

CITY OF ARCOLA, TEXAS
ANNUAL FINANCIAL REPORT
Year Ended September 30, 2019



CITY OF ARCOLA, TEXAS
TABLE OF CONTENTS

	<u>Page</u>
Report of Independent Auditors	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet - Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Governmental Activities Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Governmental Activities Statement of Activities	17
Proprietary Funds:	
Statement of Net Position	18
Statement of Revenues, Expenses, and Changes in Fund Net Position	19
Statement of Cash Flows	20
Notes to the Financial Statements	21
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	44
Notes to Required Supplementary Information	45
Schedule of Change in Net Pension Liability	46
Schedule of Contributions	47

REPORT OF INDEPENDENT AUDITORS

To The Honorable Mayor and
City Council Members of the
City of Arcola, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Arcola, Texas (the “City”) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

To The Honorable Mayor and
City Council Members of the
City of Arcola, Texas

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, the discretely presented component unit and each major fund of the City, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and certain required pension system information on pages 3-8 and 44-47 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.
Houston, Texas



March 26, 2020
Houston, Texas

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Arcola, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2019.

Financial Highlights

The assets and deferred outflows of the City exceeded the liabilities and deferred inflows of the City at the close of the most recent fiscal year by \$11,918,952. Of this amount, \$8,607,453 was represented the net investment in capital assets, or the carrying value of the capital assets less the capital related debt, \$203,549 was restricted for debt service, and \$104,563 was restricted for court security and technology. The remaining amount was unrestricted net position of \$2,832,167.

- The City's total net position increased by \$209,312 due to normal operations.
- The City's governmental funds reported combined ending fund balances of \$2,731,415 as of September 30, 2019. Fund balance of \$467,666 is restricted for (1) debt service in the amount of \$191,883, (2) court security and technology in the amount of \$104,563 and (3) capital projects in the amount of \$171,220. The remaining amount in fund balance of \$2,233,686 is unassigned general fund balance available for spending at the City's discretion. The general fund unassigned fund balance decreased \$773,119 as compared to the prior fiscal year. The unassigned fund balance represents 85 percent of total general fund expenditures.
- The City's total bonded debt decreased by \$95,000 as a result of principal payments made during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information in addition to 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 information on all of the City's assets, deferred outflows of resources and liabilities, with the difference between the three 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 government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event to the change occurs, *regardless of 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 the future fiscal periods (e.g. municipal court fines).

The *government-wide financial statements* distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include administrative, police department, public works, municipal court, and interest on long-term debt. The business-type activities of the City include water distribution and wastewater collection/treatment.

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The government-wide financial statements include not only the City itself (known as *the primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *discretely presented component units* is reported separately from the financial information presented for the primary government itself. The City's discretely presented component unit consists of the Arcola 4B Corporation. Although legally separate, this component unit is included because the City is financially accountable for it.

Fund Financial Statements

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

Governmental Funds

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

The focus of governmental funds is narrower than that of the government-wide financial statements, therefore 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 funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental 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, debt service, and capital projects funds, all of which are considered to be major funds.

Proprietary Funds

The City maintains one enterprise fund to account for its water distribution and wastewater collection/treatment. *Enterprise funds*, a type of Proprietary fund, are used to report on other activity for which a fee is charged to external users for goods or services. Enterprise funds are included within the *business-type activities* in the government-wide financial statements.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The City did not have any major special revenue funds; therefore, only the general fund is presented as required supplementary information. The Required Supplementary Information also includes information related to the required pension system information.

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of City's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$11,918,952 as of September 30, 2019.

A portion of the City's net position reflects its investment in capital assets (e.g., land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

As of September 30, 2019 and 2018, the City's net position included the following:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 3,242,197	\$ 4,604,933	\$ 1,227,189	\$ 1,135,697	\$ 4,469,386	\$ 5,740,630
Capital assets	1,180,404	399,202	10,522,049	9,817,260	11,702,453	10,216,462
Total Assets	4,422,601	5,004,135	11,749,238	10,952,957	16,171,839	15,957,092
Deferred Outflows of Resources	33,181	27,231	-	-	33,181	27,231
Total Deferred Outflows of Resources	33,181	27,231	-	-	33,181	27,231
Current and other liabilities	430,933	282,959	601,493	635,829	1,032,426	918,788
Long-term liabilities	3,095,000	3,190,000	-	-	3,095,000	3,190,000
Net pension liability	138,765	163,764	-	-	138,765	163,764
Total Liabilities	3,664,698	3,636,723	601,493	635,829	4,266,191	4,272,552
Deferred Inflows of Resources	19,877	2,131	-	-	19,877	2,131
Total Deferred Inflows of Resources	19,877	2,131	-	-	19,877	2,131
Net position:						
Net investment in capital assets	(1,914,596)	(2,790,798)	10,522,049	9,817,260	8,607,453	7,026,462
Restricted	479,332	1,259,250	-	-	479,332	1,259,250
Unrestricted	2,206,471	2,924,060	625,696	499,868	2,832,167	3,423,928
Total Net Position	\$ 771,207	\$ 1,392,512	\$ 11,147,745	\$ 10,317,128	\$ 11,918,952	\$ 11,709,640

Net position in the governmental activities are restricted for various purposes as follows:

	2019	2018
Debt service	\$ 203,549	\$ 197,692
Court security and technology	104,563	119,337
Capital projects	171,220	942,221
Total Restricted Fund Balance	\$ 479,332	\$ 1,259,250

At the end of the current fiscal year, the City reports positive balances in restricted net position in the governmental activities. The City reports negative net position in net investment in capital assets, which is reported net of outstanding related debt, and unrestricted net position. The City's net position of the governmental activities decreased by \$621,305 during the current fiscal year due to normal operations. The remaining balance of net position in the governmental activities consists of unrestricted net position of \$2,206,471.

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The City's net position of the business-type activities had an ending balance of \$11,147,745. This consists of (1) net investment in capital assets in the amount of \$10,522,049 and (2) an unrestricted net position of \$625,696, which may be used to meet on-going obligations.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Program revenue:						
Charges for services	\$ 359,933	\$ 439,944	\$ 1,025,601	\$ 807,918	\$ 1,385,534	\$ 1,247,862
Operating grants and contributions	34,823	-	-	-	34,823	-
Capital grants and contributions	304,399	9,793	179,455	510,773	483,854	520,566
General revenues:						
Property taxes	917,579	957,786	-	-	917,579	957,786
Sales taxes	345,692	275,402	-	-	345,692	275,402
Franchise taxes	50,320	38,518	-	-	50,320	38,518
Investment earnings	13,638	8,862	704	193	14,342	9,055
Miscellaneous	47,780	36,255	-	-	47,780	36,255
Loss on disposal of asset	-	1,029	-	-	-	1,029
Total Revenues	2,074,164	1,767,589	1,205,760	1,318,884	3,279,924	3,086,473
Expenses:						
Administrative	652,458	599,926	-	-	652,458	599,926
Police Department	644,557	561,590	-	-	644,557	561,590
Public works	208,987	262,862	-	-	208,987	262,862
Municipal court	273,913	239,241	-	-	273,913	239,241
Interest on long-term debt	88,022	97,362	-	-	88,022	97,362
Water and sewer	-	-	1,202,675	1,197,804	1,202,675	1,197,804
Total Expenses	1,867,937	1,760,981	1,202,675	1,197,804	3,070,612	2,958,785
Excess (deficiency) before transfers	206,227	6,608	3,085	121,080	209,312	127,688
Transfers	(827,532)	(498,468)	827,532	498,468	-	-
Increase (Decrease) in Net Position	(621,305)	(491,860)	830,617	619,548	209,312	127,688
Net Position - beginning	1,392,512	1,884,372	10,317,128	9,697,580	11,709,640	11,581,952
Net Position - ending	\$ 771,207	\$ 1,392,512	\$ 11,147,745	\$ 10,317,128	\$ 11,918,952	\$ 11,709,640

