



**AGENDA
APRIL 7, 2020
LAVON CITY COUNCIL
6:00 PM EXECUTIVE SESSION
7:00 PM REGULAR MEETING
TELEPHONIC MEETING
DIAL IN: (844) 854-2222
ACCESS CODE: 856485**

**SUPPLEMENT TO PACKET
April 7, 2020
Posted at 5:00 pm, 04-07-2020**

Lavon City Hall will provide reasonable accommodations for persons attending meetings. Please contact the City Secretary at 972-843-4220 no later than 48 hours prior to a meeting if you require special assistance | WiFi password: Guest2014



CITY OF LAVON

Agenda Brief

MEETING: April 7, 2020

ITEM: 7

Item:

Presentation of the 2019 Financial Statements and Independent Audit Report – Mike Ward Accounting & Financial Consulting, PLLC.

Background:

The Texas Local Government Code requires that the City’s financial statements shall be audited annually by an independent certified public accountant. The professional audit firm, Mike Ward Accounting & Financial Consulting, PLLC was hired by the City Council to conduct the annual audit for FY 2018-19.

The annual audit was conducted in accordance with governmental auditing standards and fulfills the requirements set out in state law.

Staff has been informed that the audit resulted in an unmodified (“clean”) opinion indicating that the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles. This represents the best opinion possible.

The audit report will be provided by the auditor prior to the meeting.

January 7, 2019

ANNUAL FINANCIAL REPORT
OF THE
CITY OF LAVON, TEXAS

Fiscal Year Ended September 30, 2019

Mayor
Vicki Sanson

**CITY OF LAVON, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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**CITY OF LAVON, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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INTRODUCTORY SECTION

**City of Lavon, Texas
Principal Officials
September 30, 2019**

City Council

Vicki Sanson	Mayor
John Kell	Place 1
Mike Cook	Place 2
Kay Wright	Place 3
Ted Dill	Place 4
Mindi Serkland	Place 5

FINANCIAL SECTION

Mike Ward Accounting & Financial Consulting, PLLC

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Lavon, Texas
P.O. Box 340
Lavon, Texas 75166

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures within 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, I express no such opinion. An audit also includes assessing 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lavon, