

**City of Florence, Texas
Financial Statements
For the Year Ended
September 30, 2020**

Taber & Burnett, P.C.
A Professional Corporation
Certified Public Accountants

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MANAGEMENT'S DISCUSSION AND ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION

As management of the City of Florence, Texas (the City), we are pleased to offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2020. We encourage readers to consider it in conjunction with the additional information presented in the accompanying basic financial statements and the notes to the financial statements.

Financial Statements

- The net position of the City's governmental activities increased by \$2,384,698 as a result of the current year's operations. Net position at year end consisted of invested in capital assets (net of related debt) of \$997,070, restricted net position for various purposes of \$2,989,167, and unrestricted net position of \$769,809, for total net position of \$4,756,046.
- The City's business-type activities net position decreased by \$75,112 as a result of the current year's operations. Business-type net position consisted of invested in capital assets (net of related debt) of \$2,440,183, restricted net position for construction of \$176,172, and unrestricted net position of \$606,998, for total net position of \$3,223,353 at the end of the year.
- Total revenues from all sources were \$4,304,067. This represents an increase of \$2,407,692 due primarily to Department of Justice (DAG) seizure proceeds.
- Total costs of all programs were \$1,994,481. This represents an increase of \$295,957 due primarily to water repairs and purchases.
- As of September 30, 2020, the City's governmental funds reported an ending fund balance of \$3,719,033 of which \$729,866 is unassigned and \$2,989,167 is restricted for various purposes.

Using this Annual Report

This Management's Discussion and Analysis is intended to serve as an introduction to the City's basic financial statements.

This report presents the following three components of the financial statements:

1. Government-wide financial statements provide information for the City as a whole.
2. Fund financial statements provide detailed information for the City's significant funds.
3. Notes to the financial statements provide additional information that is essential to understanding the government-wide and fund financial statements.

This report also contains other required supplementary information in addition to the basic financial statements. The supplementary information includes this management's discussion and analysis and a budgetary comparison schedule for the general fund.

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 assets and liabilities of the City. The difference between assets and liabilities is 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 on how the City's net position changed during the most recent fiscal year. This statement is presented using the accrual basis of accounting, which means that all of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Both the Statement of Net Position and the Statement of Activities present information for the following:

- Governmental activities include general government, public safety, highways, streets, community improvements, planning and zoning, judicial, general administrative, and other services as are authorized by its code of ordinances and its citizens.
- Business activities include water and sanitation services.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of these costs through user fees and charges (business-type activities).

The government-wide financial statements begin on page 12. The following table is a summary of net position as of September 30, 2020:

**Table 1
Net Position**

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Primary Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 3,802,314	\$ 989,522	\$ 890,068	\$ 754,077	\$ 4,692,382	\$ 1,743,599
Debt issuance costs	-	-	17,093	19,094	17,093	19,094
Capital assets, net	<u>1,791,037</u>	<u>1,512,565</u>	<u>3,406,916</u>	<u>3,273,225</u>	<u>5,197,953</u>	<u>4,785,790</u>
Total assets	<u>5,593,351</u>	<u>2,502,087</u>	<u>4,314,077</u>	<u>4,046,396</u>	<u>9,907,428</u>	<u>6,548,483</u>
Deferred outflow of resources	<u>10,032</u>	<u>20,842</u>	<u>8,505</u>	<u>17,071</u>	<u>18,537</u>	<u>37,913</u>
Current and other liabilities	31,875	21,192	113,368	95,110	145,243	116,302
Due to general fund	-	(222)	-	222	-	-
Noncurrent liabilities	<u>802,285</u>	<u>114,885</u>	<u>975,052</u>	<u>656,539</u>	<u>1,777,337</u>	<u>771,424</u>
Total liabilities	<u>834,160</u>	<u>135,855</u>	<u>1,088,420</u>	<u>751,871</u>	<u>1,922,580</u>	<u>887,726</u>
Deferred inflow of resources	<u>13,177</u>	<u>15,726</u>	<u>10,809</u>	<u>13,131</u>	<u>23,986</u>	<u>28,857</u>
Net position:						
Invested in capital assets, net of related debt	997,070	1,397,680	2,440,183	2,616,686	3,437,253	4,014,366
Restricted for:						
Child and safety	4,484	2,729	-	-	4,484	2,729
Construction	-	-	176,172	114,213	176,172	114,213
Court	14,887	13,373	-	-	14,887	13,373
Parks	101	97,996	-	-	101	97,996
Police department	2,114,842	4,979	-	-	2,114,842	4,979
Streets	849,025	258,329	-	-	849,025	258,329
Veterans memorial	5,828	8,101	-	-	5,828	8,101
Unrestricted	<u>769,809</u>	<u>588,161</u>	<u>606,998</u>	<u>567,566</u>	<u>1,376,807</u>	<u>1,155,727</u>
	\$ <u>4,756,046</u>	\$ <u>2,371,348</u>	\$ <u>3,223,353</u>	\$ <u>3,298,465</u>	\$ <u>7,979,399</u>	\$ <u>5,669,813</u>

The following table is a summary of changes in net position for the year ended September 30, 2020:

**Table 2
Changes in Net Position**

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Primary Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues:						
Program revenues:						
Charges for services	\$ 210,294	\$ 184,049	\$ 849,603	\$ 790,146	\$ 1,059,897	\$ 974,195
Operating grants and contributions	816	6,848	-	-	816	6,848
Capital grants and contributions	2,427,938	229,736	104,474	-	2,532,412	229,736
General revenues:						
Property taxes	353,914	307,420	12,000	16,316	365,914	323,736
Sales taxes	307,025	260,090	-	-	307,025	260,090
Franchise taxes	44,731	49,904	-	-	44,731	49,904
Miscellaneous	2,532	1,097	-	-	2,532	1,097
Gain (loss) on disposition of assets	(36,587)	44,749	-	(2,672)	(36,587)	42,077
Investment earnings	<u>25,779</u>	<u>7,486</u>	<u>1,548</u>	<u>1,206</u>	<u>27,327</u>	<u>8,692</u>
Total revenues	<u>3,336,442</u>	<u>1,091,379</u>	<u>967,625</u>	<u>804,996</u>	<u>4,304,067</u>	<u>1,896,375</u>
Expenses:						
General government	370,576	319,299	-	-	370,576	319,299
Public safety	294,254	272,241	-	-	294,254	272,241
Public works	100,449	69,810	-	-	100,449	69,810
Municipal court	128,451	126,342	-	-	128,451	126,342
Parks and recreation	53,014	42,199	-	-	53,014	42,199
Water and sewer	-	-	<u>1,047,737</u>	<u>868,633</u>	<u>1,047,737</u>	<u>868,633</u>
Total expenses	<u>946,744</u>	<u>829,891</u>	<u>1,047,737</u>	<u>868,633</u>	<u>1,994,481</u>	<u>1,698,524</u>
Increase in net position before transfers	2,389,698	261,488	(80,112)	(63,637)	2,309,586	197,851
Transfers	<u>(5,000)</u>	<u>(5,000)</u>	<u>5,000</u>	<u>5,000</u>	-	-
Increase in net position	2,389,698	256,488	(75,112)	(58,637)	2,309,586	197,851
Net position - October 1	<u>2,371,348</u>	<u>2,114,860</u>	<u>3,298,465</u>	<u>3,357,102</u>	<u>5,669,813</u>	<u>5,471,962</u>
Net position - September 30	\$ <u>4,756,046</u>	\$ <u>2,371,348</u>	\$ <u>3,223,353</u>	\$ <u>3,298,465</u>	\$ <u>7,979,399</u>	\$ <u>5,669,813</u>

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.

