

CITY OF FRITCH, TEXAS
ANNUAL FINANCIAL REPORT
FOR YEAR ENDED
SEPTEMBER 30, 2019

CITY OF FRITCH, TEXAS
ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2019

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PART I

INTRODUCTORY SECTION

CITY OF FRITCH, TEXAS
PRINCIPAL CITY OFFICIALS
SEPTEMBER 30, 2019

Dwight Kirksey	Mayor
Billy Robbins	Mayor Pro-Tem
Thomas Ray	Council Member
Christopher Pierce	Council Member
James Story	Council Member
Jonas Welch	Council Member
Drew Brassfield	City Manager
Michelle Moneymaker	City Secretary

PART II
FINANCIAL SECTION



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

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fritch, Texas, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Employer Contributions, the Schedule of Changes in Total OPEB Liability and Related Ratios on pages 41 – 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. The MD&A, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The independent auditors' opinion is not affected by the omission of the MD&A.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2020, on our consideration of the City of Fritch, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Fritch, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Fritch, Texas' internal control over financial reporting and compliance.

DOSHIER, PICKENS & FRANCIS, L.L.C.

DOSHIER, PICKENS & FRANCIS, LLC
May 18, 2020

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BASIC FINANCIAL STATEMENTS

CITY OF FRITCH, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
ASSETS				
Cash and cash equivalents	\$ 426,364	\$ 1,282,394	\$ 1,708,758	\$ 168,671
Restricted cash - customer deposits	-	121,175	121,175	-
Receivables, net	97,839	509,175	607,014	-
Internal balances	(106,317)	106,317	-	-
Due from other governments	53,568	-	53,568	7,369
Net pension asset	357,892	240,685	598,577	-
Capital assets not being depreciated:				
Land	138,222	16,636	154,858	-
Construction in progress	-	936,639	936,639	-
Capital assets				
Buildings	652,741	43,455	696,196	-
Vehicles	1,115,338	176,897	1,292,235	-
Furniture and equipment	742,186	430,033	1,172,219	-
Infrastructure	358,972	10,123,564	10,482,536	-
Less: Accumulated depreciation	(2,499,399)	(5,597,119)	(8,096,518)	-
Total assets	<u>1,337,406</u>	<u>8,389,851</u>	<u>9,727,257</u>	<u>176,040</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions	9,964	6,701	16,665	-
Pension deficient earnings	63,805	42,910	106,715	-
OPEB contributions	173	116	289	-
OPEB assumption changes	1,475	992	2,467	-
Total deferred outflows of resources	<u>75,417</u>	<u>50,719</u>	<u>126,136</u>	<u>-</u>

Continued

The notes to the financial statements are an integral part of this statement.

CITY OF FRITCH, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

Continuation	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit Economic Development Corporation
LIABILITIES				
Accounts payable	\$ 31,618	\$ 76,116	\$ 107,734	\$ -
Accrued liabilities	14,018	5,948	19,966	-
Accrued interest	132	54,764	54,896	-
Payable to other governments	5,357	2,478	7,835	-
Customer deposits	-	121,175	121,175	-
Noncurrent liabilities:				
Due within one year	10,736	196,700	207,436	-
Due in more than one year	23,166	4,475,172	4,498,338	-
Total OPEB liability	24,655	16,581	41,236	-
Total liabilities	109,682	4,948,934	5,058,616	-
DEFERRED INFLOWS OF RESOURCES				
Pension economic/demographic gains	30,088	20,234	50,322	-
OPEB economic/demographic gains	5,208	3,502	8,710	-
OPEB assumption changes	1,349	907	2,256	-
Total deferred inflows of resources	36,645	24,643	61,288	-
NET POSITION				
Net investment in capital assets	499,924	1,447,105	1,947,029	-
Restricted:				
Special projects	116,485	-	116,485	-
Debt service	25,172	-	25,172	-
Unrestricted	624,915	2,019,888	2,644,803	176,040
Total net position	\$ 1,266,496	\$ 3,466,993	\$ 4,733,489	\$ 176,040

The notes to the financial statements are an integral part of this statement.

CITY OF FRITCH, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Administration	\$ 341,735	\$ 425	\$ -	\$ -
Animal control	55,052	-	-	-
Code enforcement	46	-	-	-
Municipal court	67,760	-	-	-
Museum	23,608	-	-	-
Fire	120,962	-	50,896	-
Police	457,755	68,818	-	-
Streets	143,607	-	-	-
Parks and recreation	4,758	-	-	-
Interest on long-term debt	696	-	-	-
Total governmental activities	<u>1,215,979</u>	<u>69,243</u>	<u>50,896</u>	<u>-</u>
Business-Type Activities:				
Water, wastewater, and solid waste	<u>1,659,828</u>	<u>2,216,345</u>	<u>-</u>	<u>29,968</u>
Total business-type activities	<u>1,659,828</u>	<u>2,216,345</u>	<u>-</u>	<u>29,968</u>
Total primary government	<u>\$ 2,875,807</u>	<u>\$ 2,285,588</u>	<u>\$ 50,896</u>	<u>\$ 29,968</u>
Component Unit:				
Economic Development	<u>\$ 15,516</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Property taxes
Sales and use taxes
Franchise taxes
Unrestricted investment earnings
Miscellaneous
Transfers

Total general revenues

Change in net position

Net position - beginning

Prior period adjustment

Net position - beginning as restated

Net position - ending

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
\$ (341,310)	\$ -	\$ (341,310)	\$ -
(55,052)	-	(55,052)	-
(46)	-	(46)	-
(67,760)	-	(67,760)	-
(23,608)	-	(23,608)	-
(70,066)	-	(70,066)	-
(388,937)	-	(388,937)	-
(143,607)	-	(143,607)	-
(4,758)	-	(4,758)	-
(696)	-	(696)	-
<u>(1,095,840)</u>	<u>-</u>	<u>(1,095,840)</u>	<u>-</u>
<u>-</u>	<u>586,485</u>	<u>586,485</u>	<u>-</u>
<u>-</u>	<u>586,485</u>	<u>586,485</u>	<u>-</u>
<u>(1,095,840)</u>	<u>586,485</u>	<u>(509,355)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,516)</u>
444,832	-	444,832	-
303,039	-	303,039	43,332
102,882	-	102,882	-
-	183	183	2,608
78,725	123,345	202,070	499
194,518	(194,518)	-	-
<u>1,123,996</u>	<u>(70,990)</u>	<u>1,053,006</u>	<u>46,439</u>
<u>28,156</u>	<u>515,495</u>	<u>543,651</u>	<u>30,923</u>
1,238,340	2,638,031	3,876,371	145,117
<u>-</u>	<u>313,467</u>	<u>313,467</u>	<u>-</u>
<u>1,238,340</u>	<u>2,951,498</u>	<u>4,189,838</u>	<u>145,117</u>
<u>\$ 1,266,496</u>	<u>\$ 3,466,993</u>	<u>\$ 4,733,489</u>	<u>\$ 176,040</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF FRITCH, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019**

	General Fund	Interest and Sinking Fund	Total Non- major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 327,388	\$ 22,091	\$ 76,885	\$ 426,364
Accounts receivables, net	78,016	-	-	78,016
Taxes receivable, net	9,993	9,830	-	19,823
Due from other funds	-	-	32,621	32,621
Due from other governments	45,369	1,195	7,004	53,568
Total assets	\$ 460,766	\$ 33,116	\$ 116,510	\$ 610,392
LIABILITIES				
Accounts payable	\$ 31,618	\$ -	\$ -	\$ 31,618
Due to other funds	138,938	-	-	138,938
Payable to other governments	5,357	-	-	5,357
Accrued expenses	14,018	-	-	14,018
Total liabilities	189,931	-	-	189,931
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	8,130	7,944	-	16,074
Unavailable revenue - municipal court receivables	34,230	-	-	34,230
Total deferred inflows of resources	42,360	7,944	-	50,304
FUND BALANCES				
Restricted:				
Special projects	-	-	116,485	116,485
Debt service	-	25,172	-	25,172
Assigned to:				
Capital replacement	-	-	25	25
Unassigned	228,475	-	-	228,475
Total fund balances	228,475	25,172	116,510	370,157
Total liabilities, deferred inflows of resources, and fund balances	\$ 460,766	\$ 33,116	\$ 116,510	\$ 610,392

The notes to the financial statements are an integral part of this statement.

