

**CITY OF EAST TAWAKONI, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Valerie L Cleveland, CPA**



**City of East Tawakoni, Texas  
Annual Financial Report  
For the Year Ended December 31, 2019**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>FINANCIAL SECTION</b>	
Independent Auditor’s Report.....	4-5
<u>Required Supplementary Information</u>	
Management’s Discussion and Analysis.....	8-17
<u>Basic Financial Statements</u>	
Government-wide Financial Statements	
Statement of Net Position.....	20
Statement of Activities.....	21
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	22
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	23
Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds.....	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	25
Statement of Fund Net Position – Proprietary Fund.....	26
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund.....	27-29
Statement of Cash Flows – Proprietary Fund.....	30-31
Notes to Basic Financial Statements.....	32-55
<u>Required Supplementary Information</u>	
Budgetary Comparison Schedule – General Fund.....	58
Schedule of Funding Progress – TMRS Retirement Plan.....	59
<u>Supplementary Schedules (Unaudited):</u>	
Schedule of Property Tax Receivable.....	62
Historical Schedule of Assessed Property Valuation (Net).....	63
Historical Schedule of Property Tax Rates.....	65

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## **FINANCIAL SECTION**



**Valerie L Cleveland, CPA**

**Independent Auditor's Report**

Honorable Mayor and Members  
of the City Council  
City of East Tawakoni, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of East Tawakoni, Texas, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of East Tawakoni, Texas as of December 31, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and information and TMRS schedule of funding progress on pages 8-17 and 58-5, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Tawakoni, Texas basic financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Respectfully submitted,

***Valerie L Cleveland, CPA***

Greenville, Texas

July 30, 2020

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management for the City of East Tawakoni, Texas, we offer readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2019. This discussion should be read in conjunction with the financial statements and related notes. Comparative data is presented for government-wide and fund financial statements at the end of this section.

### **FINANCIAL HIGHLIGHTS:**

- Government-wide net position reported in the Statement of Activities is \$2,626,387. Of this amount \$2,053,251 is invested in capital assets or restricted for debt service and other activities, leaving \$573,136 of unrestricted net position.
- Government-wide net position increased by \$32,502 during 2019.
- Each of the City's fund financial statements reported changes in equity as follows:
  - General Fund - \$49,553 decrease
  - Water & Sewer Fund - \$42,923 increase
  - Debt Service Fund – \$31,035 increase
  - Capital Projects Fund - \$237 increase

### **USING THIS ANNUAL REPORT:**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial report of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and appropriations from the State. Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the water and sewer system. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

## **REPORTING THE CITY AS A WHOLE-GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

### **The Statement of Net Position and the Statement of Activities**

Government-wide financial statements provide an analysis of the City's overall financial condition and operations. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The Statement of Net Position includes all the City's assets and liabilities while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, 3) capital grants and contributions and 4) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current year or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and the changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall of the health of the City, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activities:

*Governmental Activities* – Most of the City's services are reported here, including, administration, public safety, judicial and street maintenance services. Property taxes, sales taxes, and franchise taxes finance most of these activities.

*Business-type Activities* – The City charges fees to customers to help it cover the cost of certain services it provides. The City's water and sewer system operations and sanitation services are reported here.

## **REPORTING THE CITY'S MOST SIGNIFICANT FUNDS:**

### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds. The City's administration establishes funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary use different accounting approaches.

*Governmental Funds* – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City’s general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules found at the bottom of each of the governmental fund financial statements.

*Proprietary Funds* – The Proprietary/Enterprise fund is used to account for operations that are financed in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

### **FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS:**

In the government-wide financial statements, net position serves as one useful indicator of a government’s financial position. In the case of the City, the combined net position exceeded liabilities by \$2,626,387 and \$2,593,886 at the close of FY 2019 and FY 2018, respectively.

The combined net position of the City’s activities increased from \$2,593,886 to \$2,626,387 or \$32,502 during 2019. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$573,135.

### **FINANCIAL ANALYSIS OF THE CITY’S FUNDS:**

As the City completed the year, its governmental funds \$478,251 and proprietary funds \$3,117,942 reported combined fund balance and net position of \$2,653,667, an increase of \$24,641 over last year.

### **CAPITAL ASSET AND DEBT ADMINISTRATION:**

*Capital Assets* – the City’s investment in capital assets net of accumulated depreciation reported in the governmental activities and business-type activities was \$716,668 and \$3,117,942, respectively. This investment in capital assets includes land, buildings and improvements, equipment and vehicles. The change in the City’s net investment in capital assets net of accumulated depreciation for the current fiscal year was a decrease of (\$73,993) and a decrease of (\$130,914) in each of the respective activities. More detailed information about the City’s fixed assets is presented in Note 5 to the basic financial statements.

*Long-term Debt* – at year-end the City had \$2,210,431 in bonds and capital leases payable outstanding – a decrease of (\$214,985) from last year. More detailed information about the City’s long-term liabilities is presented in Note 6 to the basic financial statements.

**BUDGETARY HIGHLIGHTS & ECONOMIC FACTORS:**

The City's Economic Development Corporation is working diligently to bring new businesses to the City.

The Mayor and City Council members continue to exert much effort and energy to do what they feel is best for our city and citizens.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT:**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Secretary at 288 Briggs Blvd., East Tawakoni, Texas 75472 or at (903) 447-2444.

**CITY OF EAST TAWAKONI, TEXAS**

**COMPARATIVE STATEMENT OF NET POSITION**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>						
Current and other assets	\$ 563,214	\$ 620,736	\$ 598,282	\$ 493,411	\$ 1,161,496	\$ 1,112,147
Internal balances	63,350	28,953	(63,350)	(28,953)	-	-
Capital assets, net	716,668	790,661	3,117,942	3,248,856	3,834,610	4,039,517
<b>Total Assets</b>	<b><u>1,343,232</u></b>	<b><u>1,440,350</u></b>	<b><u>3,652,874</u></b>	<b><u>3,711,314</u></b>	<b><u>4,996,106</u></b>	<b><u>5,151,664</u></b>
<b>LIABILITIES</b>						
Other liabilities	36,930	33,349	45,757	24,043	82,687	57,392
Long-term liabilities						
Meter deposits payable			76,602	74,970	76,602	74,970
Due within one year	88,911	89,454	130,099	124,708	219,010	214,162
Due in more than one year	766,420	856,155	1,225,000	1,355,099	1,991,420	2,211,254
<b>Total Liabilities</b>	<b><u>892,261</u></b>	<b><u>978,958</u></b>	<b><u>1,477,458</u></b>	<b><u>1,578,820</u></b>	<b><u>2,369,719</u></b>	<b><u>2,55,778</u></b>
<b>NET POSITION</b>						
Net invested in capital assets	(110,154)	(109,590)	1,762,843	1,769,049	1,652,689	1,659,459
Restricted for debt service	220,357	189,322	125,664	106,648	346,021	295,970
Restricted for capital improvements	28,405	28,168	26,136	25,918	54,541	54,086
Unrestricted	312,363	353,492	260,773	230,879	573,136	584,371
<b>Total Net Position</b>	<b><u>\$ 450,971</u></b>	<b><u>\$ 461,392</u></b>	<b><u>\$ 2,175,416</u></b>	<b><u>\$ 2,132,494</u></b>	<b><u>\$ 2,626,387</u></b>	<b><u>\$ 2,593,886</u></b>

**CITY OF EAST TAWAKONI, TEXAS**

**COMPARATIVE STATEMENT OF ACTIVITIES**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Program revenues:						
Charges for services	\$ 60,545	\$ 57,686	\$ 877,442	\$ 887,984	\$ 937,987	\$ 945,670
Operating grants/contributions		7,500		3,000	-	10,500
Capital grants/contributions	126,644	71,318			126,644	71,318
General revenues:						
Ad valorem taxes	237,281	276,135			237,281	276,135
Sales taxes	57,063	64,771			57,063	64,771
Franchise taxes	35,697	33,405			35,697	33,405
Other	62,675	62,685	1,112	553	63,787	63,238
<b>Total revenues</b>	<u>579,905</u>	<u>573,500</u>	<u>878,554</u>	<u>891,537</u>	<u>1,458,459</u>	<u>1,465,037</u>
Expenses:						
Administration	315,625	214,166			315,625	214,166
Public safety and judicial services	317,361	289,169			317,361	289,169
Street Maintenance	-	-			-	-
Interest on long-term debt	16,440	24,177			16,440	24,177
Water, Sewer and Sanitation Services			800,531	857,349	800,531	857,349
<b>Total Expenses</b>	<u>649,426</u>	<u>527,512</u>	<u>800,531</u>	<u>857,349</u>	<u>1,449,957</u>	<u>1,384,861</u>
Excess (deficiency) of revenues over (under) expenses before transfers	(69,521)	45,988	78,023	34,188	8,502	80,176
Transfers in (out)	59,100	82,675	(35,100)	(61,075)	24,000	21,600
<b>Change in Net Position</b>	(10,421)	128,663	42,923	(26,887)	32,502	101,776
<b>Net position – beginning of year</b>	<u>461,392</u>	<u>332,729</u>	<u>2,132,493</u>	<u>2,159,381</u>	<u>2,593,885</u>	<u>2,492,110</u>
<b>Net position – end of year</b>	<u>\$ 450,971</u>	<u>\$ 461,392</u>	<u>\$ 2,175,416</u>	<u>\$ 2,132,494</u>	<u>\$ 2,626,387</u>	<u>\$ 2,593,886</u>

\*Net transfer in came from the component unit, East Tawakoni Economic Development Corporation

**CITY OF EAST TAWAKONI, TEXAS  
COMPARATIVE BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2019 and 2018**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Fund Capital Projects Fund</u>	<u>Total Governmental Funds</u>	
				<u>2019</u>	<u>2018</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 186,676	\$ -	\$ -	\$ 186,676	\$ 240,954
Sales and franchise taxes receivable	44,912			44,912	47,547
Property taxes receivable, net allowance of \$7,733 (2019) and \$8,578 (2018)	69,596			69,596	77,205
Due from other funds	16,447	46,903		63,350	28,953
Prepaid expenses					
<b>Restricted assets:</b>					
Cash and cash equivalents		168,605	28,405	197,010	188,421
Property tax receivable, net of allowance of \$4,558 (2019) and \$4,080 (2018)		43,058		43,058	47,766
<b>Total Assets</b>	<u>\$ 317,631</u>	<u>\$ 258,566</u>	<u>\$ 28,405</u>	<u>\$ 604,602</u>	<u>\$ 630,846</u>
<b>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	22,890			22,890	18,297
Due to component unit	5,468			5,468	5,708
<b>Total Liabilities</b>	<u>28,358</u>			<u>28,358</u>	<u>24,005</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable property tax revenue	59,784	38,209		97,993	110,309
<b>FUND BALANCES</b>					
Restricted for:					
Capital Improvements			28,405	28,405	28,168
Debt Service		220,357		220,357	189,322
Assigned for:					
Public safety & judicial services	18			18	18
Non-spendable:					
Prepaid expenses					
Due from other funds	16,447			16,447	4,734
Unassigned	213,024			213,024	274,290
<b>Total Fund Balances</b>	<u>229,489</u>	<u>220,357</u>	<u>28,405</u>	<u>478,251</u>	<u>496,532</u>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<u>\$ 317,631</u>	<u>\$ 258,566</u>	<u>\$ 28,405</u>	<u>\$ 604,602</u>	<u>\$ 630,846</u>

**Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Years Ended December 31, 2019 and 2018**

	General Fund	Debt Service Fund	Other Governmental Fund (Capital Projects Fund)	Total Governmental Funds	
				2019	2018
<b>REVENUES:</b>					
Ad valorem taxes	\$ 210,880	\$ 105,566	\$ -	\$ 316,446	\$ 276,112
Franchise taxes	35,697			35,697	33,405
Sales taxes	57,063			57,063	64,771
Permits	13,776			13,776	7,076
Fines and other fees	57,425			57,425	54,666
Grant revenue	126,644			126,644	78,818
Other revenue	44,426	24,000		68,426	50,183
Interest income		1,467	237	1,704	1,457
<b>Total Revenues</b>	<u>545,911</u>	<u>131,033</u>	<u>237</u>	<u>677,181</u>	<u>566,488</u>
<b>EXPENDITURES:</b>					
Administration	303,166			303,166	214,166
Public Safety & Judicial Services	300,602			300,602	274,722
Capital Outlay	10,922			10,922	20,223
Debt Service:					
Principal retirement	16,286	73,123		89,409	90,014
Interest and fiscal charges	2,357	26,875		29,232	27,745
<b>Total Expenditures</b>	<u>633,333</u>	<u>99,998</u>	<u>-</u>	<u>733,331</u>	<u>616,870</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(87,422)</u>	<u>31,035</u>	<u>237</u>	<u>(56,150)</u>	<u>(50,382)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Debt proceeds					6,800
Transfers in (out)	35,099			35,099	82,675
Sale of assets	2,270			2,270	5,000
<b>Net Other Financing Sources (Uses)</b>	<u>37,869</u>	<u>-</u>	<u>-</u>	<u>37,869</u>	<u>94,475</u>
<b>Net change in fund balances</b>	(49,553)	31,035	227	(18,281)	44,093
<b>Fund balance, January 1</b>	<u>279,042</u>	<u>189,322</u>	<u>28,168</u>	<u>496,532</u>	<u>452,439</u>
<b>Fund balance, December 31</b>	<u>\$ 229,489</u>	<u>\$ 220,357</u>	<u>\$ 28,405</u>	<u>\$ 478,251</u>	<u>\$ 496,532</u>

**CITY OF EAST TAWAKONI, TEXAS**  
**COMPARATIVE STATEMENT OF FUND NET POSITION**  
**PROPRIETARY FUND**  
**December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
	<b>Enterprise Fund</b>	<b>Enterprise Fund</b>
	<b>Water and Sewer Fund</b>	<b>Water and Sewer Fund</b>
<b>ASSETS:</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 347,558	\$ 253,525
Accounts receivable, net of allowance of \$10,027 in 2019 and \$8,939 in 2018	90,239	96,635
Prepaid expenses		
<b>Restricted Assets:</b>		
Cash and cash equivalents	102,598	83,869
Certificates of deposit	49,202	48,697
<b>Total current assets</b>	<b>589,597</b>	<b>482,726</b>
<b>Noncurrent Assets:</b>		
<b>Capital Assets:</b>		
Land	7,781	7,781
Capital Assets, net of depreciation	3,110,161	3,241,075
<b>Other Assets:</b>		
Deposits	8,685	8,685
<b>Total noncurrent assets</b>	<b>3,126,627</b>	<b>3,257,541</b>
<b>Total Assets</b>	<b>\$ 3,716,224</b>	<b>\$ 3,740,267</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts payable	23,334	558
Due to other funds	63,350	28,953
<b>Payable from restricted assets:</b>		
Accrued interest payable	22,423	23,485
Notes payable	10,099	9,708
Bonds payable	120,000	115,000
<b>Total current liabilities</b>	<b>\$ 239,206</b>	<b>\$ 177,704</b>
<b>Noncurrent Liabilities:</b>		
Meter deposits payable	76,602	74,970
Notes payable		10,099
Bonds payable	1,225,000	1,345,000
<b>Total noncurrent liabilities</b>	<b>1,301,602</b>	<b>1,430,069</b>
<b>Total liabilities</b>	<b>\$ 1,540,808</b>	<b>\$ 1,607,773</b>
<b>NET POSITION</b>		
Net investment in capital assets	1,762,843	1,769,049
Restricted for debt service	125,664	106,648
Restricted for capital improvements	26,136	25,918
Unrestricted	260,773	230,879
<b>Total Net Position</b>	<b>\$ 2,175,416</b>	<b>\$ 2,132,494</b>

**CITY OF EAST TAWAKONI, TEXAS**  
**Statements of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Fund**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
	<b>Enterprise Fund</b>	<b>Enterprise Fund</b>
	<b>Water and</b>	<b>Water and</b>
	<b>Sewer Fund</b>	<b>Sewer Fund</b>
<b>OPERATING REVENUES:</b>		
Water sales	\$ 566,465	\$ 591,175
Sewer sales	145,320	136,754
Garbage fees	127,362	126,457
Penalties	19,280	20,510
Other revenues	19,015	13,088
<b>Total Operating Revenues</b>	<b>\$ 877,442</b>	<b>\$ 887,984</b>
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	197,456	193,609
Professional fees	5,062	4,625
Water purchases	206,373	242,736
Garbage fees	95,898	94,994
Repairs and facility maintenance	13,519	45,789
General insurance	9,173	5,147
Vehicle expense	7,010	5,547
Utilities and telephone	20,657	20,067
Chemicals and inspections	14,590	10,477
TCEQ fees and fines	3,639	-
Depreciation & amortization	155,900	156,191
Other expense	21,866	28,975
<b>Total Operating Expenses</b>	<b>\$ 751,143</b>	<b>\$ 808,157</b>
<b>Operating Income (Loss)</b>	<b>\$ 126,299</b>	<b>\$ 79,827</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest income	1,112	553
Interest and fiscal charges	(49,388)	(49,192)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ (48,276)</b>	<b>\$ (48,639)</b>
<b>Income (loss) before contributions and transfers</b>	<b>78,023</b>	<b>31,188</b>
Operating grant		3,000
Transfers out to other funds	(35,100)	(61,075)
<b>Change in net position</b>	<b>42,923</b>	<b>(26,887)</b>
<b>Total net position, January 1</b>	<b>2,132,493</b>	<b>2,159,381</b>
<b>Total net position, December 31</b>	<b>\$ 2,175,416</b>	<b>\$ 2,132,494</b>

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**BASIC**  
**FINANCIAL STATEMENTS**

**CITY OF EAST TAWAKONI, TEXAS**  
**Statement of Net Position**  
**December 31, 2019**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Primary Government</b>	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 186,676	\$ 347,558	\$ 534,234	\$ 41,090
Sales and franchise taxes receivable	44,912		44,912	
Property taxes receivable, net of allowance of \$7,733	69,596		69,596	
Accounts receivable, net of allowance of \$9,804		90,239	90,239	
Due from primary government				5,468
Fines receivable, net	21,963		21,963	
Deposits		8,685	8,685	
Internal balances	63,350	(63,350)	-	
<b>Restricted Assets:</b>				
Cash and cash equivalents	197,009	102,598	299,607	
Certificates of deposits		49,202	49,202	
Property taxes receivable, net of allowance of \$4,784	43,058		43,058	
<b>Capital assets:</b>				
Land and Construction in Progress	32,703	7,781	40,484	
Capital assets, net of accumulated depreciation	683,965	3,110,161	3,794,126	
<b>Total Assets</b>	<b>\$ 1,343,232</b>	<b>\$ 3,652,874</b>	<b>\$ 4,996,106</b>	<b>\$ 46,558</b>
<b>LIABILITIES</b>				
Accounts payable	22,889	23,334	46,223	
Due to component unit	5,468		5,468	
<b>Payable from restricted assets:</b>				
Accrued interest	8,573	22,423	30,996	
<b>Noncurrent liabilities:</b>				
Meter deposits payable		76,602	76,602	
Capital lease payable due within one year	13,438		13,438	
Capital lease payable due in more than one year	28,509		28,509	
Notes payable due within one year		10,099	10,999	
Bonds due within one year	75,473	120,000	195,473	
Bonds due in more than one year	737,911	1,225,000	1,962,911	
<b>Total Liabilities</b>	<b>892,261</b>	<b>1,477,458</b>	<b>2,369,719</b>	<b>-</b>
<b>NET POSITION</b>				
Net invested in capital assets	(110,154)	1,762,843	1,652,689	
Restricted for debt service	220,357	125,664	346,021	
Restricted for capital improvements	28,405	26,136	54,541	
Unrestricted	312,363	260,773	573,136	46,558
<b>Total Net Position</b>	<b>\$ 450,971</b>	<b>\$ 2,175,416</b>	<b>\$ 2,626,387</b>	<b>\$ 46,558</b>

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

**CITY OF EAST TAWAKONI, TEXAS**

**Statement of Activities  
Year Ended December 31, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue And Changes in Net Position			Component Unit
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Primary Government	
<b>Governmental activities:</b>								
Administration	\$ 315,625	\$ -	\$ -	\$ 126,644	\$ (188,981)	\$ -	\$ (188,981)	\$ (2,082)
Public safety and judicial services	317,361	60,545			(256,816)		(256,816)	
Interest on long-term debt	16,440				(16,440)		(16,440)	
<b>Total governmental activities</b>	<b>649,426</b>	<b>60,545</b>		<b>126,644</b>	<b>(462,237)</b>	<b>-</b>	<b>(462,237)</b>	<b>(2,082)</b>
<b>Business-type activities:</b>								
Water and sewer services	800,531	877,442				76,911	76,911	
<b>Total business-type activities</b>	<b>800,531</b>	<b>877,442</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,911</b>	<b>76,911</b>	<b>-</b>
<b>Total all activities</b>	<b>\$1,449,957</b>	<b>\$ 937,987</b>	<b>\$ -</b>	<b>\$ 126,644</b>	<b>\$ (462,237)</b>	<b>\$ 76,911</b>	<b>\$ (385,326)</b>	<b>\$ (2,082)</b>
General revenues:								
Ad valorem taxes					237,281		237,281	
Sales taxes					57,063		57,063	28,532
Franchise taxes					35,697		35,697	
Miscellaneous income and contributions					60,971		60,971	
Unrestricted investment earnings					1,704	1,112	2,816	18
Transfers in (out)					59,100	(35,100)	24,000	(24,000)
					<b>451,816</b>	<b>(33,988)</b>	<b>417,828</b>	<b>4,550</b>
					(10,421)	42,923	32,502	2,468
					<b>461,392</b>	<b>2,132,493</b>	<b>2,593,885</b>	<b>44,090</b>
					<b>\$ 450,951</b>	<b>\$ 2,175,416</b>	<b>\$ 2,626,387</b>	<b>\$ 46,558</b>

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

**CITY OF EAST TAWAKONI, TEXAS**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2019**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Fund Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 186,676	\$ -	\$ -	\$ 186,676
Sales and franchise taxes receivable	44,912			44,912
Property taxes receivable, net of allowance of \$7,733	69,596			69,596
Due from other funds	16,447	46,903		63,350
<b>Restricted assets:</b>				
Cash and cash equivalents		168,605	28,405	197,010
Property tax receivable, net of allowance of \$4,922		43,058		43,058
<b>Total Assets</b>	<b><u>\$ 317,631</u></b>	<b><u>\$ 197,432</u></b>	<b><u>\$ 28,405</u></b>	<b><u>\$ 604,602</u></b>
<b><u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u></b>				
<b><u>LIABILITIES</u></b>				
Accounts payable	22,890			22,890
Due to component unit	5,468			5,468
<b>Total Liabilities</b>	<b><u>28,358</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>28,358</u></b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>				
Unavailable property tax revenue	59,784	38,209	-	28,358
<b>FUND BALANCES</b>				
Restricted for:				
Capital improvements			28,405	28,405
Debt service		220,357		220,357
Assigned for:				
Public safety and judicial services	18			18
Non-spendable:				
Due from other funds	16,447			16,447
Unassigned	213,024			213,024
<b>Total Fund Balances</b>	<b><u>229,489</u></b>	<b><u>220,357</u></b>	<b><u>28,405</u></b>	<b><u>478,251</u></b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b><u>\$ 317,631</u></b>	<b><u>\$ 258,566</u></b>	<b><u>\$ 28,405</u></b>	<b><u>\$ 604,602</u></b>

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

**CITY OF EAST TAWAKONI, TEXAS**  
**Reconciliation of the Balance Sheet**  
**Of Governmental Funds to the Statement of Net Position**  
**Year Ended December 31, 2019**

<b>Total fund balances – governmental funds</b>	<b>\$</b>	<b>478,521</b>
 <b>Amounts reported for governmental activities in the statement of net positions are different because:</b>		
Capital assets of \$1,909,794 , net of accumulated depreciation of \$(1,193,126) are not current financial resources and therefore are not reported in the fund balance sheet.		716,668
Other long-term assets (receivables) are not available to pay current-period expenditures and, therefore, are not reported in the funds. These include net fines receivable in the amount of \$21,963.		21,963
Deferred inflows of resources present an acquisition of net position that applies to a future period and therefore are not recognized as an inflow of resources until the period that they amount become available. These include unavailable property taxes in the amount of \$97,994.		97,994
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund balance sheet. This amount consists of general long-term debt in the amount of \$(885,332), and accrued interest in the amount of (\$8,573).		(863,905)
		(863,905)
 <b>Net Position of Governmental Activities</b>	 <b>\$</b>	 <b><u>461,392</u></b>