The fund financial statements provide detailed information about the City's significant funds - not the City as a whole. All of the City's funds fall into two categories - governmental funds and proprietary funds.

The *governmental fund statements* provide a detailed short-term view of the government operations and the basic services it provides, and are reported on the modified accrual basis of accounting which focuses on available spendable resources. The focus of the City's *governmental fund* is to provide information on near-term inflows, outflows, and balances of spendable resources. *Unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. This allows the reader to evaluate the City's short-term financing requirements. Both the governmental fund *Balance Sheet* and the governmental fund *Statement of Revenues, Expenditures, and Changes in Fund Balances* provide a reconciliation to the government-wide financial statements.

The City adopts an annual budget for the General Fund. A budgetary comparison schedule has been provided to demonstrate compliance. The governmental fund financial statements begin on page 16, and the budgetary comparison schedule is on page 53.

The *proprietary funds statements* present the same functions as the business-type activities in the government-wide financial statements. The City uses the proprietary funds to account for its water and sanitation operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary funds financial statements begin on page 21.

Notes to the 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. The notes to the financial statements can be found on pages 25 through 51 of this report.

General Fund Budgetary Highlights

The City did not amend the budget during the year ended September 30, 2020.

The City's overall actual revenues were 14 percent more than budgeted. This mainly resulted from increased property and sales tax collections. The City's overall actual expenditures were 67 percent more than budgeted. This primarily relates to unbudgeted grant and forfeiture fund expenditures.

Capital Assets

In accordance with government standards, the City is not required to report infrastructure retrospectively. Therefore, infrastructure has been capitalized prospectively beginning April 1, 2004.

The City's investment in capital assets (net of accumulated depreciation) for its governmental activities as of September 30, 2020, amounts to \$1,791,037 and for the City's business-type activities \$3,406,916. This investment in capital assets includes land, buildings, water and sewer system assets, improvements, vehicles, machinery and equipment.

**Capital Assets at Year End
(net of depreciation)**

	Governmental Activities	Business-Type Activities	Total 2020	Total 2019
Land	\$ 106,919	\$ 8,802	\$ 115,721	\$ 115,721
Machinery and equipment	378,750	105,843	484,593	334,034
Buildings and improvements	864,312	-	864,312	823,673
Street improvements	441,056	-	441,056	384,339
Water system	-	2,296,588	2,296,588	2,064,610
Sewer system	-	995,683	995,683	1,063,416
Total	\$ <u>1,791,037</u>	\$ <u>3,406,916</u>	\$ <u>5,197,953</u>	\$ <u>4,785,790</u>

Major capital asset additions during the year included the following:

Pool Grant	\$ 141,323
North Love Street	117,605
Storage Tank Rehabilitation	267,220
Water Grant	104,475
Various Police Forfeiture Assets	<u>247,438</u>
	\$ <u>878,061</u>

During the year ended September 30, 2020, police assets were donated to the emergency services district, the old police building was sold, and plans for a municipal complex were scrapped.

Additional information on the City's capital assets can be found in Notes 5 and 6 beginning on page 36 of this report.

Debt Administration

At year end, the City had the following debt:

Outstanding Debt at Year End

	Governmental Activities	Business-Type Activities	Total 2020	Total 2019
Notes Payable	\$ 93,967	\$ 136,733	\$ 230,700	\$ 271,424
Certificates of Obligation	<u>700,000</u>	<u>830,000</u>	<u>1,530,000</u>	<u>500,000</u>
Total	<u>\$ 793,967</u>	<u>\$ 966,733</u>	<u>\$ 1,760,700</u>	<u>\$ 771,424</u>

During the year, the City issued certificates of obligation for street and water system improvements.

The City incurred \$31,102 of interest expense during the year ended September 30, 2020, all of which has been charged as a direct expense to the various departments.

Additional information on the City's non-current liabilities can be found in Notes 7 and 8 beginning on page 38 of this report.

Economic Factors, Next Year's Budgets, and Highlights

The City of Florence continues to prepare and plan for future growth, by initiating policies and overseeing compliance in all areas of infrastructure and services.

The City has just completed a Community Development Block Grant for waterline upgrades and issued a \$700,000 Certificate of Obligation for street improvements. The City will also upgrade waterlines in conjunction with the street improvements. The City is negotiating with developers to develop approximately 80 acres for a housing development on FM 970.

The City has secured a 40 year note from the United States Department of Agriculture to purchase a Municipal Complex to house all our departments. The Florence swimming pool will open summer of 2021, and an application has been submitted for a new Community Development Block Grant to assist with other improvements to the water system.

The Council and employees continue to strive for a pro-active approach by improving communication and services to the citizens of Florence.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it receives from the citizens of Florence. If you have any questions about this report or need further information, contact the City of Florence, P.O. Box 430, Florence, Texas, 76527, or call 254-793-2490.

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Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Florence, Texas

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 Florence (the City), as of and for the year ended September 30, 2020, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic 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 City's preparation and fair presentation of the basic 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 basic financial statements.

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

Opinion

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 of Florence as of September 30, 2020, and the results of its operations, and, where applicable, cash flows thereof for the year 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 and the other required supplementary information on pages 2 through 9 and 53 through 56 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. The supplemental information is the responsibility of management. 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.

Taber & Burnett, P.C.

Burnet, Texas
November 5, 2021

City of Florence, Texas

Statement of Net Position

As of September 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Deposits and investments	\$ 3,732,851	\$ 761,983	\$ 4,494,834	\$ 96,343
Taxes and utilities receivable	47,657	110,243	157,900	-
Debt issuance costs, net	-	17,093	17,093	-
Net pension asset	21,806	17,842	39,648	-
Capital assets, net	<u>1,791,037</u>	<u>3,406,916</u>	<u>5,197,953</u>	<u>-</u>
Total assets	<u>5,593,351</u>	<u>4,314,077</u>	<u>9,907,428</u>	<u>96,343</u>
Deferred Outflow of Resources				
Change in assumptions-pensions	239	195	434	-
Difference in assumption changes - OPEB	1,632	1,632	3,264	-
Contributions subsequent to the measurement date	<u>8,161</u>	<u>6,678</u>	<u>14,839</u>	<u>-</u>
Total deferred outflow of resources	<u>10,032</u>	<u>8,505</u>	<u>18,537</u>	<u>-</u>
Liabilities				
Accounts payable	2,887	778	3,665	-
Accrued expenses	28,988	30,346	59,334	2,718
Customer deposits	-	82,244	82,244	-
Noncurrent liabilities				
Due within one year	61,902	100,736	162,638	-
Due in more than one year	732,065	865,997	1,598,062	-
Net OPEB liability	<u>8,318</u>	<u>8,319</u>	<u>16,637</u>	<u>-</u>
Total liabilities	<u>834,160</u>	<u>1,088,420</u>	<u>1,922,580</u>	<u>2,718</u>