Governmental activities

Governmental activities decreased the City's net position by \$621,305. Revenues are generated primarily from three sources. Property taxes, charges for services, and sales tax represent 78 percent of total revenues. The remaining 22 percent is generated from miscellaneous revenues, which consist mainly of FEMA revenue.

	Total Revenues	% of Total Revenues
Property taxes	\$ 917,579	44%
Charges for services	359,933	17%
Sales taxes	345,692	17%
Miscellaneous	450,960	22%
Total Revenues	\$ 2,074,164	100%

The primary functional expenses of the City are the police department and public works, which represent 46 percent of total expenses. Administrative, municipal court, and interest on long-term debt represent 35 percent, 15 percent, and 5 percent, respectively, of the total expenses.

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Business-type activities

Charges for services for business-type activities decreased by \$217,683 as water and sewer expenses increased by \$4,871. Net position of the City's business-type activities increased by \$830,617 for the year ended September 30, 2019 due to the completion of the wastewater treatment plant expansion project.

Financial Analysis of the City's Funds

As noted earlier, fund accounting is used to demonstrate and ensure 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 the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$2,731,415, a decrease of \$1,527,931 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$2,233,686. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance is 85 percent of total general fund expenditures. The general fund unassigned fund balance decrease by \$773,119 primarily related to an increase in capital outlay expenditures for the purchase of land along with building and infrastructure improvements.

Proprietary Funds - The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

General Fund Budgetary Highlights

The general fund budget for fiscal year 2019 originally included a planned draw down of \$419,000. Various amendments throughout the year increased the planned drawdown of ending fund balance to \$643,733. However actual general fund balance decreased by \$759,605 and expenditures exceeded budgeted appropriations by \$136,491. The result is an ending fund balance that is \$124,872 lower than anticipated.

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of September 30, 2019 amounted to \$1.0 million and \$9.6 million respectively. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure. The following table shows the capital asset balances at September 30, 2019 and 2018:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Land	\$ 478,249	\$ 153,248	\$ -	\$ -	\$ 478,249	\$ 153,248
Construction in progress	-	-	279,588	930,699	279,588	930,699
Buildings and improvements	227,743	99,369	-	-	227,743	99,369
Machinery and equipment	169,418	146,585	-	-	169,418	146,585
Infrastructure	137,971	-	-	-	137,971	-
Water and sewer system	-	-	10,242,461	8,886,561	10,242,461	8,886,561
Net capital assets	<u>\$ 1,013,381</u>	<u>\$ 399,202</u>	<u>\$ 10,522,049</u>	<u>\$ 9,817,260</u>	<u>\$ 11,535,430</u>	<u>\$ 10,216,462</u>

Detailed information about the City's capital assets can be found in Note 7 to the financial statements.

Long-term liabilities

The City's long-term debt consists of bonds payable ultimately maturing in 2053, a summary of which follows:

	Governmental Activities	
	2019	2018
Certificates of Obligation	\$ 3,095,000	\$ 3,190,000
Total Bonds Payable	<u>\$ 3,095,000</u>	<u>\$ 3,190,000</u>

Detailed information about the City's long-term liabilities is presented in Note 8 to the financial statements.

Economic Factors and Next Year's Budget and Rates

The City Council has adopted the City's 2020 budget. The approved general fund budget includes estimated revenues and appropriations of \$2.4 million or 23% higher than the 2019 ending budget with the largest increases coming in the fines and forfeiture and intergovernmental revenues category. The 2020 budget contemplates drawing down the general fund's unallocated fund balance by \$115,936. The City has passed a tax rate of \$0.847 per \$100 of property value, down from the current year tax rate of \$0.877.

Request for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the office of the Mayor, 13222 Highway 6, 77583, telephone 281-431-0606.

BASIC FINANCIAL STATEMENTS



CITY OF ARCOLA, TEXAS
STATEMENT OF NET POSITION
September 30, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Arcola 4B Corporation
Assets				
Cash and cash equivalents	\$ 2,785,541	\$ 1,153,934	\$ 3,939,475	\$ 1,199,876
Receivables, net	146,047	62,810	208,857	18,608
Internal balances	224,721	(224,721)	-	-
Due from other governments	55,825	70,901	126,726	-
Inventories	30,063	-	30,063	-
Restricted Cash	-	164,265	164,265	-
Capital assets not being depreciated				
Land	478,249	-	478,249	-
Construction in progress	-	279,588	279,588	-
Capital assets, net of accumulated depreciation				
Buildings and improvements	227,743	-	227,743	-
Machinery and equipment	169,418	-	169,418	-
Infrastructure	304,994	-	304,994	-
Water and sewer system	-	10,242,461	10,242,461	-
Total Assets	<u>4,422,601</u>	<u>11,749,238</u>	<u>16,171,839</u>	<u>1,218,484</u>
Deferred Outflows of Resources				
Deferred outflows - pension	33,181	-	33,181	-
Total Deferred Outflows of Resources	<u>33,181</u>	<u>-</u>	<u>33,181</u>	<u>-</u>
Liabilities				
Accounts payable	424,108	437,228	861,336	-
Accrued interest payable	6,825	-	6,825	-
Customer deposits	-	164,265	164,265	-
Noncurrent Liabilities				
Due within one year	95,000	-	95,000	-
Due in more than one year	3,000,000	-	3,000,000	-
Net pension liability	138,765	-	138,765	-
Total Liabilities	<u>3,664,698</u>	<u>601,493</u>	<u>4,266,191</u>	<u>-</u>
Deferred Inflows of Resources				
Deferred inflows - pension	19,877	-	19,877	-
Total Deferred Inflows of Resources	<u>19,877</u>	<u>-</u>	<u>19,877</u>	<u>-</u>
Net Position				
Net investment in capital assets	(1,914,596)	10,522,049	8,607,453	-
Restricted for:				
Court security and technology	104,563	-	104,563	-
Debt service	203,549	-	203,549	-
Capital projects	171,220	-	171,220	-
Unrestricted	2,206,471	625,696	2,832,167	1,218,484
Total Net Position	<u>\$ 771,207</u>	<u>\$ 11,147,745</u>	<u>\$ 11,918,952</u>	<u>\$ 1,218,484</u>

CITY OF ARCOLA, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental Activities:				
Administrative	\$ 652,458	\$ -	\$ 33,798	\$ -
Police Department	644,557	100	1,025	-
Public works	208,987	55,567	-	304,399
Municipal court	273,913	304,266	-	-
Interest on long-term debt	88,022	-	-	-
Total governmental activities	<u>1,867,937</u>	<u>359,933</u>	<u>34,823</u>	<u>304,399</u>
Business-Type Activities:				
Water and Sewer Operations	<u>1,202,675</u>	<u>1,025,601</u>	<u>-</u>	<u>179,455</u>
Total business-type activities	<u>1,202,675</u>	<u>1,025,601</u>	<u>-</u>	<u>179,455</u>
Total Primary Government	<u>\$ 3,070,612</u>	<u>\$ 1,385,534</u>	<u>\$ 34,823</u>	<u>\$ 483,854</u>
		General revenues:		
		Property taxes		
		Sales tax		
		Franchise taxes		
		Unrestricted Investment earnings		
		Miscellaneous		
		Transfers		
		Total general revenues		
		Change in net position		
		Net Position - beginning		
		Net Position - ending		

Net Revenue (Expense) and Changes in Net Position				
Primary Government			Component Unit	
Governmental Activities	Business-Type Activities	Total	Arcola 4B Corporation	
\$ (618,660)	\$ -	\$ (618,660)	\$ -	-
(643,432)	-	(643,432)	-	-
150,979	-	150,979	-	-
30,353	-	30,353	-	-
(88,022)	-	(88,022)	-	-
<u>(1,168,782)</u>	<u>-</u>	<u>(1,168,782)</u>	<u>-</u>	<u>-</u>
-	2,381	2,381	-	-
-	2,381	2,381	-	-
<u>(1,168,782)</u>	<u>2,381</u>	<u>(1,166,401)</u>		
917,579	-	917,579	-	-
345,692	-	345,692	113,652	-
50,320	-	50,320	-	-
13,638	704	14,342	461	-
47,780	-	47,780	-	-
(827,532)	827,532	-	-	-
<u>547,477</u>	<u>828,236</u>	<u>1,375,713</u>	<u>114,113</u>	
(621,305)	830,617	209,312	114,113	
<u>1,392,512</u>	<u>10,317,128</u>	<u>11,709,640</u>	<u>1,104,371</u>	
<u>\$ 771,207</u>	<u>\$ 11,147,745</u>	<u>\$ 11,918,952</u>	<u>\$ 1,218,484</u>	

CITY OF ARCOLA, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 2,270,276	\$ 183,531	\$ 331,734	\$ 2,785,541
Receivables, net	183,381	18,491	-	201,872
Due from other funds	276,271	8,352	-	284,623
Inventory	30,063	-	-	30,063
Total Assets	<u>\$ 2,759,991</u>	<u>\$ 210,374</u>	<u>\$ 331,734</u>	<u>\$ 3,302,099</u>
Liabilities				
Accounts payable	\$ 315,144	\$ -	\$ 108,964	\$ 424,108
Due to other funds	8,352	-	51,550	59,902
Total Liabilities	<u>323,496</u>	<u>-</u>	<u>160,514</u>	<u>484,010</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	68,183	18,491	-	86,674
Total Deferred Inflows of Resources	<u>68,183</u>	<u>18,491</u>	<u>-</u>	<u>86,674</u>
Fund balances				
Nonspendable				
Inventory	30,063	-	-	30,063
Restricted:				
Debt service	-	191,883	-	191,883
Court security and technology	104,563	-	-	104,563
Capital projects	-	-	171,220	171,220
Unassigned	2,233,686	-	-	2,233,686
Total Fund Balances	<u>2,368,312</u>	<u>191,883</u>	<u>171,220</u>	<u>2,731,415</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,759,991</u>	<u>\$ 210,374</u>	<u>\$ 331,734</u>	<u>\$ 3,302,099</u>

CITY OF ARCOLA, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
September 30, 2019**

Total fund balance, governmental funds	\$	2,731,415	
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 as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable			1,180,404
Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).			86,674
Deferred inflows and outflows related to pension activities			13,304
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
General obligation bonds		(3,095,000)	
Net pension liability		(138,765)	
Accrued interest payable		(6,825)	
Net Position of Governmental Activities	\$	<u>771,207</u>	

CITY OF ARCOLA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Funds</u>
Revenues				
Property taxes	\$ 714,671	\$ 185,896	\$ -	\$ 900,567
Sales taxes	345,692	-	-	345,692
Franchise taxes	50,320	-	-	50,320
Licenses and permits	55,567	-	-	55,567
Intergovernmental	345,189	-	-	345,189
Fines and forfeitures	304,266	-	-	304,266
Investment earnings	13,293	10	335	13,638
Miscellaneous	41,913	-	-	41,913
Total Revenues	<u>1,870,911</u>	<u>185,906</u>	<u>335</u>	<u>2,057,152</u>
Expenditures				
Current:				
General Administration	621,900	-	-	621,900
Public Works	241,392	-	-	241,392
Police Department	598,776	-	-	598,776
Municipal Court	267,942	-	-	267,942
Capital Outlay	900,506	-	771,336	1,671,842
Debt Service:				
Principal	-	95,000	-	95,000
Interest	-	88,231	-	88,231
Total Expenditures	<u>2,630,516</u>	<u>183,231</u>	<u>771,336</u>	<u>3,585,083</u>
Excess (deficiency) of revenues over expenditures	<u>(759,605)</u>	<u>2,675</u>	<u>(771,001)</u>	<u>(1,527,931)</u>
Fund Balances - beginning of year	<u>3,127,917</u>	<u>189,208</u>	<u>942,221</u>	<u>4,259,346</u>
Fund Balances - end of year	<u>\$ 2,368,312</u>	<u>\$ 191,883</u>	<u>\$ 171,220</u>	<u>\$ 2,731,415</u>

CITY OF ARCOLA, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

Net change in fund balances - total governmental funds:	\$ (1,527,931)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital outlay	850,634
Depreciation expense	(69,432)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	17,012
Repayment of bond principal and payments of accreted interest on capital appreciation bonds are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	95,000
Pension contributions made during the current fiscal year are reported as expenditures in the governmental funds and are reported as deferred outflows and reductions in net pension liability as opposed to expenses in the statement of activity.	35,340
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Decrease in interest payable not recognized in the fund statements	209
Pension expense for the plan measurement year	<u>(22,137)</u>
Change in net position of governmental activities	<u><u>\$ (621,305)</u></u>

CITY OF ARCOLA, TEXAS
STATEMENT OF NET POSITION
ENTERPRISE FUND
September 30, 2019

	Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,153,934
Accounts receivable, net	62,810
Due from other governments	70,901
Due from other funds	9,419
Restricted cash	164,265
Total current assets	<u>1,461,329</u>
Noncurrent assets:	
Capital assets:	
Construction in progress	279,588
Water and sewer system	14,341,253
Machinery and equipment	21,165
Less accumulated depreciation	(4,119,957)
Total noncurrent assets	<u>10,522,049</u>
Total Assets	<u>\$ 11,983,378</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 437,228
Customer deposits	164,265
Due to other funds	234,140
Total Liabilities	<u>835,633</u>
Net Position	
Investment in capital assets	10,522,049
Unrestricted	<u>625,696</u>
Total Net Position	<u>\$ 11,147,745</u>

CITY OF ARCOLA, TEXAS

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION**

ENTERPRISE FUND

For the Year Ended September 30, 2019

	Water and Sewer Fund
Operating Revenues	
Charges for services:	
Water and Sewer	\$ 1,025,601
Total Operating Revenues	<u>1,025,601</u>
Operating Expenses	
Professional Fees	511
Contractual services	162,328
Other operating	232,296
Purchased Water	102,231
Maintenance and Repairs	135,373
Utilities	62,196
Depreciation	474,159
Total Operating Expenses	<u>1,169,094</u>
Operating income (loss)	<u>(143,493)</u>
Non-Operating Revenues	
Investment earnings	704
Loss on disposal of assets	(33,581)
Total Non-Operating Revenues (expenses)	<u>(32,877)</u>
Income (loss) before capital contributions	(176,370)
Capital contributions	<u>1,006,987</u>
Change in Net Position	830,617
Net position - beginning	<u>10,317,128</u>
Net position - ending	<u>\$ 11,147,745</u>

CITY OF ARCOLA, TEXAS
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
For the Year Ended September 30, 2019

	Water and Sewer Fund
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 1,025,601
Payments to suppliers and service providers	(606,556)
Net cash provided by (used for) operating activities	<u>419,045</u>
Cash Flows from Capital and Related Financing Activities	
Capital grants	1,006,987
Acquisition of and construction of capital assets	(1,178,948)
Loss on disposal of assets	(33,581)
Net cash provided by (used for) capital and related financing activities	<u>(205,542)</u>
Cash Flows From Investing Activities	
Investment earnings	704
Net cash provided by investing activities	<u>704</u>
Net increase (decrease) in cash and cash equivalents	214,207
Cash and cash equivalents - beginning of year	<u>1,103,992</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,318,199</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities	
Operating income (loss)	\$ (143,493)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	474,159
(Increase) decrease in accounts receivable	(7,503)
(Increase) decrease in intergovernmental receivables	71,433
(Increase) decrease in other receivables	56,196
(Decrease) increase in accounts payable	(58,359)
(Decrease) increase in customer deposits	24,023
(Decrease) increase in intergovernmental payables	2,589
Total adjustments	<u>562,538</u>
Net cash provided by (used for) operating activities	<u><u>\$ 419,045</u></u>

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization

The City of Arcola, Texas, (the "City") was incorporated 1986 under the provisions of the State of Texas. The City operates as a General Law City form of government with a Mayor and five Councilmembers. The City provides the following services public safety, maintenance and improvements to highways and streets, public improvements and general administrative services.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Arcola 4B Corporation, although legally separate, is considered a discretely presented component unit and is part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Units

City of Arcola 4B Development Corporation

The Arcola 4B Corporation was incorporated on December 29, 1995, as a non-profit corporation for the specific public purpose of benefitting and accomplishing public purposes of the City by promoting, assisting and having economic development activities as provided for in Section 4B of the Development Corporation Act of 1979. Arcola 4B is managed by a board of directors consisting of 7 members who serve two year terms. The City has the sole authority to appoint the Directors. The assets are managed by the Directors. The financial records are maintained by a consultant for the Directors. Separate financial statements are not issued for the Component Unit.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Discretely Presented Component Units (continued)

City of Arcola Tax Increment Reinvestment Zone Number 1

In August 2019, City Council passed a resolution authorizing certain territory comprised of approximately 200 acres within the corporate limits of the city of Arcola, Texas to be included within the Arcola Municipal Management District Number 1. Additionally City Council passed an ordinance designating the same territory as Reinvestment Zone Number 1 effective January 1, 2020. As of the report date, there has been no significant operations.

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular 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. Major individual governmental funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus, as are the proprietary fund financial statements. The government-wide statements and proprietary fund statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales taxes and franchise fees are recognized as revenues in the year that gives rise to the transaction. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 2 - Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

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 if 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. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as needed.

Sales taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, and public works. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

The *capital projects fund* is used to account grant revenues and expenditures relating to construction activity benefitting both the governmental and business-type activities. The balances remaining in the fund represents reimbursements for grant expenditures advanced by the general fund.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the City's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The proprietary fund type used by the City includes the following:

Enterprise Funds

The enterprise funds are used to account for the operations that provide water and wastewater collection, wastewater treatment operations and solid waste collection and disposal. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges.

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide Statements of Net Position and Statements of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Government-wide and proprietary fund equity consists of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and deferred inflows of resources are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time. Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which they are incurred.

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.

D. Cash and temporary investments (Cash Equivalents)

The City's cash and temporary investments consist of demand accounts, money market accounts, petty cash and the Texas Local Government Investment Pool (TEXPOOL). TEXPOOL is an external investment pool established by Interlocal contracts under state law. The City's TEXPOOL balances are reported at amortized cost as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

The City's agent bank is required to pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At year end, all deposits of the City and its component units were fully insured or collateralized by government obligation held in the City's name by the City's agent in accordance with Texas Law.

Note 2 - Summary of Significant Accounting Policies (continued)

E. Due to and from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivables and payables are, for the most part, eliminated from the Government-Wide Statement of Net Position and are recorded as “due from other funds” or “due to other funds” in the fund financial statements.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Water and Sewer fund have not been recognized as of the end of the year as they are considered immaterial.

G. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$10,000 or more and an estimated useful life in excess of two years. All purchased fixed assets are valued at cost where historical records exist. Donated fixed assets are valued at their acquisition value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain and equipment are capitalized and Proprietary Fund fixed assets are depreciated over the remaining useful lives of the related fixed assets using the straight line method, as applicable.

<u>Asset Description</u>	
Buildings	40 Years
Furniture and Fixtures	3 to 20 Years
Machinery and equipment	5 to 20 Years
Vehicles	5 Years
Roads and Sidewalks	10 Years
Streets and Culverts	30 Years
Infrastructure	10 to 45 Years
Other Assets	10 Years
Sewage Treatment Plant	25 Years
Water and Sewer Service Lines	30 Years
Lift Stations	30 Years

H. Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Generally, such leave may be accumulated to the following year; however, at no time may unused sick leave be paid in monetary compensation either during employment or upon termination. Vacation pay accrues and becomes payable after one year of employment. Unused vacation pay can be applied toward emergency medical leave or it can be taken as time off, but otherwise it shall not accumulate, even upon termination. Therefore, compensated absences payable are not recorded.

Note 2 - Summary of Significant Accounting Policies (continued)

I. Deferred Outflows / Inflows of Resources

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

- Deferred outflows of resources for pension activities – Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made prior to the first measurement date of the net pension liability. The deferred outflows of resources related to pensions resulting from these City contributions will be recognized as a reduction of the net pension liability in the next fiscal year.

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 or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following item that qualifies for reporting in this category:

- Deferred inflows of resources for unavailable revenues – Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- *Deferred inflows of resources for pension activities* - Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions and 2) differences between expected and actual actuarial experiences. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

J. Pensions

Effective March 1, 2016 the City began to participate in the Texas Municipal Retirement System (TMRS). The calculation of the City's first pension liability and additions to/deductions from TMRS's Fiduciary Net Position will be determined on the same basis as they are reported by TMRS and has occurred for the plan year ended December 31, 2017. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Because the measurement of the net pension liability follows the pension plan's fiscal year end which is after the City's fiscal year end, no pension liabilities are presented in the City's financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

K. Use of Estimates

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

L. General property taxes

All taxes due to the City on real or personal property are payable at the Office of the County Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is October 1, or as soon thereafter as practical. Taxes are due upon receipt and all taxes not paid prior to February 1 are deemed delinquent and are subject to such penalty and interest set forth by the Property Tax Code. All property located within the City limits on the first day of January of each year are charged with a special lien in favor of the City from such date for taxes due thereon.

M. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position.

N. Restricted assets

Cash balances representing customer deposits are considered restricted from general use in the Water and Sewer Fund.

O. Fund Equity

The City reports fund balances in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Restricted fund balance - amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions for certain municipal court fees and retirement of fund indebtedness have been properly classified in the Governmental Funds Balance Sheet.

Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority. The City reports amounts assigned for construction activity in the Capital Projects Fund.

Unassigned fund balance – amounts that are available for any purpose.

The City has no formal fund balance policy which would identify targeted fund balance levels, or the sequence in which funds are to be spent.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

P. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position for 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 proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City has no formal policy when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, as to which funds are considered to have been spent first.

The City's cash and investments are classified as cash and cash equivalents and investments. The cash and cash equivalents include cash on hand, deposits with financial institutions, money market accounts and short-term investments in external public funds investment pool accounts (TEXPOOL).

Note 3 - Cash and Temporary Investments (Cash Equivalents)

Cash and Cash Equivalents

The City's agent bank is required to pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At year end, all deposits of the City and its component units were fully insured or collateralized by government obligation held in the City's name by the City's agent in accordance with Texas Law.

At year-end, the City had cash on hand, bank deposits and balances with TEXPOOL as follows:

	<u>Cash on Hand</u>	<u>Bank Deposits</u>	<u>Cash Equivalent Investments</u>	<u>Totals</u>
Governmental Activities:				
General Fund	\$ 2,569	\$ 1,729,597	\$ 538,110	\$ 2,270,276
Debt Service Fund	-	183,531	-	183,531
Capital Projects Fund	-	331,734	-	331,734
Total Governmental Activities	<u>2,569</u>	<u>2,244,862</u>	<u>538,110</u>	<u>2,785,541</u>
Business-type Activities:				
Water and Sewer Fund	-	1,318,199	-	1,318,199
Total Business-type Activities	<u>-</u>	<u>1,318,199</u>	<u>-</u>	<u>1,318,199</u>
Total Primary Government	<u>\$ 2,569</u>	<u>\$ 3,563,061</u>	<u>\$ 538,110</u>	<u>\$ 4,103,740</u>
Arcola 4B Corporation	<u>\$ -</u>	<u>\$ 1,199,876</u>	<u>\$ -</u>	<u>\$ 1,199,876</u>

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Cash and Temporary Investments (Cash Equivalents)

Custodial credit risk – deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. Collateral is required for all bank deposits at 100% of deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Collateral pledged to cover the City's deposits is required to be held in the City's name by the trust department of a bank other than the pledging bank. Collateral securities must bear Baa-1 or better rating to qualify for use in securing uninsured depository balances.

At September 30, 2019, the carrying amount of the City's cash deposits were fully collateralized.

Investments (cash equivalents)

State statutes authorize the City to invest in: 1) obligations of the U.S. or its agencies and instrumentalities; 2) obligations of the State of Texas or its agencies; 3) other obligations guaranteed by the U.S., the State of Texas or their agencies and instrumentalities; 4) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; 5) guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas; 6) fully collateralized repurchase agreements; 7) a public funds investment pool meeting the requirements of Government Code 2256.016-2256.019; and, 8) commercial paper having received a rating of A1/P1 from a nationally recognized investment rating firm.

The City does not have a current investment policy and currently only uses state public funds investment pools. The investment pools are in compliance with the Public Funds Investment Act (PFIA).

At September 30, 2019, the City had the following investments (cash equivalents):

Investment Type:	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Local Government Investment Pools:		
Texpool	\$ 538,110	36
Total Local Government Investment Pools	<u>\$ 538,110</u>	<u>36</u>

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Cash and Temporary Investments (Cash Equivalents) (continued)

TEXPOOL policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act (PFIA) of 1987, as amended. The Texas State Comptroller of Public Accounts has oversight responsibility for TEXPOOL. TEXPOOL is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer.

The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safe keep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TEXPOOL. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TEXPOOL uses amortized cost rather than fair value to report net position to compute share prices. The fair value of the position in TEXPOOL is the same as the value of TEXPOOL shares.

Accordingly, the City's investments in TEXPOOL are stated at cost, which approximates fair value. TEXPOOL is currently rated AAAM by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, TEXPOOL does not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

Interest Rate Risk

Exposure to decline in fair values is managed by investments with a weighted average maturity of less than one year.

Credit Risk

Credit risk loss is minimized by investing with TEXPOOL and as such, limits the risk of loss due to custodial credit risk.

Note 4 - Property Taxes

Property taxes for each year are levied on approximately October 1 and are due upon receipt of the City's tax bill; they become delinquent on February 1 of the following year. On January 1 of each year, a tax lien is attached to the property to secure the payment of all taxes, penalties and interest. The lien exists in the favor of the State and each taxing unit. Appraised values are established by the Fort Bend Central Appraisal District (CAD), through procedures established by the Texas legislature. Fort Bend County bills and collects property taxes on behalf of the City, and remits payment to the City on a frequent basis. The City bills its tax levies as soon as possible after certification of taxable values by the CAD, which is approximately October 1. Additional tax bills are sent December, February, April and July (which includes a surcharge for legal costs associated with collection). In August, delinquent taxes are turned over to the City's delinquent tax attorney for final collection or other disposition.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 4 - Property Taxes (continued)

The City is permitted by Article XI, Section 5, of the State of Texas Constitution to levy property taxes up to \$2.50 per \$100 of assessed valuation for general governmental services. Within the \$2.50 maximum levy, there is no legal limit upon the amount of property taxes which can be levied for debt service. The property tax rates to finance general government services and debt service for the 2018-19 fiscal year were \$0.695307 and \$0.181693 respectively, per \$100 of assessed valuation. The 2018 assessed value and total tax levy as adjusted through September 30, 2019 were \$99.9 million and \$877,327 respectively. The allowance for uncollectible property taxes as of September 30, 2019 is estimated at \$68,000.