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

**CITY OF EAST TAWAKONI, TEXAS**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended December 31, 2019**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Fund (Capital Projects Fund)</u>	<u>Total Memorandum Only</u>
<b>REVENUES:</b>				
Ad valorem taxes	\$ 210,880	\$ 105,566	\$	\$ 316,446
Franchise taxes	35,697			35,697
Sales tax	57,063			57,063
Permits	13,776			13,776
Fines and other fees	57,425			57,425
Grant revenue	126,644			126,644
Other income	44,426	24,000		68,644
Interest Income		1,467	237	1,704
<b>Total Revenues</b>	<u>\$ 545,911</u>	<u>\$ 131,033</u>	<u>\$ 237</u>	<u>\$ 677,181</u>
<b>EXPENDITURES:</b>				
Current:				
Administration	303,166			303,166
Public Safety and Judicial Services	300,602			300,602
Capital Outlay	10,922			10,922
Debt Service:				
Principal retirement	16,286	73,123		89,409
Interest and fiscal charges	2,357	26,875		29,232
<b>Total Expenditures</b>	<u>\$ 866,067</u>	<u>\$ 99,998</u>	<u>\$ -</u>	<u>\$ 733,331</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(87,422)</u>	<u>31,035</u>	<u>237</u>	<u>(56,150)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	35,099			35,099
Sale of assets	2,770			2,770
<b>Net Other Financing Sources (Uses)</b>	<u>37,869</u>	<u>-</u>	<u>-</u>	<u>37,869</u>
<b>Net change in fund balances</b>	(49,553)	31,035	237	(18,281)
<b>Fund Balance, January 1</b>	<u>\$ 279,042</u>	<u>\$ 189,322</u>	<u>\$ 28,168</u>	<u>\$ 496,532</u>
<b>Fund Balance, December 31</b>	<u>\$ 229,489</u>	<u>\$ 220,357</u>	<u>\$ 28,405</u>	<u>\$ 478,251</u>

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

**CITY OF EAST TAWAKONI, TEXAS**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**Year Ended December 31, 2019**

**Net change in fund balances – total governmental funds** **\$ (18,281)**

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

Governmental funds report capital outlays as expenditures, while in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense of \$84,915 exceeded Capital expenditures of \$10,922 in the current period. (73,993)

Repayment of long-term debt is reported as an expenditure for governmental funds, but is reported as a reduction of debt in the statement of activities. 90,277

Some expenses in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These include the net decrease in accrued interest on debt of \$821. 773

Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. This includes the change in unavailable deferred ad valorem taxes of (\$1,009) and court fines receivables \$3,020 and proceeds from debt. (9,197)

**Change in net position of governmental activities** **\$ 10,421**

**CITY OF EAST TAWAKONI, TEXAS**  
**Statement of Fund Net Position**  
**Proprietary Fund**  
**December 31, 2019**

	<b>Enterprise Fund</b>
	<b>Water &amp; Sewer</b>
	<b>Fund</b>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and cash equivalents	\$ 253,525
Accounts receivable, net of allowance of \$8,939	96,635
<b>Restricted Assets:</b>	
Cash and cash equivalents	83,869
Certificates of deposits	48,697
<b>Total current assets</b>	<b>\$ 482,726</b>
<b>Noncurrent Assets:</b>	
<b>Capital Assets:</b>	
Land	7,781
Capital Assets, net of accumulated depreciation	3,241,075
<b>Other Assets:</b>	
Deposits	8,685
<b>Total noncurrent assets</b>	<b>3,257,541</b>
<b>Total Assets</b>	<b>\$ 3,740,267</b>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts payable	558
Due to other funds	28,953
<b>Payable from restricted assets:</b>	
Accrued interest payable	23,485
Notes payable	9,708
Bonds payable	115,000
<b>Total current liabilities</b>	<b>\$ 177,704</b>
<b>Noncurrent Liabilities</b>	
Meter deposits payable	74,970
Notes payable	10,099
Bonds payable	1,345,000
<b>Total non-current liabilities</b>	<b>1,430,069</b>
<b>Total Liabilities</b>	<b>\$ 1,607,773</b>
<b>NET POSITION</b>	
Net invested in capital assets	1,769,049
Restricted for debt service	106,648
Restricted for capital improvements	25,918
Unrestricted	230,879
<b>Total Net Position</b>	<b>\$ 2,132,494</b>

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

**CITY OF EAST TAWAKONI, TEXAS**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Fund**  
**Year Ended December 31, 2019**

		<b>Enterprise Fund</b>
		<b>Water and Sewer Fund</b>
<b>OPERATING REVENUES:</b>		
Water sales	\$	591,175
Sewer sales		136,754
Garbage fees		126,457
Penalties		20,510
Other revenues		13,088
<b>Total Operating Revenues</b>	\$	887,984
<b>OPERATING EXPENSES:</b>		
Salaries and benefits		193,609
Professional fees		4,625
Water purchases		242,736
Garbage fees		94,994
Repairs and facility maintenance		45,789
General insurance		5,147
Vehicle expense		5,547
Utilities and telephone		20,067
Chemicals and inspections		10,477
TCEQ fees and fines		-
Depreciation & amortization		156,191
Other expense		28,975
<b>Total Operating Expenses</b>	\$	808,157
<b>Operating Income (loss)</b>	\$	79,827

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

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**CITY OF EAST TAWAKONI, TEXAS**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Fund**  
**Year Ended December 31, 2019**

	<b>Enterprise Fund</b>
	<b>Water and Sewer Fund</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Interest income	\$ 553
Interest and fiscal charges	(49,192)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ (48,639)</b>
<b>Income (loss) before contributions and transfers</b>	<b>31,188</b>
Operating grant	3,000
Transfer out to general fund	(61,075)
	<b>(26,887)</b>
<b>Change in net position</b>	<b>(26,887)</b>
<b>Net position, January 1</b>	<b>\$ 2,159,381</b>
<b>Net position, December 31</b>	<b>\$ 2,132,494</b>

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

**CITY OF EAST TAWAKONI, TEXAS**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**Year Ended December 31, 2019**

	<b>Enterprise Fund</b>
	<b>Water and Sewer Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from customers and users	\$ 870,171
Cash paid to suppliers	(439,471)
Cash paid to employees	(193,609)
<b>Net cash provided (used) by operating activities</b>	<b>237,091</b>
<b>Cash flows from noncapital financing activities:</b>	
Due to/from other funds	28,953
Operating transfers (to) from other funds	(61,075)
<b>Net cash provided (used) for noncapital financing activities</b>	<b>(32,122)</b>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital asset	\$ (34,907)
Principal paid on bonds and certificates of obligation	(110,000)
Interest paid on debt	(49,192)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(194,099)</b>
<b>Cash flows from investing activities:</b>	
Interest on deposits and investments	553
<b>Net cash provided (used) by investing activities</b>	<b>553</b>
<b>Net changes in cash and cash equivalents</b>	11,423
<b>Cash and cash equivalents, January 1</b>	<b>325,971</b>
<b>Cash and cash equivalents, December 31</b>	<b>\$ 337,394</b>

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

**CITY OF EAST TAWAKONI, TEXAS**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**Year Ended December 31, 2019**

**Reconciliation of Net Income (Loss) to Net Cash Provided (Used)**  
**By Operating Activities**

	<b>2019</b>
<b>Operating income (loss)</b>	\$ 79,827
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>	
Depreciation and amortization	156,191
(Increase) decrease in accounts receivable (net)	(12,354)
Increase (decrease) in accounts payable and accrued expenses	(5,459)
Increase (decrease) in customer deposits	18,886
	157,264
<b>Total Adjustments</b>	
<b>Net cash provided (used) by operating activities</b>	\$ 237,091

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

**City of East Tawakoni, Texas**  
**Notes to Basic Financial Statements**  
**December 31, 2019**

**1. Introduction and Summary of Significant Accounting Policies**

The financial statements of the City of East Tawakoni, Texas and its component unit, East Tawakoni Economic Development Corporation, collectively identified as the “City” have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the City’s financial activities for the fiscal year ending December 31, 2019.

**(A) Reporting Entity and Related Organizations**

The City is a municipal corporation governed by and elected mayor and five member City Council. The City provides general administration, public works, public safety and judicial services to its residents.

The City Council has the authority to make decisions, appoint administrators and managers, significantly influence operations; and has the primary accountability for fiscal matters. The City is not included in any other governmental “reporting entity” as defined in Section 2100, codification of Governmental Accounting and Financial Reporting Standards.