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

City of Florence, Texas

Statement of Net Position (Continued)

As of September 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Deferred Inflow of Resources				
Difference between projected and actual earnings-pensions	8,901	7,282	16,183	-
Difference between expected and actual experience - pensions	4,121	3,371	7,492	-
Difference between expected and actual experience - OPEB	<u>155</u>	<u>156</u>	<u>311</u>	<u>-</u>
Total deferred inflow of resources	<u>13,177</u>	<u>10,809</u>	<u>23,986</u>	<u>-</u>
Net Position				
Invested in capital assets, net of related debt	997,070	2,440,183	3,437,253	-
Restricted for:				
Child and safety	4,484	-	4,484	-
Construction	-	176,172	176,172	-
Court	14,887	-	14,887	-
Parks	101	-	101	-
Police department	2,114,842	-	2,114,842	-
Streets	849,025	-	849,025	-
Veterans memorial	5,828	-	5,828	-
Library	-	-	-	93,625
Unrestricted	<u>769,809</u>	<u>606,998</u>	<u>1,376,807</u>	<u>-</u>
Total net position	\$ <u>4,756,046</u>	\$ <u>3,223,353</u>	\$ <u>7,979,399</u>	\$ <u>93,625</u>

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

City of Florence, Texas*Statement of Activities*

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 370,576	\$ 42,786	\$ -	\$ -
Public safety	294,254	9	816	2,356,902
Public works	100,449	-	-	-
Municipal court	128,451	167,499	-	-
Parks and recreation	<u>53,014</u>	<u>-</u>	<u>-</u>	<u>71,036</u>
Total governmental activities	\$ <u>946,744</u>	\$ <u>210,294</u>	\$ <u>816</u>	\$ <u>2,427,938</u>
Business-type activities:				
Water and sanitation	\$ <u>1,047,737</u>	\$ <u>849,603</u>	\$ <u>-</u>	\$ <u>104,474</u>
Total primary government	\$ <u>1,994,481</u>	\$ <u>1,059,897</u>	\$ <u>816</u>	\$ <u>2,532,412</u>
Component Unit:				
Library	\$ <u>25,627</u>	\$ <u>-</u>	\$ <u>33,726</u>	\$ <u>-</u>

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (327,790)	\$ -	\$ (327,790)	\$ -
2,063,473	-	2,063,473	-
(100,449)	-	(100,449)	-
39,048	-	39,048	-
<u>18,022</u>	<u>-</u>	<u>18,022</u>	<u>-</u>
<u>\$ 1,692,304</u>	<u>\$ -</u>	<u>\$ 1,692,304</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ (93,660)</u>	<u>\$ (93,660)</u>	<u>\$ -</u>
<u>\$ 1,692,304</u>	<u>\$ (93,660)</u>	<u>\$ 1,598,644</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,099</u>
General revenues:			
Taxes:			
Property taxes	353,914	12,000	365,914
Sales taxes	307,025	-	307,025
Franchise taxes	44,731	-	44,731
Miscellaneous	2,532	-	2,532
Gain (loss) on disposition of assets	(36,587)	-	(36,587)
Investment earnings	25,779	1,548	27,327
Transfers	<u>(5,000)</u>	<u>5,000</u>	<u>-</u>
Total general revenues	<u>692,394</u>	<u>18,548</u>	<u>710,942</u>
Change in net position	2,384,698	(75,112)	2,309,586
Net Position, Beginning of Year	<u>2,371,348</u>	<u>3,298,465</u>	<u>5,669,813</u>
Net Position, End of Year	<u>\$ 4,756,046</u>	<u>\$ 3,223,353</u>	<u>\$ 7,979,399</u>

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

City of Florence, Texas*Balance Sheet - Governmental Funds**As of September 30, 2020*

	Governmental Funds General <u>Fund</u>	Total Governmental <u>Funds</u>
Assets		
Cash and savings	\$ 3,519,168	\$ 3,519,168
Receivables:		
Property and sales taxes	48,201	48,201
Treasury bonds	<u>213,683</u>	<u>213,683</u>
Total Assets	\$ <u>3,781,052</u>	\$ <u>3,781,052</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities:		
Accounts payable	\$ 2,887	\$ 2,887
Accrued expenses	<u>28,988</u>	<u>28,988</u>
Total Liabilities	<u>31,875</u>	<u>31,875</u>
Deferred Inflows of Resources		
Unavailable property taxes	<u>30,144</u>	<u>30,144</u>
Total Deferred Inflows of Resources	<u>30,144</u>	<u>30,144</u>
Fund Balances:		
Restricted for:		
Child and Safety	4,484	4,484
Court	14,887	14,887
Parks	101	101
Police Department	2,114,842	2,114,842
Streets	849,025	849,025
Veterans Memorial	5,828	5,828
Unassigned	<u>729,866</u>	<u>729,866</u>
Total Fund Balances	<u>3,719,033</u>	<u>3,719,033</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ <u>3,781,052</u>	\$ <u>3,781,052</u>

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

City of Florence, Texas*Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position**As of September 30, 2020*

Total Fund Balance - Governmental Funds:	\$ 3,719,033
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. (See Note 5)	1,791,037
Other long-term assets that are not available to pay for current year expenditures are not reported in the governmental funds balance sheet.	29,600
Net pension assets are not available to pay for current year expenditures, therefore, they are not reported as an asset in the governmental funds balance sheet.	21,806
Deferred outflows are not financial resources and, therefore, are not reported in the funds.	10,032
Net OPEB liabilities are not due and payable in the current year and therefore, are not reported as a liability in the governmental funds balance sheet.	(8,318)
Long-term liabilities are not due and payable in the current year and therefore are not reported as liabilities in the governmental funds balance sheet. (See Note 7)	(793,967)
Deferred inflows are not due and payable in the current year and therefore, are not reported in the governmental funds balance sheet.	<u>(13,177)</u>
Net Position of Governmental Activities	\$ <u>4,756,046</u>

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

City of Florence, Texas*Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds**For the Year Ended September 30, 2020*

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues		
Tax collections, penalties, and interest	\$ 353,914	\$ 353,914
Sales tax	303,455	303,455
Franchise tax	44,731	44,731
Municipal court fines	167,499	167,499
Police revenue	9	9
Fees and permits	42,786	42,786
Interest	25,779	25,779
Contributions	816	816
Miscellaneous	<u>2,532</u>	<u>2,532</u>
Total Revenues	<u>941,521</u>	<u>941,521</u>
Expenditures		
General government	363,049	363,049
Parks and recreation	173,885	173,885
Public safety	503,446	503,446
Public works	132,166	132,166
Municipal court	<u>127,824</u>	<u>127,824</u>
Total Expenditures	<u>1,300,370</u>	<u>1,300,370</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(358,849)</u>	<u>(358,849)</u>