Note 5 - Receivables

Receivables as of year-end for the government’s individual funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Water and Sewer Fund	Arcola 4B Corporation	Total
Governmental Activities:					
Current year levy	\$ 36,496	\$ 9,536	\$ -	\$ -	\$ 46,032
Prior year levy	72,238	36,491	-	-	108,729
Total Taxes Receivable	108,734	46,027	-	-	154,761
Sales and mixed drink taxes	55,825	-	-	18,608	74,433
Municipal court	59,374	-	-	-	59,374
Due from other governments	-	-	70,901	-	70,901
Customer accounts	-	-	150,319	-	150,319
Gross receivables	115,199	-	221,220	18,608	355,027
Less: allowance for uncollectibles	(40,552)	(27,536)	(87,509)	-	(155,597)
Net total governmental activities	\$ 183,381	\$ 18,491	\$ 133,711	\$ 18,608	\$ 354,191

Note 6 - Interfund Balances and Transfers

Interfund balances at September 30, 2019, were as follows:

Payable Fund	Receivable Fund			
	General Fund	Debt Service Fund	Water and Sewer Fund	Totals
Governmental Activities:				
General Fund	\$ -	\$ 8,352	\$ -	\$ 8,352
Capital Projects Fund	42,131	-	9,419	51,550
Total Governmental Activities	42,131	8,352	9,419	59,902
Business-type Activities:				
Water/Sewer Fund	234,140	-	-	234,140
Total Business-type Activities	234,140	-	-	234,140
Net interfund totals	\$ 276,271	\$ 8,352	\$ 9,419	\$ 294,042

Amounts reported as “due to/from” are considered to be temporary loans and will be repaid during the following fiscal year.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets

A summary of changes in capital assets for governmental activities for the year ended September 30, 2019 follows:

	<u>Balance October 01, 2018</u>	<u>Additions</u>	<u>Transfers (Retirements)</u>	<u>Balance September 30, 2019</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 153,248	\$ 325,001	\$ -	\$ 478,249
Total capital assets, not being depreciated	<u>153,248</u>	<u>325,001</u>	<u>-</u>	<u>478,249</u>
Capital assets, being depreciated				
Buildings and improvements	270,125	137,988	-	408,113
Machinery and equipment	394,597	82,651	-	477,248
Infrastructure	2,074,799	137,971	167,023	2,379,793
Total capital assets, being depreciated	<u>2,739,521</u>	<u>358,610</u>	<u>167,023</u>	<u>3,265,154</u>
Less accumulated depreciation for:				
Buildings and improvements	(170,756)	(9,614)	-	(180,370)
Machinery and equipment	(248,012)	(59,818)	-	(307,830)
Infrastructure	(2,074,799)	-	-	(2,074,799)
Total accumulated depreciation	<u>(2,493,567)</u>	<u>(69,432)</u>	<u>-</u>	<u>(2,562,999)</u>
Governmental Capital Assets	<u>\$ 399,202</u>	<u>\$ 614,179</u>	<u>\$ 167,023</u>	<u>\$ 1,180,404</u>

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

Governmental Activities:

Administrative	\$ 15,648
Police Department	52,584
Public Works	1,200
Total Governmental Activities	<u>\$ 69,432</u>

A summary of changes in capital assets for business-type activities for the year ended September 30, 2019 follows:

	<u>Balance October 01, 2018</u>	<u>Additions</u>	<u>Transfers (Retirements)</u>	<u>Balance September 30, 2019</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Construction in progress	\$ 930,699	\$ 1,212,529	\$ (1,863,640)	\$ 279,588
Total capital assets, not being depreciated	<u>930,699</u>	<u>1,212,529</u>	<u>(1,863,640)</u>	<u>279,588</u>
Capital assets, being depreciated				
Machinery and equipment	21,165	-	-	21,165
Water and sewer system	12,511,194	-	1,830,059	14,341,253
Total capital assets, being depreciated	<u>12,532,359</u>	<u>-</u>	<u>1,830,059</u>	<u>14,362,418</u>
Less accumulated depreciation for:				
Machinery and equipment	(21,165)	-	-	(21,165)
Water and sewer system	(3,624,633)	(474,159)	-	(4,098,792)
Total accumulated depreciation	<u>(3,645,798)</u>	<u>(474,159)</u>	<u>-</u>	<u>(4,119,957)</u>
Business-type Capital Assets	<u>\$ 9,817,260</u>	<u>\$ 738,370</u>	<u>\$ (33,581)</u>	<u>\$ 10,522,049</u>

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets (continued)

The construction in progress at year-end is related to the following projects:

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Construction in Progress</u>	<u>Estimated Remaining Commitment</u>
Business-type Activities			
Program Infrastructure Projects	\$ 62,500	\$ 18,498	\$ 44,002
WWTP Generator Addition	405,469	261,090	144,379
Total Business-type Activities	<u>\$ 467,969</u>	<u>\$ 279,588</u>	<u>\$ 188,381</u>

Note 8 - Long-Term Debt

The City issues long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for governmental and business-type activities. The City currently has issued and outstanding, certificates of obligations which are secured by future ad valorem tax revenues.

The following is a summary of the terms of certificates of obligation outstanding as of September 30, 2019:

<u>Issue</u>	<u>Original issuance amount</u>	<u>Maturity Date</u>	<u>Interest Rate %</u>	<u>Debt Outstanding</u>
Governmental Activities:				
Certificates of Obligation 2008A	\$ 1,380,000	3/1/2038	2.10-4.80%	\$ 1,060,000
Certificates of Obligation 2008B	400,000	3/1/2028	0.0%	180,000
Certificates of Obligation 2013	2,000,000	9/1/2053	2.00%	1,855,000
Total Bonds Payable				<u>\$ 3,095,000</u>

The two Series 2008 certificates of obligation are callable at par beginning June 2018. The Series 2013 certificates of obligation are callable at any date.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Annual debt service requirements to retire outstanding certificates of obligation are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2020	\$ 95,000	\$ 84,558	\$ 179,558
2021	100,000	82,238	182,238
2022	100,000	79,778	179,778
2023	100,000	77,288	177,288
2024	105,000	74,659	179,659
2025 - 2029	550,000	328,968	878,968
2030 - 2034	555,000	241,990	796,990
2035 - 2039	575,000	135,146	710,146
2040 - 2044	295,000	76,950	371,950
2045 - 2049	330,000	45,700	375,700
2050 - 2054	290,000	11,800	301,800
	<u>\$ 3,095,000</u>	<u>\$ 1,239,075</u>	<u>\$ 4,334,075</u>

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

	Balance	Additions	Retirements	Balance	Due Within
	October 01, 2018			September 30, 2019	One Year
Governmental Activities:					
Certificates of Obligation	\$ 3,190,000	\$ -	(95,000)	\$ 3,095,000	95,000
Total Bonds Payable	<u>\$ 3,190,000</u>	<u>\$ -</u>	<u>\$ (95,000)</u>	<u>\$ 3,095,000</u>	<u>\$ 95,000</u>

Long term liabilities applicable to the City’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds.