The criteria used by the City for including activities in preparing its financial statements is in conformity with Governmental Accounting Standards Board Statements 14 and 39 as amended by GASB Statement 61. “*The Financial Reporting Entity: Omnibus*”. Based on these criteria the City has the following component unit at December 31, 2019:

**Discretely Presented Component Unit:**

East Tawakoni Economic Development Corporation (ETEDC) – ETEDC serves all citizens of the government and is governed by a board appointed by the City Council. The City Council may remove the ETEDC board for cause. ETEDC is a nonprofit corporation governed by Section 4B of the Texas Act of 1979 and organized for the public purpose of the promoting and development of industrial and manufacturing enterprises to promote and encourage employment and the public welfare of the City of East Tawakoni, Texas. ETEDC does not prepare separate financial statements. ETEDC is reported as a discretely presented component unit in the government-wide financial statements.

## 1. Introduction and Summary of Significant Accounting Policies – continued

### (B) Government-Wide and Fund Financial Statements

#### *Government-wide financial statements*

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, general supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expense of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

#### *Fund financial statements*

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and proprietary funds are reported in separate columns with composite columns for non-major funds.

### (C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Proprietary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

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

## 1. Introduction and Summary of Significant Accounting Policies – continued

### (C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond and capital lease principal and interest which are reported as expenditures in the year due. Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes, grant revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for the proprietary fund are charges to customers for water and sewer sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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

### (D) Fund Types and Major Funds

#### *Governmental Funds*

The City reports the following major governmental funds:

*General Fund* – reports as the primary operating fund of the City. This fund is used to account for all financial resources not reported in other funds.

*Debt Service Fund* – accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt. The City annually levies ad valorem taxes restricted for the retirement of general obligation bonds, capital leases, and interest. This fund reports all such ad valorem taxes collected.

The City reports the following non-major governmental fund:

*Capital Projects Fund* – accounts for the cost of construction and related funding sources of the street project. Capital improvements are authorized by City ordinances. The project was funded through the issuance of Series 2004 General Obligation Bonds.

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

## 1. Introduction and Summary of Significant Accounting Policies – continued

### (D) Fund Types and Major Funds (continued)

#### *Proprietary Funds*

The City reports the following major proprietary fund:

*Water and Sewer Fund* – accounts for the operating activities of the City’s water and sewer utilities services.

### (E) Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity

#### Cash and Investments

Outstanding cash and cash equivalents at December 31, 2019 consists principally of interest bearing bank accounts and certificates of deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, the City considers unrestricted and restricted cash and investments purchased by the City within three months of maturity to be cash equivalents.

Back certificates of deposit are carried at cost which approximates fair value.

Restrictions on cash equivalents and certificates of deposit are as follows at year-end:

Restricted for debt service	\$	220,357
Restricted for capital projects		28,405
Total restricted amounts	\$	<u>248,762</u>

#### Inventories and Prepaids

Inventories consisting of expendable supplies held for consumption in governmental funds are reported using the expenditure method. Under this method, amounts paid for these items are reported as expenditures when purchased. Inventories, when material, are recorded at cost stated on a first-in, first-out basis in the government-wide financial statements.

Prepaids record payments to vendors that benefit future reporting periods and are reported on the consumption basis at cost. Prepaids are similarly reported in government-wide and fund financial statements.

#### Capital Assets, Depreciation, and Amortization

The City’s property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost, or if historical cost is not available, they are stated at estimated historical cost. These assets are comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$1,000 or more as purchase and construction outlays occur and \$5,000 for road upgrades.

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

## 1. Introduction and Summary of Significant Accounting Policies – continued

### (E) Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity (continued)

The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	40
Road infrastructure	15
Water & sewer infrastructure & rights	25 – 40
Vehicles	5-7
Furniture, machinery, and equipment	3-10

#### Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The City has no items considered to be deferred outflows of resources at year-end.

In addition to liabilities, the statements 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 and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City has only one item that qualifies for reporting in this category. It is the unavailable property tax revenue reported in the governmental funds balance sheet.

#### Long-term Debt, Bond Discounts/Premiums, and Issuance Costs

In the government-wide, proprietary, and component unite financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method. Bond issuance costs are expensed as incurred.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

## 1. Introduction and Summary of Significant Accounting Policies – continued

### (E) Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity (continued)

#### **Fund Equity**

The City has implemented GASB Statement 54 for the classification of fund balances in the governmental funds. The fund balances of governmental are defined as follows:

*Non-spendable* – amounts that cannot be spent either because they are in non-spendable form, such as inventory or prepaid items or because they are legally or contractually required to be maintained intact.

*Restricted* – amounts that can be spent only for specific purposes because of constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

*Committed* – amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority of the City. Commitments may be established, modified, or rescinded only through a formal resolution of the City Council.

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes that have been established by the City Council.

*Unassigned* – all other spendable amounts in the general fund.

When the expenditures are incurred for which both restricted and unrestricted fund balance is available the City considers restricted funds to have been spent first. Similarly, committed funds are considered to have been spent first when there is a choice for the use of less restricted funds, then assigned and then unassigned funds.

#### **Compensated Absences**

Employees of the City are entitled to paid vacation, and paid sick leave, depending on the length of service. Accrued vacation leave is not paid upon termination of employment. Therefore, compensated absences are not accrued in the government-wide or proprietary fund financial statements.

Full-time employees also earn sick leave time. Unused sick leave is not paid upon termination of employment.

## **1. Introduction and Summary of Significant Accounting Policies – continued**

### **(F) Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage of and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a participant in the Texas Municipal League (TML) Employees Health Insurance Fund, Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operating by the Texas Municipal League Board for the benefit of individual governmental units located within Texas. The agreement provides that the trust established by TML will be self-sustaining through member premiums. The City pays annual premiums to TML for worker's compensation, general and auto liability, property damage, employee dishonesty, public official's liability, and law enforcement professional liability coverages. The City does not anticipate any material additional insurance cost assessments as a result of participation in this risk management pool. There were no reductions in insurance coverage from the prior year. Settlements have not exceeded insurance coverage during any of the past three fiscal years.

### **(G) Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts disclosures. Accordingly, actual results could differ from these estimates.

## **2. Stewardship, Compliance and Accountability**

### **(A) Budgetary Information**

The City Administrator and the City Secretary submit an annual budget to the City Council in accordance with the laws of the State of Texas. The budget is presented to the City Council for review, budget workshops are held with the various City department officials, and public hearings are held to address priorities and the allocation of resources. Generally in September, the City Council adopts the annual fiscal year budgets for all City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund's approved budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personnel services and related fringe benefits, supplies, other services and charges, capital outlay, transfers and debt service. Expenditures may not exceed appropriations at the department level. Within this control level, management may transfer appropriations between line items. Budget revisions and line item transfers are subject to final review by the City Council.

The budgets for the operating funds are prepared on the cash and expenditure basis. Revenues are budgeted in the year receipt is expected; and expenditures, which do not include encumbrances, are budgeted in the year that the liability is to be incurred. The General Fund budget and actual required supplementary information is presented on this basis. Unexpended appropriations for annually budgeted funds lapse at fiscal year-end.

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

### 3. Deposits and Investments

**Custodial credit risk** for deposits is the risk that in the event of a bank failure, the City’s deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City’s policy requires deposits to be fully secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation (FDIC) insurance. Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health. Collateral agreements must be approved prior to deposit of funds. The City Council approves authorized depository institutions based on the recommendations of City management.

Deposits of the City of East Tawakoni, Texas (primary government) are fully insured or collateralized with securities held by the City, its agent, or by the pledging financial institution’s trust department or agent in the name of the City.

Deposits of the component unit, East Tawakoni Economic Development Corporation (ETEDC) are fully insured by Federal Deposit Insurance Corporation (FDIC) insurance at year-end.

As of December 31, 2019, the City’s reporting entity has the following investments:

Type of Investments	Fair Value/ Carrying Amount	Cost	Credit Rating(1)	Days to Maturity
<b>Primary Government:</b>				
Certificates of deposit	\$ 28,405	\$ 28,405	Exempt	78 days
<b>Proprietary Fund:</b>				
Certificates of deposit	\$ 49,203	\$ 49,203	Exempt	56 days
Certificates of deposit	\$ 26,136	\$ 26,136	Exempt	78 days

(1) Ratings are provided where applicable to indicate associated **credit risk**.