CITY OF FRITCH, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balance - governmental funds	\$	370,157
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		508,060
Certain accounts receivable are not available to pay for current-period expenditures and, therefore, are shown as unavailable revenues in the fund financial statements		50,304
The net pension asset is not a current financial resource and therefore, is not reported in the fund financial statement, but is reported in the governmental activities of the Statement of Net Position.		357,892
Pension and OPEB losses, deficient earnings, and assumption changes are shown as deferred outflows of resources in the government-wide financial statements.		
Pension deficient earnings		63,805
OPEB assumption changes		1,475
Pension and OPEB contributions paid after the measurement date, December 31, 2018, and before September 30, 2019 are expensed in the governmental funds and shown as deferred outflows of resources in the government-wide financial statements.		
Pension contributions		9,964
OPEB contributions		173
Pension and OPEB gains and excess earnings are shown as deferred inflows of resources in the government-wide financial statements.		
Pension economic/demographic gains		(30,088)
OPEB economic/demographic gains		(5,208)
OPEB assumption changes		(1,349)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds:		
Bonds, capital leases, and notes payable		(8,136)
Accrued interest payable		(132)
Compensated absences		(25,766)
Total OPEB liability		(24,655)
Net position - governmental activities	\$	<u>1,266,496</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FRITCH, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General</u>	<u>Interest and Sinking Fund</u>	<u>Total Non- major Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes:				
Property	\$ 220,578	\$ 248,413	\$ -	\$ 468,991
Sales	259,993	-	43,046	303,039
Franchise	102,882	-	-	102,882
Licenses and fees	425	-	-	425
Fines and forfeitures	34,588	-	-	34,588
Intergovernmental	50,896	-	-	50,896
Miscellaneous	69,857	7,958	910	78,725
	<u>739,219</u>	<u>256,371</u>	<u>43,956</u>	<u>1,039,546</u>
Total revenues				
EXPENDITURES				
Current:				
Administration	323,410	800	-	324,210
Animal control	60,534	-	650	61,184
Code enforcement	46	-	-	46
Municipal court	68,594	-	-	68,594
Fire	73,613	-	-	73,613
Museum	24,107	-	-	24,107
Parks and recreation	2,031	-	-	2,031
Police	390,766	-	-	390,766
Streets	139,222	-	34,701	173,923
Debt Service:				
Principal	14,454	-	-	14,454
Interest and other charges	1,392	-	-	1,392
Capital Outlay	32,199	-	6,200	38,399
	<u>1,130,368</u>	<u>800</u>	<u>41,551</u>	<u>1,172,719</u>
Total expenditures				
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(391,149)</u>	<u>255,571</u>	<u>2,405</u>	<u>(133,173)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	519,129	202,813	-	721,942
Transfers out	-	(445,211)	(82,213)	(527,424)
	<u>519,129</u>	<u>(242,398)</u>	<u>(82,213)</u>	<u>194,518</u>
Total other financing sources (uses)				
NET CHANGE IN FUND BALANCES	127,980	13,173	(79,808)	61,345
FUND BALANCES - BEGINNING	<u>100,495</u>	<u>11,999</u>	<u>196,318</u>	<u>308,812</u>
FUND BALANCES - ENDING	<u>\$ 228,475</u>	<u>\$ 25,172</u>	<u>\$ 116,510</u>	<u>\$ 370,157</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FRITCH, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$	61,345
<p>Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.</p> <p>This is the amount by which capital outlays, \$38,399 were exceeded by depreciation, \$102,368 in the current period.</p>		
		(63,969)
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. This amount represents the change in unavailable revenue.</p>		
		10,071
<p>In the Statement of Net Position, incurring debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayments of principal is an expenditure in the governmental funds, but reduces the liability in the Statement of Net Position.</p>		
Principal repayments		14,454
Accrued interest payable, net change		696
<p>Changes in pension and OPEB related liabilities, outflows, and inflows reported in the government-wide Statement of Activities are not reported in the governmental funds as revenues or expenditures.</p>		
		17,560
<p>Accrued compensated absences are not reported as an expenditure in the governmental funds. This is the change in the accrual amounts for the year reported in the government-wide Statement of Activities.</p>		
		<u>(12,001)</u>
Change in net position - governmental activities	\$	<u><u>28,156</u></u>

The notes to the financial statements are an integral part of this statement.

**CITY OF FRITCH, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2019**

ASSETS

Current assets:	
Cash and cash equivalents	\$ 1,282,394
Restricted cash - customer deposits	121,175
Receivables, net	509,175
Due from other funds	106,317
Prepaid bond insurance costs, net of accumulated amortization	<u>28,092</u>
Total current assets	<u>2,047,153</u>
Noncurrent assets:	
Net pension asset	240,685
Capital assets:	
Land	16,636
Construction in progress	936,639
Vehicles	176,897
Buildings	43,455
Furniture and equipment	430,033
Infrastructure	10,123,564
Less accumulated depreciation	<u>(5,597,119)</u>
Total noncurrent assets	<u>6,370,790</u>
Total assets	<u>8,417,943</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension contributions	6,701
Pension deficient earnings	42,910
OPEB contributions	116
OPEB assumption changes	<u>992</u>
Total deferred outflows of resources	<u>50,719</u>
	Continued

The notes to the financial statements are an integral part of this statement.

**CITY OF FRITCH, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2019**

Continuation

LIABILITIES

Current liabilities:

Accounts payable	\$	76,116
Accrued liabilities		5,948
Accrued interest		54,764
Due to other governments		2,478
Customer deposits		121,175
Compensated absences - current		1,700
Bonds payable - current		<u>195,000</u>
Total current liabilities		<u>457,181</u>

Noncurrent liabilities:

Accrued compensated absences		15,264
Total OPEB liability		16,581
Long-term debt obligations		<u>4,488,000</u>
Total noncurrent liabilities		<u>4,519,845</u>

Total liabilities		<u>4,977,026</u>
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DEFERRED INFLOWS OF RESOURCES

Pension economic/demographic gains		20,234
OPEB economic gains		3,502
OPEB assumption changes		<u>907</u>
Total deferred inflows of resources		<u>24,643</u>

NET POSITION

Net investment in capital assets		1,447,105
Unrestricted		<u>2,019,888</u>
Total net position	\$	<u><u>3,466,993</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF FRITCH, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

OPERATING REVENUES:

Charges for Sales and Services:	
Water sales	\$ 1,578,766
Wastewater charges	228,997
Solid waste charges	408,582
Miscellaneous revenue	<u>123,345</u>
Total operating revenues	<u>2,339,690</u>

OPERATING EXPENSES:

Cost of water	555,773
Cost of wastewater	141,337
Cost of solid waste	360,562
Depreciation	<u>324,933</u>
Total operating expenses	<u>1,382,605</u>

OPERATING INCOME

957,085

NONOPERATING REVENUES (EXPENSES):

Intergovernmental	29,968
Investment earnings	183
Interest and fiscal charges	<u>(277,223)</u>
Total nonoperating revenues (expenses)	<u>(247,072)</u>

INCOME BEFORE TRANSFERS

710,013

TRANSFERS, net

(194,518)

CHANGE IN NET POSTION

515,495

NET POSITION - BEGINNING

2,638,031

PRIOR PERIOD ADJUSTMENT

313,467

NET POSITION - BEGINNING, AS RESTATED

2,951,498

NET POSITION - ENDING

\$ 3,466,993

The notes to the financial statements are an integral part of this statement.