Note 9 - 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; and natural disasters. The City carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, automobile, boiler and machinery, errors and omissions and workers compensation coverage. The City, along with other participating entities, contributes annual amounts determined by TML’s management. As claims arise they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note 10 - Sewage Disposal Contract

Effective September 28, 2004, the City entered into a Sewage Disposal Contract (the “Contract”) with Fort Bend County Municipal Utility District No. 141 (the “District”), as amended and restated September 3, 2009. Pursuant to the contract, the District paid the City \$100,000 representing historic capital costs of the City’s sewage treatment plant. In addition, the District paid the City \$500; an initial security deposit of \$4,500 and a tap fee of \$750. The District shall have the right to use or benefit from increased lift station capacity (up to peak lift station pumping rate of 150 GPM or 60% of the lift station’s safe pumping capacity, whichever is lower) and to the sewage treatment plant site. The District shall not be considered a participant in the Regional Contract unless this contract is amended. The District must pay all costs of expanding or enlarging all components of the City Wholesale System that may be required to provide for any increased contract quantity. The District must extend its force main to a new delivery point on the sewage treatment plant site before delivery can exceed 64,000 GPD.

The District shall be responsible for construction of its system. The District system shall be owned and controlled by the District. The District’s initial contract quantity is 10,000 GPD and can be reduced or increased by amendment to the contract.

Note 11 - Regional Facilities Contract

On August 18, 2005, the City entered into a Regional Facilities Contract (Contract) with Fort Bend County Fresh Water Supply District No. 1 (the “District”) for the provision of water and wastewater service. The Regional Sewage System (RSS), including the initial expansion, is owned and operated by the City. The District will own, operate and be responsible for the construction of the facilities necessary to connect to the RSS.

The Contract states that the District will pay a portion of those RSS expenses directly attributable to the RSS, plus an administrative overhead fee not to exceed 20% of the District’s portion of total RSS expenses. These RSS expenses are prorated based on relative capacity in the RSS. The District will also pay a portion of Variable RSS expenses based on the ratio of metered flow to the District versus total discharge.

The Contract also provides for the design and construction of the Regional Water System (Water System) to provide water service to both the District and the City. The District and the City will cooperate, as necessary, to obtain funding for the design and construction of the Water System. Those portions of the Water system upstream of the water point of delivery plus the measuring equipment will be owned and maintained by the District and those portions downstream will be owned and maintained by the City.

The Contract establishes a Regional Plant Committee and includes a representative appointed by the governing body of each participant. The term of this contract originally expired June 30, 2044. The Second Amendment to the Contract, effective September 12, 2012, extended the term of the Contract through September 30, 2053.

The Third Amendment to the Agreement is effective December 20, 2012, and relates to the Regional Water System (RWS). The District has designed and constructed the portion of Segment One of the RWS on its side of the water point of distribution. The City has designed and is constructing the portion of Segment One on its side of the point of distribution. A portion of the RWS will be funded by a 2006 Environmental Protection Agency (EPA) State and Tribal Assistance Grant (STAG) and a 2008 EPA STAG grant for \$478,000, both passed through Fort Bend County. The District and the City will each be responsible for half the matching requirement for each EPA STAG grant.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 11 - Regional Facilities Contract (continued)

The City may receive water upon completion of Segment One. The City will make installment payments to the District toward payment of the City Share of Segment One \$632,789 less the credited sum of \$240,550, representing the City Share of the 2005 EPA STAG grant. The monthly installments began July 1, 2014 at \$1,000 per month, then \$3,000 per month beginning July 1, 2015 and \$5,000 per month beginning July 1, 2016 and are essentially maintenance and operation expenses for the RWS and RSS. Installments will continue until the City’s payment for Segment One is complete or until the City triggers an expansion of the RWS under the terms of the agreement.

The City’s share of the RWS is staged beginning with the date the RWS is placed in operation and is measured in single family equivalents (SFE) based on 410 gallons per average day each plus fire flows and lost water. The City’s share is outlined as follows:

Year	SFE
One	50
Two	100
Three	200
Four	400
Five and thereafter	500

The City will be billed for costs of reading and maintaining the meter, plus a part of the variable water expenses based on the ratio of City water usage, plus a part of all other water expenses based on the City average quarterly usage.

The City may proceed with a Second Source Segment to extend its water system. The City will design and construct the Second Source Segment. The District will make installment payments to the City toward payment of the District Share of the Second Source Segment less the unpaid portion of installment payments due from the City for Segment One. The monthly installments will begin two years from the start date at \$1,000 per month for the first year, then \$3,000 per month for the second year and \$5,000 per month until the District Share in the Second Source Segment is paid. Upon completion of a Second Source Segment, the delivery system becomes a Two-Way System. In an Emergency, either party may receive water via the Two-Way System. Water is metered and billed at a mutual rate per thousand gallons. The mutual rate is the average of the rate per thousand gallons paid by a City customer and a District customer, each using 8,000 gallons of water per month.

Note 12 - Significant Legal Requirements

The Certificate of Obligation Ordinances state that the City is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the City to the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

The City has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue.

Note 12 - Significant Legal Requirements (continued)

The certificate ordinances state that so long as any of the certificates are outstanding, the City covenants to maintain insurance on such parts of the system as are usually insured by cities in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risk, accidents or casualties against which and to the extent insurance is usually carried by such cities.

Note 13 - Employee Retirement System

Texas Municipal Retirement System

Effective March 1, 2016, City Council approved the participation in the Texas Municipal Retirement System to provide pension benefits for full time employees. Subsequently, the City began making necessary contributions in accordance with the provisions of the plan.

Plan Description

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

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 100% of the employee's accumulated contributions.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 13 - Employee Retirement System (continued)

A summary of plan provisions for the City are as follows:

Employee deposit rate	5%
Matching ratio (City to employee)	1 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	None
Annuity Increase to retirees	Ad Hoc

The City participates in Social Security.

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	7
Number of active employees	14
Total	<u>21</u>

Contributions

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

Employees of the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.7% and 4.81% in calendar years 2018 and 2019 respectively. The City's contributions to TMRS for the year ended September 30, 2019 were \$35,599, and were equal to the required contributions.