#### Investment Policies

The Public Funds Investment Act (PFIA) (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. The PFIA governs the City’s investment policies and types of investments. The City’s management believes that it complied with requirements of the PFIA and the City’s investment policies.

**Credit risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City’s investing activities are managed under the custody of the Mayor, City Secretary and Mayor Pro-tem. Investing is performed in accordance with investment policies adopted by the City Council complying with state statutes. City investment policy and state statute generally permit the City to invest in certificates of deposit, and public funds investment pools, obligations of the United States or its agencies and instrumentalities, and obligations of states, agencies, counties, cities and other political subdivisions having been rated as to investment quality by an equivalent. During the year ended December 31, 2019, the City did not own any types of securities other than those permitted by statute.

### 3. Deposits and Investments – continued

**Interest rate risk** is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. City policy generally requires investment maturities to correspond to anticipated cash flow needs. The City’s investment policy states that the risk of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

**Concentration of credit risk** is the risk of loss attributed to the magnitude of the City’s investment in a single issuer. City policy requires that the risk of principal loss in the portfolio as a whole shall be minimized by diversifying investment types according to the following limitations.

<u>Investment Type</u>	<u>% of Portfolio</u>
U. S. Treasury Notes/Bonds/Bills	100%
Certificates of Deposit	100%
U. S. Agencies	50%
Local Government Investment Pools	50%
State of Texas Obligations & Agencies	20%
Local Government Obligations	20%

Following is a list of investments that represent more than 5% of total primary government investments at December 31, 2019:

<u>Description</u>	<u>Carrying Amount</u>	<u>Percentage of Portfolio</u>
Certificates of Deposit	\$103,744	100%

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The City’s policy on principal protection and safekeeping states that all bank and savings and loan associations deposits and investments of City funds shall be secured by pledged collateral with a market value equal to the principal plus accrued interest less the amount insured by FDIC.

#### 4. Receivables

##### *Enterprise Receivables, Uncollectible Accounts and Deferred Inflows*

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. The Enterprise Fund reports accounts receivable net of an allowance for uncollectible accounts and revenues net of uncollectible amounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days.

Water and sewer receivables are as follows at year-end:

Customer accounts receivable	\$100,266
Allowance for uncollectible account	<u>(10,027)</u>
Receivables, net of allowance	<u>\$ 90,239</u>

##### *Property Taxes Receivable, Deferred Inflows, and Property Tax Calendar*

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real property located within the City. Appraised values are established by the Rains County Appraisal District at 100% of market value. As of January 1, 2019, all real property assessed at a net taxable value of \$54,580,973.

The property tax rate for the year ended December 31, 2019 was .6103 per \$100 of the assessed valuation on taxable property. Following is a summary of the overall tax rate as levied by fund type:

Maintenance and operations-General Fund	.4345
Debt Service Fund	.1458
Total tax rate	.6103

The property tax levy for the year ending December 31, 2019 was \$305,988. Property taxes are recorded as receivables in each of the respective funds on the tax levy date with appropriate allowances for estimated uncollectible amounts. In the governmental fund financial statements, property taxes are recorded as revenues when they meet the measurable and available criteria described in Note 1 C.

Deferred inflows of resources represent unavailable property taxes receivable which do not meet the measurable and available criteria at year-end.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City with appropriate allowances for estimated uncollectible amounts regardless of when cash is received. Over time substantially all property taxes are collected.

#### 4. Receivables – continued

The City’s full year property tax calendar is as follows:

October 1-Full year tax levy assessed for the current fiscal year-taxes are due and payable.

January 1-Tax lien is attached to property to secure the payment of taxes, and penalty and interest as applicable.

February 1-Penalty and interest charges begin to accrue on unpaid past due taxes.

July 1-Taxes become delinquent and are subject to attorney fees incurred for collection.

##### *Allowance for Uncollectible Taxes*

The City records an allowance for uncollectible property taxes in order to estimate the amount of taxes that will ultimately prove to be uncollectible. Management has determined that an allowance in the amount of ten percent (10%) of the property taxes receivable in each of the applicable fund types should be adequate to provide for uncollectible property taxes. No provisions are made for uncollectible sales tax receivables, or grants receivable as management estimates that these amounts will be fully collectible.

##### *Fines and Court Costs Receivable and Related Allowances*

In the governmental fund financial statements, fines and court costs are recognized as revenue on the cash basis. In the government-wide financial statements, the City records fines and court costs receivable net of amounts estimated to be uncollectible and net of any amounts that would be due to other governmental entities as a result of collection. Management has determined the estimate of uncollectible fines and court costs through an analysis of actual amounts collected subsequent to year end. Amounts due to other governmental entities has been determined based on distribution requirements of the State of Texas.

## 5. Capital Assets

The following table provides a summary of changes in capital assets, including assets recorded under capital leases:

	Balance December 31, 2018	Increases	Decreases	Balance December 31, 2019
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets – non depreciable:				
Land	\$ 32,703	\$ -	\$ -	\$ 32,703
Construction in progress	-			-
Non-depreciable capital assets	<u>32,703</u>	<u>-</u>	<u>-</u>	<u>32,703</u>
Depreciable capital assets:				
Building & Other Improvement	605,857	5,740		611,597
Road Infrastructure	1,105,195			1,105,195
Vehicles	100,714		21,000	79,714
Furniture & Equipment	54,402	5,182	7,773	51,811
Total capital assets	<u>1,898,871</u>	<u>10,922</u>	<u>28,773</u>	<u>1,881,020</u>
Less: accumulated depreciation:	<u>1,108,210</u>	<u>84,914</u>	<u>28,773</u>	<u>1,164,351</u>
Governmental Activities Capital Assets, net	<u>\$ 790,661</u>	<u>\$ (73,992)</u>	<u>\$ -</u>	<u>\$ 716,669</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets – non depreciable:				
Land	\$ 7,781	\$ -	\$ -	\$ 7,781
Construction in progress	-			-
Non-depreciable capital assets	<u>7,781</u>	<u>-</u>	<u>-</u>	<u>7,781</u>
Depreciable capital assets:				
Building & improvements	10,212			10,212
Water & sewer infrastructure	5,855,144	24,986		5,880,130
Vehicles	85,662			85,662
Equipment	124,018			124,018
Total capital assets	<u>6,082,817</u>	<u>24,986</u>	<u>-</u>	<u>6,107,803</u>
Less: accumulated depreciation	<u>2,833,961</u>	<u>155,900</u>	<u>-</u>	<u>2,989,861</u>
Business-type Activities Capital Assets, net	<u>3,248,856</u>	<u>(130,914)</u>	<u>-</u>	<u>3,117,942</u>
Primary Government Capital Assets, net	<u>\$ 4,039,517</u>	<u>\$ (204,906)</u>	<u>\$ -</u>	<u>\$ 3,834,611</u>

Depreciation expense for governmental activities was charged to functions of the City as follows:

Administration	\$ 12,459
Street Maintenance	55,696
Public Safety	16,759
Total	<u>\$ 84,914</u>

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

## 6. Debt

### *Refunded Debt*

During 2014, the City issued general obligation refunding bonds of \$1,513,840 (par value) with an interest rate of 3.162% as a current refunding of the 2004 general obligation bonds and the Series 2000 tax and surplus revenue certificates of obligation with interest rates ranging from 4.75% to 5.119%, and a par value of \$1,077,000. The 2004 general obligation bonds mature on July 1, 2020 and the Series 2000 tax and surplus revenue certificates of obligation mature on February 1, 2040.

### *Long-term Debt Supporting Governmental Activities*

General obligation bonds issued by the City are back by the full faith and credit of the City. These bonds are to be repaid with property taxes levied for debt service and recorded in the Debt Service Fund. The City's borrowing capacity is restrained by maintaining the City's debt at a responsible level. Current requirements for principal and interest of these obligations are accounted for in the Debt Service Fund. Other debt issued to support governmental activities are capital lease obligations which are primarily paid from the General Fund.

Other debt issued to support governmental activities is a capital lease obligation which is secured by the equipment purchases with the capital lease proceeds.

### *Long-term Debt Supporting Business-Type Activities*

Revenue bonds consist of debt issued to support activities of the Enterprise (water and sewer) Fund. In addition to being backed by the full faith and credit of the City, revenue bonds are secured by a lien on and a pledge of surplus revenues of the water and sewer system.