**CITY OF FRITCH, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 2,347,820
Payments to employees for salaries and benefits	(416,635)
Payments to suppliers and service providers	<u>(608,352)</u>
Net cash provided by operating activities	<u>1,322,833</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES**

Transfers to other funds	(194,518)
Changes in interfund receivables/payables	<u>(106,317)</u>
Net cash used by noncapital financing activities	<u>(300,835)</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Principal paid on capital debt	(187,000)
Interest paid on capital debt	(258,211)
Acquisition or construction of capital assets	<u>(1,045,711)</u>
Net cash used for capital and related financing activities	<u>(1,490,922)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Intergovernmental	29,968
Interest on investments	<u>182</u>
Net cash provided by investing activities	<u>30,150</u>

NET INCREASE / (DECREASE) IN CASH

(438,774)

**CASH AND CASH EQUIVALENTS,
BEGINNING (including restricted amounts)**

1,842,343

**CASH AND CASH EQUIVALENTS,
ENDING, (including restricted amounts)**

\$ 1,403,569

The notes to the financial statements are an integral part of this statement.

**CITY OF FRITCH, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Continuation

**RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING
ACTIVITIES**

Operating income	\$	957,085
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation		324,933
Change in allowance for doubtful accounts		2,904
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable		(1,810)
(Increase) decrease in net pension asset		66,514
(Increase) decrease in deferred outflows of pension and OPEB		(21,726)
Increase (decrease) in accounts payable		22,459
Increase (decrease) in accrued expenses		5,619
Increase (decrease) in total OPEB liability		(4,365)
Increase (decrease) in customer deposits		7,036
Increase (decrease) in deferred inflows of pension and OPEB		<u>(35,816)</u>
Net cash provided by operating activities	\$	<u><u>1,322,833</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Fritch, Texas (City) are prepared in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles) (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant accounting and reporting policies of the City are described in the following notes to the financial statements.

A. Financial Reporting Entity

The City was incorporated in 1959. The City Council, which is made up of five Council Members and the Mayor, is the general governing body of the City. The City provides the following services as authorized by the statutes of the State of Texas: administrative (e.g., tax collection), animal control, municipal court, fire, police, streets, and public facilities. In addition, the City maintains a water/sewer and sanitation utility fund.

The Council is elected by the public and it has the authority to make decisions, appoint administrators and management, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board (“GASB”) in its Statement No. 61. *“The Financial Reporting Entity – Omnibus – An Amendment of GASB Statement No. 14 and No. 34.”*

Discretely Presented Component Unit: The Fritch Economic Development Corporation (EDC) is a component unit due to the fact that the Council appoints the EDC board and also approves the annual budget. Additional information about the EDC may be obtained by contacting City personnel at City Hall.

B. Government-Wide and Fund Financial Statements

Government-Wide Statements

The **government-wide financial statements** include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of inter-fund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and inter-governmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

Fund-Level Statements

Separate **fund financial statements** are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Major revenue types which have been accrued are intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, investment earnings, and other miscellaneous revenues.

The effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fiduciary funds are excluded in the government-wide presentation of the financial statements.

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as unavailable revenue.

Revenues susceptible to accrual include property taxes, fines, forfeitures, licenses, interest income, and charges for service and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Inter-fund eliminations have not been made in the fund financial statements.

Expenditures generally are recorded when a fund liability is incurred; however, expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

The City reports the following major governmental funds:

The **General Fund** is the general operating fund of the City. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property, sales, and franchise taxes, intergovernmental revenues and investment of idle funds. Primary expenditures are for administrative, sanitation, cemetery, ambulance, animal control, municipal court, fire, police, streets, and public facilities.

The **Interest and Sinking Fund** accounts for the accumulation and disbursement of resources associated with the City's debt obligations. Property taxes and interest income provide the resources necessary to pay the annual principal and interest payments.

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

The City reports the following major proprietary fund:

The **Utility Fund** accounts for the operations of the water and sewer utilities and sanitation furnished by the City to its residents.

Additionally, the City reports the following non-major fund types:

Special Revenue Funds – The *Special Revenue Funds* account for the proceeds of specific revenue sources (other than fiduciary funds) that are legally restricted to expenditures for specified purposes.

Capital Projects Fund – The *Capital Projects Fund* accounts for the financial resources to be used for the acquisition or construction of major capital assets or facilities.

D. Use of Estimates

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

E. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and deposits within public fund investment pools as well as investments in certificates of deposits with an original maturity of 90 days or less. Statutes authorize the City to keep funds in demand deposits, time deposits, or securities of the United States. The City's custodial banks are required to pledge for the purpose of securing City funds, securities of the following kind, in an amount equal to the amount of such City funds: bonds and notes of the United States, securities of indebtedness of the United States, bonds of the State of Texas, or of any county, city, or independent school district, and various other bonds as described in Texas Statutes.

All investments, except nonnegotiable certificates of deposit are reported at fair value, which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities and/or money market accounts traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The unrealized gain or loss in investments is reflected in investment earnings. Nonnegotiable certificates of deposit with redemption terms that do not consider market rates are reported at cost.

The City is required by Government Code Chapter 2256, the Public Funds Investment Act ("Act"), to adopt, and publicize an investment policy. That policy must be written, primarily emphasize safety of principal and liquidity, address investment diversification, yield, and maturity and the quality and capability of investment management, and include a list of the types of authorized investments in which the investing entity's funds may be invested, and the maximum allowable stated maturity of any individual investment owned by the entity.

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity – Continuation

1. Deposits and Investments – Continuation

The Act requires an annual audit of investment policies. Audit procedures in this area, conducted as a part of the audit of the basic financial statements, disclosed that in area of investment practices, management has established and reports appropriate policies. The City adheres to the requirements of the Act. Additionally, investment practices of the City are in accordance with local policies.

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the noncurrent portion of inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables revenues at the time all eligibility requirements established by the provider have been met.

All accounts receivable for the Utility billings and Municipal Court fines are shown net of an allowance for uncollectible accounts. The allowance is comprised of balances in excess of 90 days in addition to specifically identified accounts that will probably be uncollectible. As of September 30, 2019, the allowance for uncollectible accounts was \$86,792 for Utility billings and \$190,145 for Municipal Court fines.

Payables consist of vendor obligations for goods and services as well as funds payable to others when the criteria for their release have been met.

3. Property Tax Calendar and Revenues

Property taxes are based on taxable value at January 1 and become due October 1 and past due after January 31 of the following year. Tax collections after February 1 are treated as late payments and are subject to penalty and interest. Uncollected taxes from the current tax roll become delinquent on July 1 and are subject to additional penalties and interest. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior years' levies are shown net of an allowance for uncollectible accounts of \$40,317.

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity – Continuation

4. Capital Assets

Capital assets, which include land, buildings and improvements, infrastructure, and equipment, are reported in the government-wide financial statements. According to the City's capitalization policy, capital assets are defined as individual assets (or systems of assets) having a cost of \$5,000 or more. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated lives:

Buildings and improvements	20 - 50 years
Infrastructure	10 - 30 years
Equipment	5 - 10 years

5. Compensated Absences

A liability for unused vacation time for all full-time employees is calculated and reported in the government-wide financial statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

- leave or compensation is attributable to services already rendered
- leave or compensation is not contingent on a specific event (such as illness).

Per GASB Interpretation No. 6, liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment).

Regular full-time employees are entitled to vacation of two to six weeks per year. Vacation time earned, but not taken, is paid at termination, but cannot be accumulated beyond one calendar year. The City has accrued a liability for unpaid vacation and comp time in the Proprietary Fund and Government-wide Statements of Net Position.

6. Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity – Continuation

7. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has several items that qualify for reporting in this category. They are the contributions and other items related to the City’s pension and OPEB plans reported in the government-wide and proprietary statements of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has multiple items that qualify for reporting in this category. One item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The City reports unavailable revenues from property taxes and municipal court receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other items are related to the City’s pension and other postemployment benefit plans reported in the government-wide statement of net position.

8. Pensions and Other Post-Employment Benefits

For purposes of measuring the net pension asset or liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City’s Texas Municipal Retirement System Plan and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of measuring the other post-employment benefit (OPEB) asset or liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City’s Texas Municipal Retirement System Supplemental Death Plan and the Texas Municipal League Health Benefits Plan, and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Non-spendable Fund Balance – includes amounts that are (a) not in spendable forms, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity – Continuation

9. Fund Balances – Continuation

Restricted Fund Balance – includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of the resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution or ordinance).

Assigned Fund Balance – includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (a) City Council or (b) a body (budget, finance committee, or City Official) to which the assigned amounts are to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as non-spendable, restricted or committed.

Unassigned Fund Balance – this classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

10. Net Position

In the government-wide financial statements, equity is classified as net position and displayed in three categories.

Net Investment in Capital Assets – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation, or constitutional provisions.

Unrestricted Net Position – This amount includes all net position amounts that do not meet the definition of “net investment in capital assets” or “restricted net position.”

11. Fund Balance Policies

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

Committed fund balance amounts may be used for other purposes with appropriate action by the City Council to either modify or rescind a fund balance commitment. Commitments are typically done through adoption and amendment of the budget.

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Equity – Continuation

11. Fund Balance Policies – Continuation

The City's highest level of decision-making authority is the City Council. The Council has not yet delegated the authority to assign fund balance amounts to a specific individual nor does it have a policy to authorize the assignment of fund balances outside the Council.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In February, at the regularly scheduled City Council meeting the City Secretary presents a budget based on the previous year's figures as well as a copy of said budget to discuss and prepare a proposed budget for the new fiscal year that begins in April.
2. The City Council provides for a public hearing before the next scheduled council meeting. If there are no complaints or adjustments to be made, the budget is legally adopted by order of the City Council for the following funds: the General and Utility Funds.
3. The budget is prepared by fund and department during the Budget Workshop. Administrative control is maintained through the establishment of more detailed account or object class budgets within the departments. Emergency expenditures to meet unusual and unforeseen conditions which could not, by reasonable diligent thought and attention, have been included in the original budget, whereby total expenditures of a department have been increased must be authorized by the Council as emergency amendments to the original budget. Management may not amend the budget at any level without approval of the City Council. The Council has the authority to make such changes in the budget based on its judgment of facts, if the law warrants a change, and the interest of the taxpayers demand, provided the amounts budgeted for the current expenditures from the various funds for the City do not exceed appropriations, including fund balances from the prior fiscal periods. Amounts shown in the financial statements represent the original budget amounts and all supplemental appropriations. Supplemental appropriations to the original adopted budget are in the Final Budget Amounts column of the Budgetary Comparison Schedule for all city accounts.
4. Budgets for City funds are adopted on a basis consistent with GAAP on the modified accrual basis of accounting for the governmental funds and on the accrual basis of accounting for the utility funds on an annual basis.
5. Formal budgetary integration on an annual basis is employed as a management control device during the year for the General and Utility Funds.
6. All appropriations lapse at the end of the City's fiscal year and may be re-budgeted the next year.

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – Continuation

B. Excess of Expenditures Over Appropriations

In accordance with GASB Statement No. 38, “Certain Financial Statement Note Disclosures,” violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation	Action Taken
Expenditures exceeded the budget in various functional areas in the General Fund	A combination of underspending in other functional categories, and excess revenues over budget, have covered such overspendings.

NOTE 3 – DEPOSITS AND INVESTMENTS

Following is a reconciliation of the City’s cash and deposit balances as of September 30, 2019:

Cash and deposit balances consist of:

Petty cash funds	\$ 614
Bank deposits	1,871,773
Temporary investments - Texpool	118,183
Temporary investments - Texstar	<u>8,034</u>
Total	<u><u>\$ 1,998,604</u></u>

Cash and deposit balances are reported in the basic financial statements as follows:

Government-wide Statement of Net Position:

Unrestricted	\$ 1,708,758
Restricted for customer deposits	121,175
Component unit - unrestricted	<u>168,671</u>
Total	<u><u>\$ 1,998,604</u></u>

Custodial credit risk – deposits. As of September 30, 2019, the carrying amount of the City's deposits with financial institutions was \$1,871,773 and the bank's balance was \$1,988,526. Of the bank balance, \$250,000 was insured through the Federal Depository Insurance Corporation (FDIC), and the remaining \$1,738,526 was collateralized with securities held by the pledging institution in the City’s name.

Interest rate risk is the risk that adverse changes in interest rates will result in an adverse effect on the fair value of an investment. The City manages its exposure to interest rate risk by maintaining its cash in interest-bearing demand accounts, or in certificates of deposit with weighted average maturities of one year or less.

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 3 – DEPOSITS AND INVESTMENTS – Continuation

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The City is authorized by statute and by depository contract to invest in obligations of the United States of America, direct obligations of the State of Texas, obligations of state agencies, counties, cities, and other political subdivisions of any state having been rated not less than “A” or its equivalent, certificates of deposit issued by state and national banks that are guaranteed insured or secured by obligations described above having a market value of not less than 110% of the principal amount of the certificates, money market mutual funds regulated by the SEC with a dollar weighted average portfolio maturity of 90 days or less and eligible investment pools organized and operating in compliance with the Public Funds Investment Act that have been approved by the City Council.

As of September 30, 2019 the City had \$118,183 and \$8,034 invested with the Texas Treasury Safekeeping Trust Company (TexPool) and the TexStar Investment Pool, respectively. The Interlocal Cooperation Act, chapter 791 of the Texas Government Code, and the Public Funds Investment Act, chapter 2256 of the Texas Government Code, provide for the creation of public funds investment pools, such as TexPool and TexStar, through which political subdivisions and other entities may invest public funds. The State Comptroller of Public Accounts exercises oversight responsibility over the funds. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants of the pools and other persons who do not have a business relationship with pools. The advisory board members review the investment policy and management fee structure.

Both investment pools use amortized cost to value portfolio assets and follows the criteria for GASB Statement No. 79 for use of amortized cost. TexPool and TexStar do not place any limitations or restrictions such as notice periods or maximum transaction amounts, on withdrawals. TexPool has a credit rating of AAA and TexStar a credit rating of AAAM from Standard & Poor’s Financial Services. Local government investment pools in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principle. TexPool and TexStar each invest in a quality portfolio of debt securities investments that are legally permissible for local governments in the state.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single insurer. As of September 30, 2019, 94% of the City’s carrying value of cash was deposited with the City’s primary depository bank. The remaining 63% was deposited in various investment pools and in the brokerage account.

NOTE 4 – PROPERTY TAX

The State of Texas Constitutional tax rate limit for operations is \$1.50 on each \$100 of assessed valuation. The tax rate on the 2018 tax roll was \$.669213 per \$100, which means that the City has a tax margin of \$.830787 per \$100 and could raise up to \$588,838 additional revenue from the 2018 assessed valuation of \$70,877,100 before the limit is reached.

Real and personal property values are assessed for the period January 1 to December 31, as of January 1 at which date property taxes attach as an enforceable lien on property. Taxes are levied by October 1 of the current year and are collected from October 1 to June 30 of the following year. Payments received after February 1 are considered late and are subject to penalty and interest. Taxes become delinquent on July 1 of the following year.

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019 was as follows:

<u>Governmental activities:</u>	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 138,222	\$ -	\$ -	\$ 138,222
Total capital assets not being depreciated	<u>138,222</u>	<u>-</u>	<u>-</u>	<u>138,222</u>
Capital assets being depreciated:				
Buildings and improvements	641,243	11,498	-	652,741
Infrastructure	358,972	-	-	358,972
Equipment	735,986	6,200	-	742,186
Vehicles	1,094,637	20,701	-	1,115,338
Total capital assets being depreciated	<u>2,830,838</u>	<u>38,399</u>	<u>-</u>	<u>2,869,237</u>
Less accumulated depreciating for:				
Buildings and improvements	(447,476)	(19,619)	-	(467,095)
Infrastructure	(351,438)	(1,587)	-	(353,025)
Equipment	(667,431)	(19,928)	-	(687,359)
Vehicles	(930,686)	(61,234)	-	(991,920)
Total accumulated depreciation	<u>(2,397,031)</u>	<u>(102,368)</u>	<u>-</u>	<u>(2,499,399)</u>
Total capital assets being depreciated, net	<u>433,807</u>	<u>(63,969)</u>	<u>-</u>	<u>369,838</u>
Governmental activities capital assets, net	<u>\$ 572,029</u>	<u>\$ (63,969)</u>	<u>\$ -</u>	<u>\$ 508,060</u>

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 5 – CAPITAL ASSETS – Continuation

Depreciation expense for the year ended September 30, 2019 was charged to the functions/programs of the primary government as follows:

Governmental activities:

Administration	\$ 19,619
Fire	47,349
Police	27,580
Parks and recreation	2,726
Streets	<u>5,094</u>
 Total depreciation expense-governmental activities	 <u><u>\$ 102,368</u></u>

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 5 – CAPITAL ASSETS – Continuation

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 16,636	\$ -	\$ -	\$ 16,636
Construction in progress	46,170	890,469	-	936,639
	<u>62,806</u>	<u>890,469</u>	<u>-</u>	<u>953,275</u>
Total capital assets not being depreciated				
	62,806	890,469	-	953,275
Capital assets being depreciated:				
Buildings and improvements	43,455	-	-	43,455
Infrastructure	10,123,564	-	-	10,123,564
Equipment	334,591	95,442	-	430,033
Vehicles	117,097	59,800	-	176,897
	<u>10,618,707</u>	<u>155,242</u>	<u>-</u>	<u>10,773,949</u>
Total capital assets being depreciated				
	10,618,707	155,242	-	10,773,949
Less accumulated depreciating for:				
Buildings and improvements	(43,455)	-	-	(43,455)
Infrastructure	(4,838,085)	(302,816)	-	(5,140,901)
Equipment	(314,276)	(6,472)	-	(320,748)
Vehicles	(76,370)	(15,645)	-	(92,015)
	<u>(5,272,186)</u>	<u>(324,933)</u>	<u>-</u>	<u>(5,597,119)</u>
Total accumulated depreciation				
	(5,272,186)	(324,933)	-	(5,597,119)
Total capital assets being depreciated, net				
	<u>5,346,521</u>	<u>(169,691)</u>	<u>-</u>	<u>5,176,830</u>
Business-type activities capital assets, net				
	<u>\$ 5,409,327</u>	<u>\$ 720,778</u>	<u>\$ -</u>	<u>\$ 6,130,105</u>

The City has one active construction project as of September 30, 2019. The project is as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Water System Improvements	<u>\$ 936,639</u>	<u>\$ 60,687</u>

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 6 – RETIREMENT PLAN

Plan Description:

The City provides pension benefits for all of its full-time employees, other than firemen, 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 for 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.

Benefits Provided:

The plan provisions are adopted by the governing body of the City (employer), within the options available in the Texas state statutes governing TMRS. Members can retire at ages 60 and above with 5 or more years of service (10 years in some cities) or with 20-25 years of service regardless of age (depending on the city's plan chosen). Members are vested after 5 years of service (10 years for some cities).

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the City within the actuarial constraints imposed by TMRS so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by TMRS.

Employees Covered by Benefit Terms:

At December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	41
Active employees	19

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 6 – RETIREMENT PLAN – Continuation

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, 2014 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 cost 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 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 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 (i.e., the December 31, 2014 valuation will determine the contribution rate beginning January 1, 2016).

The City contributed using the actuarially determined rate of 2.56% for the months of the accounting year in 2018 and 2.88% for the months of the accounting year in 2019. The contribution rate payable by the employee members is 7.0% for fiscal year 2019 as adopted by the governing body of the City. The employee contribution rate and the employer contribution rate may be changed by the governing body of the City.

Net Pension Liability:

The City’s net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.5% to 10.5% including inflation
Investment rate of return	6.75%
Cost-of-living adjustments	None

Mortality rates were based on the RP-2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

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 continual revision as actual results are compared to past expectations and new estimates are made about the future.

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 6 – RETIREMENT PLAN – Continuation

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 actuarial assumptions that determined the total pension liability as of December 31, 2018 were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

Discount Rate:

The discount rate used to measure the total pension liability was 6.75%. The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternatives methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under TMRS.

1. TMRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under TMRS, the employer is legally required to make the contribution specified in the funding policy.
3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 6 – RETIREMENT PLAN – Continuation

4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 7.00%.