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

City of Florence, Texas*Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds (Continued)**For the Year Ended September 30, 2020*

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses)		
DAG Funds	2,356,902	2,356,902
Grant revenue	71,036	71,036
Net bond proceeds	675,000	675,000
Sale of assets	39,338	39,338
Transfers	<u>(5,000)</u>	<u>(5,000)</u>
Total Other Financing Sources (Uses)	<u>3,137,276</u>	<u>3,137,276</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	2,778,427	2,778,427
Fund Balance - Beginning of Year	<u>940,606</u>	<u>940,606</u>
Fund Balance - End of Year	\$ <u>3,719,033</u>	\$ <u>3,719,033</u>

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

City of Florence, Texas

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

For the Year Ended September 30, 2020

Net Change in Fund Balance - Governmental Funds	\$ 2,778,427
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount is the net effect of these differences in the treatment of capital outlays and related items. (See Note 5)	278,472
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	3,570
Pension and OPEB expenditures reported in the funds are current financial resources, however, pension and OPEB expenses in the statement of activities will be expensed as incurred.	3,311
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items. (See Note 7)	<u>(679,082)</u>
Change in Net Position of Governmental Activities	\$ <u>2,384,698</u>

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

City of Florence, TexasStatement of Net Position
Proprietary Fund

As of September 30, 2020

	Business-Type Activities
Assets	
Current Assets	
Cash and cash equivalents	\$ 761,983
Accounts receivable	<u>110,243</u>
Total Current Assets	872,226
Other Assets	
Debt issuance costs (net of accumulated amortization)	17,093
Net pension asset	17,842
Capital Assets	
Fixed assets (net of accumulated depreciation when applicable)	<u>3,406,916</u>
Total Assets	<u>4,314,077</u>
Deferred Outflow of Resources	
Change in assumptions pensions	195
Difference in assumption changes - OPEB	1,632
Contributions subsequent to the measurement date	<u>6,678</u>
Total deferred outflow of resources	<u>8,505</u>
Total Assets and Deferred Outflows	\$ <u>4,322,582</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 778
Accrued expenses	30,346
Customer deposits	82,244
Current portion of long-term debt	<u>100,736</u>
Total Current Liabilities	214,104
Other Liabilities	
Net OPEB liability	8,319
Non-Current Liabilities	
Long-term debt	<u>865,997</u>
Total Liabilities	<u>1,088,420</u>
Deferred Inflow of Resources	
Difference between projected and actual earnings - pensions	7,282
Difference between expected and actual experience - pensions	3,371
Difference between expected and actual experience - OPEB	<u>156</u>
Total deferred inflow of resources	<u>10,809</u>
Net Position	
Invested in capital assets, net of related debt	2,440,183
Restricted for construction	176,172
Unrestricted net position	<u>606,998</u>
Total Net Position	<u>3,223,353</u>
Total Liabilities, Deferred Inflows and Net Position	\$ <u>4,322,582</u>

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

City of Florence, Texas*Statement of Revenues, Expenses and
Changes in Fund Net Position
Proprietary Fund**For the Year Ended September 30, 2020*

	<u>Business-Type Activities</u>
Revenues	
Charges for services	\$ <u>849,603</u>
Total Revenues	<u>849,603</u>
Expenses	
Administration	28,837
Contractual services	141,971
Depreciation	238,003
Repairs and maintenance	154,472
State fees	8,246
Utilities	54,403
Wages and benefits	249,496
Water purchases	<u>139,823</u>
Total Expenses	<u>1,015,251</u>
Net Operating Income (Loss)	<u>(165,648)</u>
Non-Operating Revenue and (Expenses)	
Property taxes	12,000
Current debt issuance costs	(24,500)
Issuance cost amortization	(2,001)
Interest revenue	1,548
Interest expense	(5,985)
Grant revenue	<u>104,474</u>
Total Non-Operating Revenue and (Expenses)	<u>85,536</u>
Interfund Transfers	
Transfers in	<u>5,000</u>
Total Interfund Transfers	<u>5,000</u>
Net Income (Loss)	(75,112)
Total Net Position, Beginning of Year	<u>3,298,465</u>
Total Net Position, End of Year	\$ <u><u>3,223,353</u></u>

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

City of Florence, Texas*Statement of Cash Flows
Proprietary Fund**For the Year Ended September 30, 2020*

	<u>Business-Type Activities</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 832,235
Payments to suppliers	(541,396)
Payments to employees	(218,960)
Net cash provided (used) by operating activities	<u>71,879</u>
Cash Flows from Non-Capital Financing Activities	
Transfer from other funds	<u>5,000</u>
Net Cash provided (used) by non-capital financing activities	<u>5,000</u>
Cash Flows from Capital and Related Financing Activities	
Property tax revenues	12,000
Grant revenue	104,474
Loan proceeds	375,000
Note principal payments	(64,806)
Current debt issuance costs	(24,500)
Issuance cost amortization	(2,001)
Interest on debt	(5,985)
Acquisition of capital assets	(371,694)
Net cash provided (used) by capital and related financing activities	<u>22,488</u>
Cash Flows from Investing Activities	
Interest on investments	<u>1,548</u>
Net cash provided (used) by investing activities	<u>1,548</u>
Net (Decrease) Increase in Cash and Cash Equivalents	100,915
Cash and Cash Equivalents at Beginning of Year	<u>661,068</u>
Cash and Cash Equivalents at End of Year	\$ <u>761,983</u>

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

City of Florence, Texas*Statement of Cash Flows
Proprietary Fund (Continued)**For the Year Ended September 30, 2020*

	<u>Business-Type Activities</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income	\$ (165,648)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	238,003
(Increase) decrease in accounts receivable	(22,391)
(Increase) decrease in due from general fund	(222)
(Increase) decrease in debt issuance costs	2,001
(Increase) decrease in net pension asset	(12,685)
(Increase) decrease in deferred outflows	8,566
Increase (decrease) in accounts payable	778
Increase (decrease) in accrued expenses	15,766
Increase (decrease) in customer deposits	6,100
Increase (decrease) in OPEB liability	3,933
Increase (decrease) in deferred inflows	<u>(2,322)</u>
Net cash provided by operating activities	\$ <u>71,879</u>

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Florence, Texas (the City) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the City are described below.

Reporting Entity

The City is a general law city in Williamson County, which incorporated in the State of Texas in 1929. The City operates under a Council form of government and provides such services as public safety, highways, streets, sanitation and water, judicial, community improvements, planning and zoning, culture-recreation, general administrative, and other services as are authorized by its code of ordinances and its citizens.

The City Council, which is elected at large, consists of a Mayor and five Aldermen constituting an ongoing entity and is the level of government which has governing responsibilities over all activities related to the City. The City is not included in any other governmental reporting entity. Councilmen are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant indication of this ability is financial interdependency. Other indications of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

As required by the accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

data from these units are combined with data of the primary government. The City has no component units that meet the requirements for blending as discussed above.

Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. Each discretely presented component unit has a September 30 fiscal year end. The component unit discussed below has been included based on the application of these criteria.