Interest expense for business-type activities and the Enterprise (water and sewer) Fund was \$49,388 for the year.

## 6. Debt – continued

The following is a summary of changes in long-term debt for the year ended December 31, 2019:

Description and purpose	Balance 12/31/18	Issued	Retired	Balance 12/31/19	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Refunding Bonds Series 2014, 3.162% 2016-2028	\$ 886,507	\$ -	\$ 73,123	\$ 813,384	\$ 75,473
Government Capital Corporation Vehicle Capital Lease, 5.78%	59,102		17,154	41,948	13,438
Total Governmental Activities	<u>\$ 945,609</u>	<u>\$ -</u>	<u>\$ 90,277</u>	<u>\$ 855,332</u>	<u>\$ 88,911</u>
<b>Business-type Activities:</b>					
Tax & Waterworks & Sewer System Surplus Revenue Certificates of Obligation Series 2006, 2.45% to 3.25%	695,000		80,000	615,000	80,000
Tax & Water & Sewer System Surplus Revenue Certificates of Obligation Series 2010, .35% to 3.70%	765,000		35,000	730,000	40,000
<b>Commercial Bank of Texas</b>	<u>19,807</u>		<u>9,708</u>	<u>10,099</u>	<u>10,099</u>
Total Business-type Activities	<u>\$ 1,479,807</u>	<u>\$ -</u>	<u>\$ 124,708</u>	<u>\$ 1,355,099</u>	<u>\$ 130,099</u>
Total Primary Government Long-term Debt	<u>\$ 2,425,416</u>	<u>\$ -</u>	<u>\$ 214,985</u>	<u>\$ 2,210,431</u>	<u>\$ 219,010</u>

The above capital lease agreement represents a general obligation of the City, and it secured by the vehicle and equipment acquired by the capital lease proceeds. Current requirements for principal and interest of the capital lease obligation are accounted for in the appropriate fund for which the liability was incurred. The asset under capital lease is recorded as a vehicle with a total cost of \$33,769 and accumulated depreciation of \$33,769. Amortization expense is included in depreciation expense.

### *Debt Service Requirements to Maturity*

The annual debt service requirements to maturity for bonded debt and capital lease obligations are as follows at year-end:

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

**6. Debt – continued**

*Governmental Activities*

Fiscal Year Ending December 31	Bonds Payable		Capital Lease Obligation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 75,473	\$ 24,526	\$ 13,438	\$ 1,677	\$ 88,911	\$ 26,203
2021	42,660	22,658	13,975	1,140	56,635	23,798
2022	44,348	21,283	14,535	580	58,883	21,863
2023	46,041	19,854			46,041	19,854
2024	46,802	18,386			46,802	18,386
2025-2029	258,534	69,479			258,534	69,479
2030-2034	299,526	30,738			299,526	30,738
Totals	<u>\$ 813,384</u>	<u>\$ 206,924</u>	<u>\$ 41,948</u>	<u>\$ 3,397</u>	<u>\$ 855,332</u>	<u>\$ 210,321</u>

*Business-type Activities*

Fiscal Year Ending December 31	Bonds Payable		Notes Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 120,000	\$ 43,055	\$ 10,099	\$ 304	\$ 130,099	\$ 43,359
2021	120,000	39,426			120,000	39,426
2022	125,000	35,630			125,000	35,630
2023	130,000	31,618			130,000	31,618
2024	135,000	27,401			135,000	27,401
2025-2029	715,000	67,768			715,000	67,768
Totals	<u>\$ 1,345,000</u>	<u>\$ 244,898</u>	<u>\$ 10,099</u>	<u>\$ 304</u>	<u>\$ 1,355,099</u>	<u>\$ 245,202</u>

*Revenue Bond Covenant Compliance*

As stated in the ordinance authorizing the issuance of general obligation bonds (bonds accounted for in the debt service fund) and revenue bonds (bonds accounted for in the enterprise fund), the City is required to establish and maintain separate bond reserve accounts for each bond issue. These bond reserve accounts are used to accumulate resources set aside to make up potential future deficiencies in the revenue bond interest and sinking account. These reserve requirements, as stated in the original bond ordinances, are as follows:

City of East Tawakoni	
Tax and Water and Sewer System Surplus Revenue	
Certificates of Obligation, Series 2006	
Reserve Requirement	\$ 89,601
Account Balance at year-end	<u>89,601</u>
Excess	<u>\$ -</u>

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

**6. Debt – continued**

City of East Tawakoni	
Tax and Water and Sewer System Surplus Revenue	
Certificates of Obligation, Series 2010	
Reserve Requirement	\$ 52,821
Account Balance at year-end	48,619
Deficiency	<u>\$ (4,202)</u>
City of East Tawakoni	
General Obligation Bonds, Series 2014	
Reserve Requirement	\$ 88,333
Account Balance at year-end	168,605
Excess	<u>\$ 80,272</u>

**7. Retirement Plan**

**Plan Description**

The City provides pension benefits for all its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent, multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS’ website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provision for the City were as follows:

	Plan Year	
	<u>2014</u>	<u>2013</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	10	10
Service retirement eligibility (expressed as age/years of service)	60/10, 0/25	60/10, 0/25
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

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

## **7. Retirement Plan - continued**

### **Benefits**

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are at 100% of the employee's accumulated contributions. In addition, the City can grant as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

### **Contributions**

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) cost method. (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both are the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

## 7. Retirement Plan - continued

### Annual Pension Cost

For the year ended December 31, 2019, the government's annual pension cost of \$16,015 for TMRS was equal to the government's required and actual contributions.

#### Three-Year Trend Information:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Actual Contributions Made	Net Pension Obligation (Asset)
12/31/13	\$ 23,446	100%	23,446	-0-
12/31/14	\$ 14,604	100%	14,604	-0-
12/31/15	\$ 16,015	100%	16,015	-0-

The required contribution rates for fiscal year 2018 were determined as part of the December 31, 2012 and 2013 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

<u>Valuation Date</u>	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	20.1 years; closed period	25.2 years; closed period	17.0 years; closed period
Amortized Period for new Gains/Losses	12 years	25 years	13 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

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

**7. Retirement Plan – continued:**

**Funded Status and Funding Progress**

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2014 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2014 TMRS Comprehensive Annual Financial Report (CAFR).

Schedule of Funding Progress

		Actuarial					UAAL as a
Actuarial	Actuarial	Accrued		Unfunded			Percentage
Valuation	Value of	Liability	Funded	AAL	Covered		of
Date	Assets	(AAL)	Ratio	(UAAL)	Payroll		Payroll
12/31/2013	\$585,340	\$589,683	99.3%	\$4,343	\$226,335		1.9%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to a continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**Supplemental Death Benefits Fund**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operating 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. A general description of the SDBF can be found in the footnotes of the TMRS comprehensive annual financial report which can be obtained as noted in the “plan description” section above.

## **7. Retirement Plan – continued:**

### **Supplemental Death Benefits Fund – continued**

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 postemployment benefit," or OPEB.

### **Contributions**

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

The City's contribution to the TMRS SDBF for the years ended 2016, 2014 and 2013 were \$610, \$571 and \$610, respectively, which equaled the required contributions each year.

## **8. Litigation**

The City is involved in other litigation arising in the ordinary course of business. It is management's belief that any liability resulting from such litigation would not be material in relation to the City's financial position.

## **9. Contingencies and Commitments**

The City participates in various state and federal grant programs and contracts which are subject to financial and compliance audits by the grantors or their representatives. Audits of these programs for the year ended December 31, 2019 have not been conducted. Accordingly, the City's compliance with applicable grant and contract requirements will be established at some future date. The City expects that costs disallowed by these various awarding agencies, if any, would be minimal.

The City has entered into a contract for garbage collection services with Republic Malloy. During fiscal year 2019, the City spent \$95,898 on garbage collection services.

The City has entered into a contract for purchase of water with City of Emory, Texas. The contract was signed for a 40 year period on June 12, 1973. The contract has been renewed. During fiscal year 2019, the City spent \$206,373 on water purchases.

## 9. Contingencies and Commitments - continued

The City has entered into a Street Improvement Project with East Tawakoni Economic Development Corporation (ETEDC). ETEDC has committed \$244,224 to support the Street Improvement Project. ETEDC agreed to pay \$24,000 for 10 years commencing on June 30, 2005 and terminating on June 30, 2014. The ETEDC has not signed a formal extension of this agreement but per management it will continue to pay \$24,000 per year to the City for street improvements.