Note 13 - Employee Retirement System (continued)

Net Pension Liability

The City’s Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Asset was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.50% to 10.5% including inflation
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

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

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. These assumptions apply to both the Pension Trust and the Supplemental Death Benefits Fund as applicable.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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 ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 13 - Employee Retirement System (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) and 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

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

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 13 - Employee Retirement System (continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2017	\$ 255,866	\$ 92,102	\$ 163,764
Service Cost	42,849	-	42,849
Interest (on the Total Pension Liability)	17,967	-	17,967
Difference between expected and actual experience	(23,257)	-	(23,257)
Contributions – employer	-	34,834	(34,834)
Contributions – employee	-	30,563	(30,563)
Net investment income	-	(2,783)	2,783
Administrative Expense	-	(53)	53
Other	-	(3)	3
Benefit payments, including refunds of employee contributions	(22,219)	(22,219)	-
Balance at December 31, 2018	<u>\$ 271,206</u>	<u>\$ 132,441</u>	<u>\$ 138,765</u>

Plan fiduciary net position as a percentage of total pension liability 48.8%

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 or (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (5.75%) or 1 percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current (6.75%)	1% Increase (7.75%)
Total Pension Liability	\$ 306,301	\$ 271,206	\$ 241,617
Plan Fiduciary Net Position	132,441	132,441	132,441
Net Pension Liability	<u>\$ 173,860</u>	<u>\$ 138,765</u>	<u>\$ 109,176</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 ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 13 - Employee Retirement System (continued)

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

For the year ended September 30, 2019, the City recognized a pension expense of \$22,696.

At September 30, 2019, the City reported deferred outflows and inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 835	\$ (19,877)
Net difference between projected and actual earnings	5,601	-
Contributions made subsequent to measurement date	26,745	-
	<u>\$ 33,181</u>	<u>\$ (19,877)</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$26,238 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2018 (recognized in the City’s financial statements September 30, 2019). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended September 30:</u>	<u>Amount</u>
2020	\$ 1,955
2021	1,955
2022	1,954
2023	1,422
2024	3,222
Thereafter	2,933
	<u>\$ 13,441</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ARCOLA, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN

FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended September 30, 2019

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 744,937	\$ 724,500	\$ 714,671	\$ (9,829)
Sales taxes	347,000	347,000	345,692	(1,308)
Franchise taxes	45,000	45,000	50,320	5,320
Licenses and permits	31,000	58,500	55,567	(2,933)
Intergovernmental	200,000	326,692	345,189	18,497
Fines and forfeitures	566,199	320,300	304,266	(16,034)
Investment earnings	3,500	11,700	13,293	1,593
Miscellaneous	1,300	25,600	41,913	16,313
Total Revenues	<u>1,938,936</u>	<u>1,859,292</u>	<u>1,870,911</u>	<u>11,619</u>
Expenditures				
Current:				
General Administration	500,780	592,480	621,900	(29,420)
Public Works	178,950	238,435	241,392	(2,957)
Police Department	635,306	609,300	598,776	10,524
Municipal Court	233,700	263,800	267,942	(4,142)
Capital Outlay	809,200	790,010	900,506	(110,496)
Total Expenditures	<u>2,357,936</u>	<u>2,494,025</u>	<u>2,630,516</u>	<u>(136,491)</u>
Net change in fund balance	(419,000)	(634,733)	(759,605)	(124,872)
Fund Balance - Beginning of Year	<u>3,127,917</u>	<u>3,127,917</u>	<u>3,127,917</u>	<u>-</u>
Fund Balance - End of Year	<u><u>\$ 2,708,917</u></u>	<u><u>\$ 2,493,184</u></u>	<u><u>\$ 2,368,312</u></u>	<u><u>\$ (124,872)</u></u>

CITY OF ARCOLA, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended September 30, 2019

Annual budgets are adopted on a modified accrual basis of accounting for all of the City's funds. Annual appropriations lapse at fiscal year-end.

The Finance department is responsible for producing, monitoring, and reporting the City's annual operating budget. The City operates a fiscal year beginning October 1 through September 30 annually.

Each spring, the staff begins the annual process to determine the needs of the City. The requests are based on the programs and priorities that the City Council has discussed or committed to in the past. A recommended budget is formed based on the projected revenue and submitted to the citizens and the City Council. After input from the public and the staff the council has the opportunity to revise the budget to conform to its objectives.

Public hearings regarding the budget and tax rate are held in August/September and are open to the public. The City budget contains several different funds with the largest being the general fund which is used for general government services that do not need to be accounted for separately. Examples of general government services include public safety, street maintenance, and administrative activities.

Once adopted, the budget takes effect on the first of the fiscal year (October 1) and any major changes must be approved by the City Council. For the year ended September 30, 2019, general fund expenditures exceeded appropriations by \$136,491.

CITY OF ARCOLA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION

TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Three Measurement Years
(Unaudited)

	2018	2017	2016
Total pension liability			
Service Cost	\$ 42,849	\$ 35,679	\$ 25,942
Interest (on the Total Pension Liability)	17,967	15,032	12,196
Changes of benefit terms	-	-	167,864
Difference between expected and actual experience	(23,257)	1,151	-
Benefit payments, including refunds of employee contributions	(22,219)	(1,696)	(302)
Net change in total pension liability	15,340	50,166	205,700
Total pension liability – beginning	255,866	205,700	-
Total pension liability – ending	<u>\$ 271,206</u>	<u>\$ 255,866</u>	<u>\$ 205,700</u>
Plan fiduciary net position			
Contributions – employer	\$ 34,834	\$ 26,366	\$ 19,135
Contributions – employee	30,563	25,162	18,295
Net investment income	(2,783)	5,170	-
Benefit payments, including refunds of employee contributions	(22,219)	(1,696)	(302)
Administrative Expense	(56)	(28)	-
Net change in plan fiduciary net position	40,339	54,974	37,128
Plan fiduciary net position – beginning	92,102	37,128	-
Plan fiduciary net position – ending	<u>\$ 132,441</u>	<u>\$ 92,102</u>	<u>\$ 37,128</u>
Net pension Liability	<u>\$ 138,765</u>	<u>\$ 163,764</u>	<u>\$ 168,572</u>
Net pension liability as a percentage of total pension liability	48.83%	36.00%	18.05%
Total covered payroll	<u>\$ 611,252</u>	<u>\$ 503,231</u>	<u>\$ 365,892</u>
Net pension liability as a percentage of total covered payroll	22.70%	32.54%	46.07%

Notes to Schedule:

The City began participating in TMRS on March 1, 2016, therefore no information is available prior to that date.

CITY OF ARCOLA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION

TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)
SCHEDULE OF CONTRIBUTIONS
For the Last Three Fiscal Years Ending September 30,
(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarial determined contribution	\$ 35,599	\$ 32,884	\$ 17,181
Contribution in relation to the actuarial determined contribution	35,599	32,884	17,181
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 711,361	\$ 587,148	\$ 327,879
Contributions as a percentage of covered payroll	5.00%	5.60%	5.24%

Notes to Schedule:

Valuation Date:

Actuarial determined contribution rates are calculated as of December 31st each year and become effective in January, 12 months and a day 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	15 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 – 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

There were no benefit changes during the year.

The City began participating in TMRS on March 1, 2016, therefore no information is available prior to that date.