Florence Public Library - is a separate legal entity for which the primary government is financially accountable. This component unit has been discretely presented within the financial statements of the City because it exclusively benefits the primary government and the citizens of Florence. The component unit does not maintain separate financial statements other than those included in this report.

Government-Wide Financial Statements

The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services during the year, not just those received or paid in the current year or soon thereafter.

Statement of Net Position

The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments will report all capital assets, including infrastructure, in the government-wide Statement of Net Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be reported in three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities

The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, fund equity, and revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In the financial statements in this report, the funds are grouped into two broad fund categories as follows:

Governmental Funds

General Fund

This Fund is used to account for financial resources used for general operations. This is a budgeted fund and any fund balances are considered resources available for current operations. The General Fund is the principal fund of the City which accounts for all financial transactions not accounted for in other funds.

Proprietary Funds

Enterprise Fund

This Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the City is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City's Enterprise Fund is used to account for the operations that provide water and sanitation services to the public on a continuing basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification

In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable - includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.
- Restricted - includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed - includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to ordinances passed by the Council, the City's highest level of decision making authority. Commitments may be modified or rescinded only through ordinances approved by the Council.
- Assigned - includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.
- Unassigned - includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. The District reports all amounts that meet the unrestricted General Fund Balance Policy as unassigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

Budgetary Comparison Schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets during the year for a variety of reasons. Under the current reporting model, governments provide budgetary comparison information in their annual reports including the original budget with the comparison of the final budget and actual results.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Basis of Presentation***

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

Basic Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. These financial statements focus on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis, and are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, parks and recreation, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, parks and recreation, etc.) or a business-type activity. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The City does not allocate indirect expenses.

The governmental fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental column in the government-wide statements, a reconciliation is presented which briefly explains the adjustments necessary to reconcile fund financial statements with the governmental column of the government-wide presentation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The focus of this reporting model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

Basis of Accounting

Basis of accounting refers to the method by which revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statement of net position and statement of activities and all proprietary funds are accounted for on a flow of economic resources measurement focus and the full accrual basis. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net position or the statement of net position-proprietary funds.

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

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

All revenue and expenditure recognition for governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. The City's revenues are recognized when they become measurable and available as current assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Available means collectible within the current year or as soon enough thereafter to be used to pay liabilities of the current year. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal year. Utility franchise taxes, penalties and interest, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Proprietary fund-type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total position. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets

Prior to August of each fiscal year, the mayor submits a proposed operating budget for the fiscal year commencing the following October 1 to the City Council. The operating budget includes proposed expenditures and means of financing them for the upcoming years, along with estimates for the current year and actual data for the preceding year. Public hearings are conducted to obtain taxpayer comments. Prior to September 30, the budget is legally enacted through passage by majority vote of the Council. The Council may authorize supplemental appropriations during the year.

The final amended budget is used in this report. Unused appropriations lapse at the end of the year unless carried forward to the next year by Council action. No encumbrances are recognized or recorded. The operating budget includes proposed expenditures for the General Fund. The City adopted the current year's budget on a line item basis.

Deposits and Investments

The City's investment guidelines are defined by a written investment policy that is approved by the Council. In accordance with this policy, the investment funds are invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill and caution.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude restricted cash and cash equivalents. The carrying amounts for cash and cash equivalents approximates fair value.

Receivables

Receivables for the business-type activities include amounts due from customers for water and sanitation services. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts. Allowances are reported when accounts are proven to be uncollectible. Allowances for uncollectible accounts netted with accounts receivable were \$40,544 for the year ended September 30, 2020.

Capital Assets

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements and the proprietary fund of the City. In accordance with governmental standards, the City is not required to report infrastructure retroactively. Therefore, infrastructure has been capitalized prospectively beginning April 1, 2004. Depreciation is recorded on general fixed assets on a government-wide basis. All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Machinery and equipment	5-10 years
Buildings and improvements	10-40 years
Street improvements	10-20 years
Water and sewer system	10-50 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***General Obligation Proprietary Fund Bonds***

At times, the Proprietary Fund provides the annual debt service requirements on certain general obligation proprietary fund bonds (not secured by system revenues) issued to finance system improvements. Since the Proprietary Fund provides the annual debt service on these general obligation bonds, the bonds are considered to be obligations of the Proprietary Fund and have been reported on the balance sheet of the Proprietary Fund, when applicable.

Compensated Absences

The City accrues a liability for compensated absences which meet the following criteria:

- (a) The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- (b) The obligation relates to rights that vest or accumulate.
- (c) Payment of the compensation is probable.
- (d) The amount can be reasonably estimated.

In accordance with the above criteria, the City has accrued a liability for vacation pay which has been earned but not taken by employees. As of the balance sheet date, the City expected that all of the liability for accrued vacation would be liquidated with expendable resources. Therefore, the liability for accrued vacation is reflected as a current liability in the financial statements for the year ended September 30, 2020.

Pensions

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Postemployment Benefits (OPEB)

Other Postemployment Benefits (OPEB) cost for retiree life insurance is required to be measured and disclosed using the accrual basis of accounting, regardless of the amount recognized as OPEB expense on the modified accrual basis of accounting. A liability for OPEB obligations is to be recognized on the balance sheets of participating employers. Changes in OPEB liability will be immediately recognized as OPEB expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet 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.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in these categories.

- Contributions after measurement date - These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings - This difference is deferred and amortized over a closed five-year period.
- Difference in projected and actual experience and changes in assumptions - These differences are deferred and amortized over the average service life for all active, inactive, and retired members.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Risk Management***

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the year ended September 30, 2020, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the state as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. There were no significant reductions in commercial insurance coverage in the year ended September 30, 2020, and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

NOTE 2 - PROPERTY TAXES

Property taxes are levied each October 1 on the assessed value listed as of the previous January 1 for all real business and personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due in January following the October 1 statement date. The lien date is January 1 of that year, and they become delinquent on February 1. Property tax revenues are considered available when they become due or past due and are considered a receivable within the current year when they are expected to be collected 60 days after the close of the year.

The tax assessment of October 1, 2019 sets a tax levy at \$0.705019 per \$100 of assessed valuation at 100 percent of market value, of which, \$0.089250 has been designated for debt services.

Delinquent property taxes estimated to be collectible within the next fiscal year are recognized as revenues. Other delinquent property taxes receivable at year end that are deemed to be ultimately collectible are recorded as deferred revenues.

NOTE 3 - EMPLOYEE BENEFITS

The City's policy is to account for the cost of employees' vacation time benefits as they are earned. At September 30, 2020, accrued vacation benefits related to employees of the General Fund totaling \$16,095 have been recorded on the General Fund. Accrued vacation benefits

NOTE 3 - EMPLOYEE BENEFITS (Continued)

related to Proprietary Fund employees have been recorded on the Proprietary Fund in the amount of \$9,562.

NOTE 4 - DEPOSITS

The City maintains its cash deposits in interest bearing accounts which are insured to a limit of \$250,000 by the FDIC and the remainder is secured by pledged collateral. As of the balance sheet date, the City's and library's deposits totaled \$4,591,177, and the bank balance was \$4,458,791.

