OPEB Liability)	4,081	4,339	4,143	3,973
Differences between expected and actual experience	(21,866)	(3,662)	(9,215)	
Change of assumptions	22,656	24,705	(8,857)	10,463
Benefit payments **	(902)	(895)	(630)	(620)
Net change in Total OPEB Liability	11,637	30,754	(7,840)	19,602
Total OPEB Liability - beginning	145,027	114,273	122,113	102,511
Total OPEB Liability - ending	\$ 156,664	145,027	114,273	122,113
Covered-employee payroll	\$ 2,255,323	2,238,384	2,099,611	2,066,375
Total OPEB Liability as a percentage of covered-employee payroll	6.95%	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,			
	2021	2020	2019	2018
Actuarially determined contribution	\$ 902	895	630	620
Contributions in relation to the actuarially determined contribution	<u>902</u>	<u>895</u>	<u>630</u>	<u>620</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	<u>\$ 2,279,249</u>	<u>2,257,945</u>	<u>2,099,595</u>	<u>2,066,375</u>
Contributions as a percentage of covered-employee payroll	<u>0.04%</u>	<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.