Changes in the Net Pension Liability / (Asset):

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability / (Asset) (a) - (b)</u>
Balances as of December 31, 2017	\$ 1,356,561	\$ 2,091,122	\$ (734,561)
Changes for the year:			
Service cost	107,760	-	107,760
Interest on total pension liability	93,305	-	93,305
Difference between expected and actual experience	(60,722)	-	(60,722)
Changes of assumptions	-	-	-
Benefit payments/refunds of employee contributions	(56,296)	(56,296)	-
Contributions - employer	-	18,486	(18,486)
Contributions - employee	-	49,724	(49,724)
Net investment income	-	(62,578)	62,578
Administrative expenses	-	(1,211)	1,211
Other	-	(62)	62
Balances as of December 31, 2018	<u>\$ 1,440,608</u>	<u>\$ 2,039,185</u>	<u>\$ (598,577)</u>
Plan fiduciary net position as a percentage of the total pension liability:			141.55%
Covered employee payroll:			\$ 710,348
Net pension liability as a percentage of covered employee payroll:			-84.27%

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 6 – RETIREMENT PLAN – Continuation

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City’s net pension liability / (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate.

	1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
Net pension liability / (asset)	\$ (382,819)	\$ (598,577)	\$ (772,850)

Pension Expense / (Income):

	January 1, 2018 to December 31, 2018
Total service cost	\$ 107,760
Interest on total pension liability	93,305
Employee contributions (reduction of expenses)	(49,724)
Projected earnings on plan investments (reduction of expenses)	(141,151)
Administrative expenses	1,211
Other changes in fiduciary net position	62
Recognition of current year deferred (inflows)/outflows of resources - liabilities	(20,939)
Recognition of current year deferred (inflows)/outflows of resources - assets	40,746
Amortization of prior year deferred (inflows)/outflows of resources - liabilities	(27,392)
Amortization of prior year deferred (inflows)/outflows of resources - assets	1,428
 Total pension expense	 \$ 5,306

Deferred Inflows / Outflows of Resources:

As of September 30, 2019, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 50,322	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings	-	106,715
Contributions made subsequent to measurement date	N/A	16,665

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 6 – RETIREMENT PLAN – Continuation

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended December 31:		
2019	\$	6,311
2020		(4,761)
2021		14,099
2022		40,744
2023		-
Thereafter		-

NOTE 7 – OTHER POST EMPLOYMENT BENEFIT (OPEB) OBLIGATIONS

Plan Description

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

Plan Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (“OPEB”) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated). The member 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.

Employees Covered by Benefit Terms

At December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	2
Active employees	19

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 7 – OTHER POST EMPLOYMENT BENEFIT (OPEB) OBLIGATIONS – Continuation

Total OPEB Liability

The City's total OPEB liability was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

All actuarial assumptions that determined the total OPEB liability as of December 31, 2018 were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013.

For calculating the OPEB liability and the OPEB contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 100.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

Discount Rate

The SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75, paragraph 4b, (i.e., no assets are accumulated for OPEB). As such the SDBF is considered to be a single-employer unfunded OPEB plan (and not a cost sharing plan) with benefit payments treated as being equal to employer's yearly contributions for retirees. In accordance with paragraph 155, the applicable discount rate for an unfunded OPEB is based on an index of tax exempt 20-year municipal bond rates rated AA or higher. As of December 31, 2018, the discount rate used in development of the Total OPEB Liability was 3.71% compared to 3.31% as of December 31, 2017.

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 7 – OTHER POST EMPLOYMENT BENEFIT (OPEB) OBLIGATIONS – Continuation

Changes in the Total OPEB Liability:

	Changes in Total OPEB Liability
Balances as of December 31, 2017	\$ 50,086
Changes for the year:	
Service cost	2,841
Interest on total OPEB liability	1,699
Changes of benefit terms	-
Effect of economic/demographic experience	(10,353)
Effect of assumptions changes or inputs	(2,682)
Benefit payments	(355)
Other	-
	-
Balances as of December 31, 2018	\$ 41,236

Sensitivity of the net pension liability / (asset) to changes in the discount rate

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 3.71%, as well as the what the Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.71%) or 1 percentage point higher (4.71%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

	1% Decrease 2.71%	Current Single Rate Assumption 3.71%	1% Increase 4.71%
Net pension liability / (asset)	\$ 48,389	\$ 41,236	\$ 35,484

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 7 – OTHER POST EMPLOYMENT BENEFIT (OPEB) OBLIGATIONS – Continuation

OPEB Expense / (Income)

	January 1, 2018 to December 31, 2018
Service cost	\$ 2,841
Interest on total OPEB liability	1,699
Recognition of deferred inflows/outflows of resources	
Differences between expected and actual experience	(1,643)
Changes in assumptions or other inputs (1)	147
Recognition of investment gains or losses	-
Other	-
 Total OPEB expense	 \$ 3,044

(1) Generally, this will only be the annual change in the municipal bond index rate.

Deferred Inflows / Outflows of Resources:

As of September 30, 2019, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 8,710	\$ -
Changes of assumptions	2,256	2,467
Contributions made subsequent to measurement date	N/A	289

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended December 31:	
2019	\$ (1,496)
2020	(1,496)
2021	(1,496)
2022	(1,496)
2023	(1,894)
Thereafter	(621)

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 8 – INTER-FUND RECEIVABLES, PAYABLES AND TRANSFERS

Individual Fund Inter-fund Receivables and Payables

Fund	Inter-fund Receivables	Inter-fund Payables
General Fund	\$ -	\$ 138,938
Water / Sewer Utility	106,317	-
Special Revenue:		
Crime Control Prevention	32,621	-
	<u>\$ 138,938</u>	<u>\$ 138,938</u>

The primary purpose of inter-fund receivables and payables is the recording of 1) sales tax receipts received by the General Fund on behalf of the Crime Control Prevention Fund and 2) the Utility fund supplementing cash balances in the General Fund.

Individual Inter-fund Transfers

Fund	Inter-fund Transfers In	Inter-fund Transfers Out
General Fund	\$ 519,129	\$ -
Interest and Sinking Fund	202,813	445,211
Capital Projects Fund	-	82,213
Water / Sewer Utility	445,211	639,729
	<u>\$ 1,167,153</u>	<u>\$ 1,167,153</u>

The primary purpose of inter-fund transfers is the supplementing of General Fund operations with excess revenues earned in the Utility Fund.

NOTE 9 – RISK MANAGEMENT

The City’s major areas of risk management are: public officials’, automobile liability, general comprehensive liability and property damage, workers’ compensation, and employee health insurance. The City has obtained insurance with an insurance company and a public entity risk pool in which all risk is transferred to those entities for all the above areas. The City pays a deductible per incident except on the employee health insurance in which the deductible is the responsibility of the employee. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded insurance coverage for the current year or the previous three years.

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 10 – LONG-TERM LIABILITIES

During the year ended September 30, 2003, the City issued \$3,800,000 of Combination Tax and Revenue Certificates of Obligation, Series 2003, (the “2003 Obligations”). Proceeds from the sale of the 2003 Obligations will be used to retire the 1998 obligations which funded sewer system lagoon repairs, improvements, and remediation, as well as other water and sewer system infrastructure improvements. Principal payments on the Certificates of Obligation, Series 2003 are made annually, each February 15 with interest payments made semi-annually, each February 15 and August 15 until maturity on February 15, 2033. Interest rates range from 3.00 % - 5.375% on the Certificates of Obligation, Series 2003.

During the year ended September 30, 2011, the City issued \$2,677,000 of Water Works and Sewer System Revenue Certificates of Obligation, Series 2011, (the “2011 Obligations”). Proceeds from the sale of the 2011 Obligations will be used to purchase the Hi-Texas Water Corporation waterworks system. Principal payments on the Certificates of Obligation, Series 2011 are made annually, each February 15 with interest payments made semi-annually, each February 15 and August 15 until maturity on February 15, 2041. Interest rates from 5.50% on the Certificates of Obligation, Series 2011.