Custodial Credit Risk: The custodial credit risk for deposits is the risk that, in the event of the failure of the depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City's policy requires all deposits to be fully secured in accordance with Texas Government Code, Chapter 2257, by either surety bonds, letters of credit of the United States or its agencies and instrumentalities, or by eligible securities held by an independent third-party custodian. At September 30, 2020, all District cash balances were secured.

NOTE 5 - CHANGES IN GOVERNMENTAL CAPITAL ASSETS

Changes in governmental capital assets during the year ended September 30, 2020, were as follows:

	Balance			Balance
	October 1, 2019	Increases	Decreases	September 30, 2020
Capital Assets Not Being Depreciated				
Land	\$ <u>106,919</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>106,919</u>
Other Capital Assets				
Machinery and equipment	565,861	247,438	39,400	773,899
Buildings and improvements	1,182,582	153,523	82,232	1,253,873
Street improvements	<u>808,530</u>	<u>117,605</u>	<u>-</u>	<u>926,135</u>
Total Other Capital Assets	2,556,973	518,566	121,632	2,953,907
Less accumulated depreciation	<u>(1,151,327)</u>	<u>(164,169)</u>	<u>(45,707)</u>	<u>(1,269,789)</u>
Other Capital Assets, Net	<u>1,405,646</u>	<u>354,397</u>	<u>75,925</u>	<u>1,684,118</u>
Total Capital Assets, Net of Depreciation	\$ <u>1,512,565</u>	\$ <u>354,397</u>	\$ <u>75,925</u>	\$ <u>1,791,037</u>

NOTE 5 - CHANGES IN GOVERNMENTAL CAPITAL ASSETS (Continued)

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

Governmental Activities:	
General government	\$ 10,768
Public safety	59,164
Public works	60,888
Municipal court	697
Parks and recreation	<u>32,652</u>
Total depreciation expense - Governmental Activities	\$ <u>164,169</u>

NOTE 6 - CHANGES IN BUSINESS-TYPE CAPITAL ASSETS

Changes in business-type capital assets during the year ended September 30, 2020, were as follows:

	Balance October 1, 2019	Increases	Decreases	Balance September 30, 2020
Capital Assets Not Being Depreciated				
Land	\$ <u>8,802</u>	\$ -	\$ -	\$ <u>8,802</u>
Other Capital Assets				
Machinery and equipment	346,432	-	2,400	344,032
Water system	3,364,325	371,694	-	3,736,019
Sewer system	<u>2,061,978</u>	<u>-</u>	<u>-</u>	<u>2,061,978</u>
Total Other Capital Assets	5,772,735	371,694	2,400	6,142,029
Less accumulated depreciation	<u>(2,508,312)</u>	<u>(238,003)</u>	<u>(2,400)</u>	<u>(2,743,915)</u>
Other Capital Assets, Net	<u>3,264,423</u>	<u>133,691</u>	<u>-</u>	<u>3,398,114</u>
Total Capital Assets, Net of Depreciation	\$ <u>3,273,225</u>	\$ <u>133,691</u>	\$ <u>-</u>	\$ <u>3,406,916</u>

NOTE 7 - CHANGES IN GOVERNMENTAL NON-CURRENT LIABILITIES

The following is a summary of long-term debt transactions in the governmental activities for the year ended September 30, 2020:

	Balance October 1, 2019	Additions	Reductions	Balance September 30, 2020
Notes payable	\$ 114,885	\$ -	\$ 20,918	\$ 93,967
Certification of obligations	<u>-</u>	<u>700,000</u>	<u>-</u>	<u>700,000</u>
	<u>\$ 114,885</u>	<u>\$ 700,000</u>	<u>\$ 20,918</u>	<u>\$ 793,967</u>

Long-term debt in the governmental activities consists of the following at September 30, 2020:

<u>Payee and Terms</u>	<u>Balance</u>
Note payable to Government Capital Corporation secured by equipment, payable in annual installments of \$19,441 including interest at 5.29%, with final payment due November 2023. Fifty percent of this loan is serviced by the proprietary fund.	\$ 34,215
Note payable to Government Capital Corporation secured by vehicles, payable in annual installments of \$16,607 including interest at 4.375%, with final payment due May 2024.	59,752
Series 2020, certificates of obligations due in annual installments of \$40,000 beginning in August 2021 and ending at \$54,000 in August 2035, with interest at 2.35 percent for street repairs.	<u>700,000</u>
Total	793,967
Less current portion	<u>(61,902)</u>
Total Long-Term Debt	\$ <u>732,065</u>

NOTE 7 - CHANGES IN GOVERNMENTAL NON-CURRENT LIABILITIES (Continued)

The annual requirements to amortize debt outstanding in the governmental activities as of September 30, 2020, are as follows:

Year Ending September 30	Principal	Interest	Total
2021	\$ 61,902	\$ 19,913	\$ 81,815
2022	63,933	18,245	82,178
2023	66,012	16,243	82,255
2024	68,120	14,167	82,287
2025	43,000	12,015	55,015
2026 to 2030	231,000	45,112	276,112
2031 to 2035	<u>260,000</u>	<u>17,775</u>	<u>277,775</u>
	<u>\$ 793,967</u>	<u>\$ 143,470</u>	<u>\$ 937,437</u>

NOTE 8 - CHANGES IN BUSINESS-TYPE NON-CURRENT LIABILITIES

The following is a summary of long-term debt transactions in the business-type activities for the year ended September 30, 2020:

	Balance October 1, 2019	Additions	Reductions	Balance September 30, 2020
Notes payable	\$ 156,539	\$ -	\$ 19,806	\$ 136,733
Certificates of obligations	<u>500,000</u>	<u>375,000</u>	<u>45,000</u>	<u>830,000</u>
	<u>\$ 656,539</u>	<u>\$ 375,000</u>	<u>\$ 64,806</u>	<u>\$ 966,733</u>

Long-term debt in the business-type activities consists of the following at September 30, 2020:

<u>Payee and Terms</u>	<u>Balance</u>
Note payable to the Texas Department of Transportation, payable in annual installments of \$7,936 including interest at 3%, with final payment due July 2035.	\$ 94,739
Note payable to the Government Capital Corporation, secured by vehicle, payable in annual installments of \$8,137 including interest at 5.23%, with final payment due July 2021.	7,733

NOTE 8 - CHANGES IN BUSINESS-TYPE NON-CURRENT LIABILITIES (Continued)

Note payable to Government Capital Corporation secured by equipment, payable in annual installments of \$19,441 including interest at 5.29%, with final payment due November 2023. Fifty percent of this loan is serviced by the proprietary fund.	34,261
Series 2019, certificates of obligations due in annual installments of \$35,000 beginning in April 2021, and ending at \$40,000 in April 2026, with interest at 2.39 percent.	375,000
Series 2014, certificates of obligations due in annual installments of \$40,000 beginning in April 2015, \$45,000 beginning April 2020, \$50,000 beginning April 2024, \$55,000 beginning April 2027, and \$60,000 due in April 2029, with interest at 3.28 percent.	<u>455,000</u>
Total	966,733
Less current portion	<u>(100,736)</u>
Total Long-Term Debt	<u>\$ 865,997</u>

The annual requirements to amortize debt outstanding in the governmental activities as of September 30, 2020, are as follows:

Year Ending	<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$	100,736	\$ 28,206	\$ 128,942
2022		93,575	24,918	118,493
2023		94,172	22,008	116,180
2024		99,821	18,987	118,808
2025		90,733	15,855	106,588
2026 to 2030		451,351	37,593	488,944
2031 to 2035		<u>36,345</u>	<u>3,335</u>	<u>39,680</u>
	\$	<u>966,733</u>	\$ <u>150,902</u>	\$ <u>1,117,635</u>

NOTE 9 - RESTRICTED FUND BALANCES

Certain amounts have been segregated within the equity section of the governmental fund type balance sheets as restricted for specific purposes as imposed by external parties.