## 10. Balances and Transfers/Payments Within the Reporting Entity

### *Receivables and Payables*

Generally, outstanding balances between funds reported as “due to/from other funds” in the governmental fund financial statements include outstanding charges by one fund to another for services or goods, and other miscellaneous receivables/payables between funds. Activity between services or goods, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the fiscal year are described as “due to/from other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans).

Outstanding balances between the City’s General Fund and its Water and Sewer Fund include funds for general operating expenditures that will be transferred to the General Fund after the end of the year.

Outstanding balances between the City’s General Fund and its component units reported as “due from primary government” and “due to component unit” include sales tax collections received or due to the City at year-end that will be transferred to the component unit after the end of the year.

The following schedule reports receivables and payables within the reporting entity at year-end:

	Receivable	Payable
General Fund	\$ 16,447	\$ 5,468
Debt Service Fund	48,000	1,097
Component Unit	5,468	
Water and Sewer Fund		63,350
	<u>\$ 69,915</u>	<u>\$ 69,915</u>

### *Transfers and Payments*

Transfers and payments within the reporting entity are substantially for the purposes of funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs. The government-wide statement of activities eliminates transfers reported within governmental activities.

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

## 10. Balances and Transfers/Payments Within the Reporting Entity – continued

The following schedule reports transfers and payments within the reporting entity:

Fund	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 35,099	\$ -
Enterprise Fund		35,099
ETEDC		24,000
Debt Service Fund	24,000	
	<u>\$ 59,099</u>	<u>\$ 59,099</u>

## 11. Economic Dependence

City operations are funded by taxes and revenues provided by the residents of the City of East Tawakoni, Texas. Accordingly, the City is economically dependent on the property values and local economy of City of East Tawakoni, Texas and the surrounding area.

## 12. Segment Information

The City issues revenue bonds to support water and sewer services. The fund financial statements report a major fund with revenue supported debt for the Proprietary fund (Water and Sewer/Enterprise Fund). Services provided by this fund are described in Note 1(D).

Summarized segment financial information for water and sewer activities reported in this fund as of and for the year ended December 31, 2019 is presented as follows:

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### 13. Segment Information - continued

#### Condensed Statement of Fund Net Position

Assets	
Current assets	\$ 589,597
Capital assets, net	3,117,942
Other Assets	8,685
Total assets	<u>\$ 3,716,224</u>
Liabilities	
Current liabilities	315,808
Noncurrent liabilities	1,225,000
Total liabilities	<u>\$ 1,540,808</u>
Net Position	
Net investment in capital assets	1,762,843
Restricted	151,800
Unrestricted	260,773
Total net position	<u>\$ 2,175,416</u>

#### Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position

Water and sewer operating revenues	\$ 877,442
Depreciation and amortization expense	(155,900)
Other operating expense	(595,243)
Operating income	<u>126,299</u>
Nonoperating revenues (expenses):	
Interest expense	(49,388)
Interest income	1,112
Operating grants	-
Transfers	(35,100)
Change in net position	<u>42,923</u>
Beginning net position	<u>2,132,493</u>
Ending net position	<u>\$ 2,175,416</u>

#### Condensed Statement of Cash Flows

Net cash provided (used) by:	
Operating activities	\$ 282,482
Noncapital financing activities	28,250
Capital and related Financing activities	(199,082)
Investing activities	<u>1,112</u>
Net increase (decrease) in cash and cash equivalents	112,762
Beginning cash and cash and cash equivalents	<u>337,394</u>
Ending cash and cash and cash equivalents	<u>\$ 450,156</u>

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**REQUIRED SUPPLEMENTARY INFORMATION**

**REQUIRED SUPPLEMENTARY INFORMATION  
CITY OF EAST TAWAKONI, TEXAS  
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Ad valorem taxes	\$ 191,850	\$ 191,850	\$ 210,880	\$ 19,030
Franchise taxes	30,925	30,925	35,697	4,772
Sales tax	65,000	65,000	57,063	(7,937)
Permits	8,725	8,725	13,776	5,051
Fines and other fees	46,350	46,350	57,063	11,075
Grants			126,644	126,644
Other income	45,775	45,775	44,426	(1,349)
<b>Total Revenues</b>	388,625	388,625	<b>545,911</b>	<b>157,286</b>
<b>EXPENDITURES:</b>				
Current:				
Administration	125,075	125,075	303,166	(178,091)
Public safety and judicial services	281,310	281,310	300,602	(19,292)
Debt Service:				
Principal retirement	15,708	15,708	16,286	(58)
Interest and fiscal charges	640	640	2,357	(1,717)
Capital outlay	-	-	10,922	(10,922)
<b>Total Expenditures</b>	422,733	422,733	<b>633,333</b>	<b>(210,600)</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(34,108)	(34,108)	(87,422)	(53,314)
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of assets			2,770	(2,770)
Operating transfers in (out)	35,500	35,500	35,099	401
<b>Total Other Financing Sources (Uses)</b>	35,500	35,500	37,869	(2,389)
<b>Excess (deficiency) of revenues over (under) expenditures and other uses</b>	1,392	1,392	(49,553)	50,945
<b>Fund balance, beginning of year</b>	279,042	279,042	279,042	-
<b>Fund balance, end of year</b>	\$ 280,434	\$ 280,434	\$ 229,489	\$ 50,945

**City of East Tawakoni, Texas  
Schedule of Funding Progress  
TMRS Retirement Plan  
Most Recent Three Actuarial Valuation Dates  
Year Ended December 31, 2019**

<b>Actuarial</b>	<b>Actuarial</b>	<b>Actuarial</b>	<b>UAAL Unfunded</b>	<b>Funded</b>	<b>Covered</b>	<b>UAAL as a</b>
<b>Valuation</b>	<b>Value of</b>	<b>Accrued</b>	<b>(Over-funded)</b>	<b>Ratio</b>	<b>Payroll</b>	<b>Percentage</b>
<b>Date</b>	<b>Plan Assets</b>	<b>Liability</b>	<b>Liability</b>			<b>of Covered</b>
						<b>Payroll</b>
12/31/2011	\$ 504,566	\$ 612,555	\$ 107,989	82.4%	\$ 209,455	51.6%
12/31/2012	533,279	506,451	(26,828)	105.3%	208,960	-12.8%
12/31/2013	585,340	589,683	4,343	99.3%	226,335	1.9%

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**SUPPLEMENTARY SCHEDULES**  
**(UNAUDITED)**

**CITY OF EAST TAWAKONI, TEXAS  
SCHEDULE OF PROPERTY TAX RECEIVABLE  
YEAR ENDED DECEMBER 31, 2019(Unaudited)**

<b>Tax Roll Year</b>	<b>Fiscal Year Ended December 31</b>	<b>Outstanding Balance 12/31/19</b>
2019	2018	7,904
2018	2017	6,034
2017	2016	3,006
2015	2014	2,207
2014	2013	1,958
2013	2012	1,430
2012	2011	718
2011	2010	485
2010	2009	383
	2008 and prior	525
	Allowance for uncollectible taxes	(7,733)
	<b>Property taxes receivable, net</b>	<b>\$117,439</b>

**CITY OF EAST TAWAKONI, TEXAS  
HISTORICAL SCHEDULE OF ASSESSED PROPERTY VALUATION (NET)  
YEAR ENDED DECEMBER 31, 2019 (Unaudited)**

<b>Tax Roll Year</b>	<b>Fiscal Year Ended December 31</b>	<b>Net Taxable Valuation</b>
2019	2018	49,641,091
2018	2017	43,921,734
2017	2016	43,921,734
2016	2015	41,312,115
2015	2014	40,632,769
2014	2013	40,501,258
2013	2012	40,830,046
2012	2011	41,467,035
2011	2010	41,800,792

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**CITY OF EAST TAWAKONI, TEXAS  
HISTORICAL SCHEDULE OF PROPERTY TAX RATES  
YEAR ENDED DECEMBER 31, 2019 (Unaudited)**

<b>Tax Roll Year</b>	<b>Fiscal Year Ended December 31</b>	<b>Tax Rates</b>
2019	2018	0.6103
2018	2017	0.5903
2017	2016	0.5903
2016	2015	0.5903
2015	2014	0.5892
2014	2013	0.5892
2013	2012	0.5431
2012	2011	0.5431
2011	2010	0.4988