Changes in long-term liabilities:

Governmental Activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Leases	\$ 22,590	\$ -	\$ (14,454)	\$ 8,136	\$ 8,136
Compensated Absences	13,765	17,032	(5,031)	25,766	2,600
Total Governmental Activities Long-Term Liabilities	<u>\$ 36,355</u>	<u>\$ 17,032</u>	<u>\$ (19,485)</u>	<u>\$ 33,902</u>	<u>\$ 10,736</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Bonds Payable					
2003 Certificates of Obligation	\$ 2,595,000	\$ -	\$ (120,000)	\$ 2,475,000	\$ 125,000
2011 Certificates of Obligation	2,275,000	-	(67,000)	2,208,000	70,000
Original issue discount	(31,094)	-	3,003	(28,091)	-
Compensated Absences	11,823	11,424	(6,284)	16,963	1,700
Total Business-Type Activities Long-Term Liabilities	<u>\$ 4,850,729</u>	<u>\$ 11,424</u>	<u>\$ (190,281)</u>	<u>\$ 4,671,872</u>	<u>\$ 196,700</u>

The City paid interest expense in the amount of \$258,907 during the fiscal year ended September 30, 2019.

Continued

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 10 – LONG-TERM LIABILITIES

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

Business-Type Activities Years Ending September 30	Total	Certificates of Obligation Series 2003		Certificates of Obligation Series 2011	
		Principal	Interest	Principal	Interest
		2020	\$ 443,521	\$ 125,000	\$ 127,081
2021	442,296	130,000	120,706	74,000	117,590
2022	414,601	135,000	114,081	52,000	113,520
2023	418,741	145,000	107,081	56,000	110,660
2024	441,549	150,000	99,519	60,000	132,030
2025-2029	2,210,474	885,000	365,744	366,000	593,730
2030-2034	1,964,721	905,000	100,378	497,000	462,343
2035-2039	957,950	-	-	686,000	271,950
2040-2044	383,890	-	-	347,000	36,890
Total	\$ 7,677,743	\$ 2,475,000	\$ 1,034,590	\$ 2,208,000	\$ 1,960,153

NOTE 11 – LEASES

The City has leased certain equipment under non-cancelable capital leases. The interest rates range between 4.25% and 7.154%. The following summarizes the City's obligations under capital leases:

Year Ending September 30, 2019	Governmental Activities
2020	\$ 8,718
Total	8,718
Less amounts representing interest	582
	<u>\$ 8,136</u>
The following summarized the assets acquired under capital lease:	
Equipment	\$ 22,302
Accumulated Depreciation	<u>(8,921)</u>
Net Leased Equipment	<u>\$ 13,381</u>

Amortization of leased equipment under capital assets is included with depreciation expense.

CITY OF FRITCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 12 – PRIOR PERIOD RESTATEMENT

The beginning net position and beginning fund balance of the City were changed for multiple and various reasons as follows. 1) The prior year statements did not record a receivable for unbilled utility fees, and 2) the prior year statements did not correctly record the beginning construction in process amounts on the City’s ongoing water system improvement project. Net Position/Fund Balance was increased in all statements as noted below.

	<u>Government-Wide Statement</u>		<u>Fund Level Statements</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>General Fund</u>	<u>Water and Sewer Fund</u>
Net position/fund balance as of September 30, 2018, as previously reported	\$ 1,238,340	\$ 2,638,031	\$ 98,262	\$ 2,638,031
To correct receivable for unbilled utilites	-	267,297	-	267,297
To record construction in progress	-	46,170	-	46,170
Total net restatement	-	313,467	-	313,467
Net position/fund balance as of October 1, 2018, as restated	<u>\$ 1,238,340</u>	<u>\$ 2,951,498</u>	<u>\$ 98,262</u>	<u>\$ 2,951,498</u>

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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**CITY OF FRITCH, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Property taxes	\$ 232,296	\$ 232,296	\$ 220,578	\$ (11,718)
Sales	236,593	236,593	259,993	23,400
Franchise	134,000	134,000	102,882	(31,118)
Licenses and fees	80	80	425	345
Fines and forfeitures	44,875	44,875	34,588	(10,287)
Intergovernmental	41,000	41,000	50,896	9,896
Miscellaneous	13,216	13,216	69,857	56,641
	<u>702,060</u>	<u>702,060</u>	<u>739,219</u>	<u>37,159</u>
EXPENDITURES				
Current:				
Administration	335,173	335,173	323,410	11,763
Animal control	58,038	58,038	60,534	(2,496)
Code enforcement	657	657	46	611
Municipal court	69,873	69,873	68,594	1,279
Fire	77,996	77,996	73,613	4,383
Museum	31,882	31,882	24,107	7,775
Parks and recreation	7,709	7,709	2,031	5,678
Police	394,045	394,045	390,766	3,279
Streets	146,353	146,353	139,222	7,131
Debt Service:				
Principal	8,720	8,720	14,454	(5,734)
Interest and other charges	-	-	1,392	(1,392)
Capital outlay	22,000	22,000	32,199	(10,199)
	<u>1,152,446</u>	<u>1,152,446</u>	<u>1,130,368</u>	<u>22,078</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(450,386)</u>	<u>(450,386)</u>	<u>(391,149)</u>	<u>59,237</u>
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	100	100	-	(100)
Transfers in	442,349	442,349	519,129	76,780
	<u>442,449</u>	<u>442,449</u>	<u>519,129</u>	<u>76,680</u>
NET CHANGE IN FUND BALANCE	(7,937)	(7,937)	127,980	135,917
FUND BALANCES - BEGINNING	<u>100,495</u>	<u>100,495</u>	<u>100,495</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 92,558</u>	<u>\$ 92,558</u>	<u>\$ 228,475</u>	<u>\$ 135,917</u>

CITY OF FRITCH, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Years (will ultimately be displayed as available)

	Year Ended December 31,			
	2018	2017	2016	2015
Total Pension Liability:				
Service cost	\$ 107,760	\$ 97,917	\$ 101,227	\$ 107,454
Interest on total pension liability	93,305	90,001	84,803	74,901
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	(60,722)	(58,443)	(18,726)	26,202
Changes of assumptions	-	-	-	35,208
Benefit payments/refunds of contributions	(56,296)	(114,612)	(62,661)	(45,987)
Net change in total pension liability	84,047	14,863	104,643	197,778
Total pension liability, beginning	1,356,561	1,341,698	1,237,055	1,039,277
Total pension liability, ending (a)	<u>\$ 1,440,608</u>	<u>\$ 1,356,561</u>	<u>\$ 1,341,698</u>	<u>\$ 1,237,055</u>
Fiduciary Net Position:				
Employer contributions	\$ 18,486	\$ 23,003	\$ 13,305	\$ 23,278
Employee contributions	49,724	47,500	48,007	52,563
Net investment income	(62,578)	259,911	118,924	2,552
Benefit payments/refunds of contributions	(56,296)	(114,612)	(62,661)	(45,987)
Administrative expenses	(1,211)	(1,348)	(1,344)	(1,554)
Other	(62)	(69)	(72)	(77)
Net change in fiduciary net position	(51,937)	214,385	116,159	30,775
Fiduciary net position, beginning	2,091,122	1,876,737	1,760,578	1,729,803
Fiduciary net position, ending (b)	<u>\$ 2,039,185</u>	<u>\$ 2,091,122</u>	<u>\$ 1,876,737</u>	<u>\$ 1,760,578</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ (598,577)</u>	<u>\$ (734,561)</u>	<u>\$ (535,039)</u>	<u>\$ (523,523)</u>
Fiduciary net position as a % of total pension liability	141.55%	154.15%	139.88%	142.32%
Pensionable covered payroll	\$ 710,348	\$ 678,567	\$ 685,820	\$ 750,900
Net pension liability as a % of covered payroll	-84.27%	-108.25%	-78.01%	-69.72%

Year Ended December 31,

2014	2013	2012	2011	2010	2009
\$ 85,091	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
73,260	N/A	N/A	N/A	N/A	N/A
-	N/A	N/A	N/A	N/A	N/A
(55,420)	N/A	N/A	N/A	N/A	N/A
-	N/A	N/A	N/A	N/A	N/A
(135,361)	N/A	N/A	N/A	N/A	N/A
(32,430)	N/A	N/A	N/A	N/A	N/A
1,071,707	N/A	N/A	N/A	N/A	N/A
<u>\$ 1,039,277</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
\$ 9,919	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
46,600	N/A	N/A	N/A	N/A	N/A
97,913	N/A	N/A	N/A	N/A	N/A
(135,361)	N/A	N/A	N/A	N/A	N/A
(1,022)	N/A	N/A	N/A	N/A	N/A
(84)	N/A	N/A	N/A	N/A	N/A
17,965	N/A	N/A	N/A	N/A	N/A
1,711,838	N/A	N/A	N/A	N/A	N/A
<u>\$ 1,729,803</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
<u>\$ (690,526)</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
166.44%	N/A	N/A	N/A	N/A	N/A
\$ 657,374	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
-105.04%	N/A	N/A	N/A	N/A	N/A

CITY OF FRITCH, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last 10 Fiscal Years (will ultimately be displayed)

Year Ending September 30:	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	\$ 20,274	\$ 20,274	\$ -	\$ 783,534	2.6%
2016	15,236	15,236	-	695,667	2.2%
2017	20,239	20,239	-	663,672	3.0%
2018	19,790	19,790	-	717,684	2.8%
2019	20,848	20,848	-	742,031	2.8%

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary increases	3.50% - 10.50% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes There were no benefit changes during the year.

CITY OF FRITCH, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 Years (will ultimately be displayed as available)

	Year Ended December 31,			
	2018	2017	2016	2015
Total OPEB Liability:				
Service cost	\$ 2,841	\$ 2,443	\$ N/A	\$ N/A
Interest on total OPEB liability	1,699	1,653	N/A	N/A
Effect of plan changes	-	-	N/A	N/A
Effect of assumption changes or inputs	(2,682)	3,613	N/A	N/A
Effect of economic/demographic (gains) or losses	(10,353)	-	N/A	N/A
Benefit payments	(355)	(271)	N/A	N/A
Net change in total OPEB liability	(8,850)	7,438	N/A	N/A
Total OPEB liability, beginning	50,086	42,648	N/A	N/A
Total OPEB liability, ending	<u>\$ 41,236</u>	<u>\$ 50,086</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Covered employee payroll	\$ 710,348	\$ 678,567	\$ N/A	\$ N/A
Total OPEB liability as a % of covered employee payroll	5.81%	7.38%	N/A	N/A

Notes to Schedule:

Valuation Timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal
Amortization Method	Straight-Line amortization over Expected Working Life
Asset Valuation Method	Does not apply
Inflation	Does not apply
Salary increases	Does not apply
Investment rate of return	3.71% (20 Year Municipal GO AA Index published by the Fidelity Index as of December 31, 2018)

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OTHER SUPPLEMENTARY INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds account for the proceeds of specific sources that are legally restricted to expenditures for specified purposes.

Police Training – The Police Training Fund accounts for revenue from fees collected by the Police department from requests for copies of filed reports. The fees are restricted to supplement the operating budget of the Police Department.

Crime Control Prevention – The Crime Control Prevention Fund accounts for the one quarter of one percent sales tax rate collected by the City. The collections are restricted to supplement the purchases of the Police Department.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for the financial resources to be used for the acquisition or construction of major capital assets or facilities.

**CITY OF FRITCH, TEXAS
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2019**

	<u>Special Revenue</u>				
	<u>Police Training</u>	<u>Crime Control Prevention</u>	<u>Total</u>	<u>Capital Projects</u>	<u>Total Non- major Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 5,826	\$ 71,034	\$ 76,860	\$ 25	\$ 76,885
Due from other funds	-	32,621	32,621	-	32,621
Due from other governments	-	7,004	7,004	-	7,004
	<u>5,826</u>	<u>110,659</u>	<u>116,485</u>	<u>25</u>	<u>116,510</u>
Total assets	<u>\$ 5,826</u>	<u>\$ 110,659</u>	<u>\$ 116,485</u>	<u>\$ 25</u>	<u>\$ 116,510</u>
FUND BALANCES					
Restricted:					
Special projects	\$ 5,826	\$ 110,659	\$ 116,485	\$ -	\$ 116,485
Committed:					
Capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>25</u>	<u>25</u>
Total fund balances	<u>\$ 5,826</u>	<u>\$ 110,659</u>	<u>\$ 116,485</u>	<u>\$ 25</u>	<u>\$ 116,510</u>

CITY OF FRITCH, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Special Revenue</u>			<u>Capital Projects</u>	<u>Total Non- major Governmental Funds</u>
	<u>Police Training</u>	<u>Crime Control Prevention</u>	<u>Total</u>		
REVENUES					
Taxes:					
Sales	\$ -	\$ 43,046	\$ 43,046	\$ -	\$ 43,046
Miscellaneous	910	-	910	-	910
Total revenues	<u>910</u>	<u>43,046</u>	<u>43,956</u>	<u>-</u>	<u>43,956</u>
EXPENDITURES					
Current:					
Administration	-	-	-	650	650
Police	525	34,176	34,701	-	34,701
Capital outlay	-	6,200	6,200	-	6,200
Total expenditures	<u>525</u>	<u>40,376</u>	<u>40,901</u>	<u>650</u>	<u>41,551</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>385</u>	<u>2,670</u>	<u>3,055</u>	<u>(650)</u>	<u>2,405</u>
OTHER FINANCING SOURCES					
Transfers out	-	-	-	(82,213)	(82,213)
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>(82,213)</u>	<u>(82,213)</u>
NET CHANGE IN FUND BALANCES	385	2,670	3,055	(82,863)	(79,808)
FUND BALANCES - BEGINNING	<u>5,441</u>	<u>107,989</u>	<u>113,430</u>	<u>82,888</u>	<u>196,318</u>
FUND BALANCES - ENDING	<u>\$ 5,826</u>	<u>\$ 110,659</u>	<u>\$ 116,485</u>	<u>\$ 25</u>	<u>\$ 116,510</u>

PART III
COMPLIANCE



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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fritch, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Fritch, Texas' basic financial statements, and have issued our report thereon dated May 18, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Fritch, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fritch, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fritch, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fritch, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DOSHIER, PICKENS & FRANCIS, L.L.C.

DOSHIER, PICKENS & FRANCIS, LLC

May 18, 2020