NOTE 10 - INTERFUND TRANSACTIONS

During the course of normal operations, the City has transactions between funds including expenditures and transfers of resources primarily to provide services. The financial statements for the governmental and proprietary type funds generally reflect some transactions as transfers and others as receivables and payables.

Interfund activity as of September 30, 2020, is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Due To</u>	<u>Due From</u>
General Fund	\$ -	\$ 5,000	\$ -	\$ -
Utility Fund	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Transfers	\$ <u>5,000</u>	\$ <u>5,000</u>	\$ <u>-</u>	\$ <u>-</u>

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Plan Description

The City of Florence, Texas participates as one of the 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

Benefits Provided

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

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

Plan provisions for the City were as follows:

	<u>Plan Year 2018</u>	<u>Plan Year 2019</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	14
Active employees	<u>11</u>
Total	<u>29</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee’s 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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Florence, Texas were required to contribute 5%, of their annual gross earnings during the fiscal year. The contribution rates for the City of Florence, Texas were 4.34% and 4.25% in calendar years 2020 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$19,239, and were equal to the required contributions.

Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) (NPL or NPA) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for active, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the areas between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	<u>10.0%</u>	7.75%
Total	100.0%	

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at 12/31/18	\$ <u>454,990</u>	\$ <u>466,450</u>	\$ <u>(11,460)</u>
Changes for the year:			
Service cost	40,502	-	40,502
Interest	31,421	-	31,421
Difference between expected and actual experience	8,923	-	8,923
Changes of assumptions	601	-	601
Contributions-employer	-	17,529	(17,529)
Contributions-employee	-	20,622	(20,622)
Net investment income	-	71,905	(71,905)
Benefit payments, including refunds of emp. contributions	(19,486)	(19,486)	-
Administrative expense	-	(407)	407
Other changes	-	(14)	14
Net changes	<u>61,961</u>	<u>90,149</u>	<u>(28,188)</u>
Balance at 12/31/19	\$ <u>516,951</u>	\$ <u>556,599</u>	\$ <u>(39,648)</u>

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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 (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 <u>5.75%</u>	Current Singe Rate <u>Assumption 6.75%</u>	1% Increase <u>7.75%</u>
\$ <u>48,316</u>	\$ <u>(39,648)</u>	\$ <u>(110,595)</u>

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2020, the City recognized pension expense of \$10,636.

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

	Deferred Outflows <u>of Resources</u>	Deferred Inflows <u>of Resources</u>
Difference between projected and actual earnings	\$ -	\$ 16,183
Differences between expected and actual economic experience	-	7,492
Changes in assumptions	434	-
Contributions subsequent to the measurement date	<u>14,839</u>	<u>-</u>
Total	\$ <u>14,883</u>	\$ <u>23,675</u>

The City reported \$14,839 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability (asset) for the year ending September 30, 2020. Other amounts reported as

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2020	\$	(11,069)
2021		(6,567)
2022		2,478
2023		(8,083)
2024		<u>-</u>
	\$	<u>(23,241)</u>

NOTE 12 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

The City also participates in the cost-sharing multiple-employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS); known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other post employment benefit,” or OPEB.

Employees covered by benefit terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>11</u>
Total	<u>14</u>

NOTE 12 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

Contributions

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

Total OPEB Liability

The City's total OPEB liability of \$16,637 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Discount rate*	2.75%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

NOTE 12 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

Mortality rates - disabled retirees

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

*The discount rate was based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2019.

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

Changes in the Total OPEB Liability

Balances at December 31, 2018	\$ 8,773
Changes for the year:	
Service cost	1,609
Interest	355
Changes of benefit terms	-
Differences between expected and actual experience	2,375
Changes in assumptions or other inputs	3,566
Benefit payments	<u>(41)</u>
Balances as of December 31, 2019	\$ <u>16,637</u>

Sensitivity Analysis

The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75 percent) or 1-percentage-point higher (3.75 percent) than the current discount rate.

NOTE 12 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

	1% Decrease <u>(1.75%)</u>	Discount Rate <u>(2.75%)</u>	1% Increase <u>(3.75%)</u>
Total OPEB liability	\$ 20,468	\$ 16,637	\$ 13,625

For the year ended December 31, 2019, the City recognized OPEB expense of \$2,346. At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 311	\$ -
Changes of assumptions or other inputs	-	3,264

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	
2020	\$ 382
2021	382
2022	382
2023	382
2024	312
Thereafter	<u>1,113</u>
	\$ <u>2,953</u>

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The City participates in grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

Water Commitment

The City has a contract in place with the City of Georgetown to purchase water from them for a period of forty years, which commenced on June 1, 2010. The City is also obligated to pay a minimum monthly charge, volume charges, committed water charge, and a reserved charge per the contract.

NOTE 14 - SUBSEQUENT EVENTS

Subsequent to year end, the City issued \$1,700,000 in bonds for the purchase and remodel of a city municipal complex, approved Westar for road and water improvements in the amount of \$801,000, and approved new police equipment from seizure funds of approximately \$770,000.

The City did not have any other subsequent events through November 5, 2021, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the fiscal year ended September 30, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

City of Florence, Texas

*Budgetary Comparison Schedule
General Fund*

For the Year Ended September 30, 2020

	General Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
Revenues				
Tax collections, penalties and interest	\$ 317,000	\$ 317,000	\$ 353,914	\$ 36,914
Sales tax	251,500	251,500	303,455	51,955
Franchise tax	43,000	43,000	44,731	1,731
Municipal court fines	195,000	195,000	167,499	(27,501)
Police revenue	74	74	9	(65)
Fees and permits	18,650	18,650	42,786	24,136
Interest	1,800	1,800	25,779	23,979
Contributions	-	-	816	816
Miscellaneous	<u>1,500</u>	<u>1,500</u>	<u>2,532</u>	<u>1,032</u>
Total Revenues	<u>828,524</u>	<u>828,524</u>	<u>941,521</u>	<u>112,997</u>
Expenditures				
General government	330,231	330,231	363,049	(32,618)
Parks and recreation	31,200	31,200	173,885	(142,685)
Public safety	270,115	270,115	503,446	(233,331)
Public works	13,550	13,550	132,166	(118,616)
Municipal court	<u>132,428</u>	<u>132,428</u>	<u>127,824</u>	<u>4,604</u>
Total Expenditures	<u>777,524</u>	<u>777,524</u>	<u>1,300,370</u>	<u>(522,846)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>51,000</u>	<u>51,000</u>	<u>(358,849)</u>	<u>(409,849)</u>
Other Financing Sources (Uses):				
DAG Funds	-	-	2,356,902	2,356,902
Principal payments	(48,000)	(48,000)	-	48,000
Grant revenue	-	-	71,036	71,036
Net bond proceeds	-	-	675,000	675,000
Sale of assets	-	-	39,338	39,338
Transfers	<u>(5,000)</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(53,000)</u>	<u>(53,000)</u>	<u>3,137,276</u>	<u>3,190,276</u>
Excess (Deficiencies) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	\$ <u>(2,000)</u>	\$ <u>(2,000)</u>	2,778,427	\$ <u>2,780,427</u>
Fund Balance - Beginning of Year			<u>940,606</u>	
Fund Balance - End of Year			\$ <u>3,719,033</u>	

City of Florence, Texas

Schedule of Changes in Net Pension Liability and Related Ratios

	Year Ended December 31									
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total Pension Liability										
Service cost	\$ 40,502	\$ 36,868	\$ 30,921	\$ 27,880	\$ 26,188	\$ 24,403	n/a	n/a	n/a	n/a
Interest on total pension liability	31,421	29,536	26,808	24,282	20,349	20,386	n/a	n/a	n/a	n/a
Change of benefit terms	-	-	-	-	-	-	n/a	n/a	n/a	n/a
Difference between expected and actual experience	8,923	(21,905)	(11,522)	(14,071)	8,418	(30,673)	n/a	n/a	n/a	n/a
Change of assumptions	601	-	-	-	16,329	-	n/a	n/a	n/a	n/a
Benefit payments/refunds of contributions	<u>(19,486)</u>	<u>(17,302)</u>	<u>(216)</u>	<u>(4,164)</u>	<u>(2,043)</u>	<u>(29,029)</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Net change in total pension liability	61,961	27,197	45,991	33,927	69,241	(14,913)	n/a	n/a	n/a	n/a
Total pension liability, beginning	<u>454,990</u>	<u>427,793</u>	<u>381,802</u>	<u>347,875</u>	<u>278,634</u>	<u>293,547</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Total pension liability, ending (a)	\$ <u>516,951</u>	\$ <u>454,990</u>	\$ <u>427,793</u>	\$ <u>381,802</u>	\$ <u>347,875</u>	\$ <u>278,634</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Fiduciary Net Position										
Employer contributions	\$ 17,529	\$ 16,377	\$ 12,680	\$ 9,864	\$ 12,208	\$ 9,657	n/a	n/a	n/a	n/a
Member contributions	20,622	19,404	16,553	15,268	15,155	14,328	n/a	n/a	n/a	n/a
Net investment income	71,905	(13,789)	52,762	22,785	460	17,145	n/a	n/a	n/a	n/a
Benefit payments/refund of contributions	(19,486)	(17,302)	(216)	(4,164)	(2,043)	(29,029)	n/a	n/a	n/a	n/a
Administrative expenses	(407)	(267)	(273)	(257)	(280)	(179)	n/a	n/a	n/a	n/a
Other	<u>(14)</u>	<u>(15)</u>	<u>(14)</u>	<u>(14)</u>	<u>(13)</u>	<u>(15)</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Net change in fiduciary net position	90,149	4,408	81,492	43,482	25,487	11,907	n/a	n/a	n/a	n/a
Fiduciary net position, beginning	<u>466,450</u>	<u>462,042</u>	<u>380,550</u>	<u>337,068</u>	<u>311,581</u>	<u>299,674</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Fiduciary net position, ending (b)	\$ <u>556,599</u>	\$ <u>466,450</u>	\$ <u>462,042</u>	\$ <u>380,550</u>	\$ <u>337,068</u>	\$ <u>311,581</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Net pension liability / (asset), ending = (a) - (b)	\$ <u>(39,648)</u>	\$ <u>(11,460)</u>	\$ <u>(34,249)</u>	\$ <u>1,252</u>	\$ <u>10,807</u>	\$ <u>(32,947)</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Fiduciary net position as a % of total pension liability	107.7%	102.5%	108.01%	99.67%	96.89%	111.82%	n/a	n/a	n/a	n/a
Pensionable covered payroll	\$ 412,442	\$ 388,082	\$ 331,058	\$ 305,369	\$ 303,108	\$ 286,562	n/a	n/a	n/a	n/a
Net pension liability as a % of covered payroll	(9.61%)	(2.95%)	(10.35%)	0.41%	3.57%	(11.50%)	n/a	n/a	n/a	n/a

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

City of Florence, Texas

Schedule of Employer Contributions

<u>Year Ending September 30</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2011	14,637	14,637	-	296,540	5%
2012	9,296	9,296	-	302,060	3.1%
2013	7,623	7,623	-	249,435	3.1%
2014	9,494	9,494	-	279,415	3.4%
2015	11,903	11,903	-	300,039	4.0%
2016	11,074	11,074	-	344,967	3.2%
2017	12,375	12,375	-	378,139	3.3%
2018	15,629	15,629	-	422,729	3.7%
2019	18,121	18,121	-	456,992	4.0%
2020	19,239	19,239	-	485,520	4.0%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method Entry Age Normal
 Amortization Method Level Percentage of Payroll, Closed
 Remaining Amortization Period N/A
 Asset Valuation Method 10 Year smoothed market; 12% soft corridor
 Inflation 2.5%
 Salary Increases 3.50% to 11.5% including inflation
 Investment Rate of Return 6.75%
 Retirement Age Experience-based table of rates that are specific to the City’s plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018
 Mortality Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes There were no benefit changes during the year.

City of Florence

Schedule of Changes in the City's Total OPEB Liability and Related Ratios

	Year Ended December 31									
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total OPEB Liability										
Service cost	\$ 1,609	\$ 1,514	\$ 1,159	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Interest	355	382	335	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Changes of benefit items	-	-	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Differences between expected and actual experience	2,375	(3,249)	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Changes of assumptions or other inputs	3,566	(648)	1,050	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Benefit payments	<u>(41)</u>	<u>-</u>	<u>(99)</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Net change in total OPEB liability	7,864	(2,001)	2,445	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total OPEB liability, beginning	<u>8,773</u>	<u>10,774</u>	<u>8,329</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Total OPEB liability, ending	\$ <u>16,637</u>	\$ <u>8,773</u>	\$ <u>10,774</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Covered employee payroll	\$ 412,442	\$ 388,082	\$ 331,058	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total OPEB liability as a percentage of covered employee payroll	4.03%	2.26%	3.25%	n/a	n/a	n/a	n/a	n/a	n/a	n/a

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

Notes to Schedule

Changes of assumptions. Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2019	2.75%
2018	3.71%
2017	3.31%
2016	-
2015	-
2014	-
2013	-
2012	-
2011	-
2010	-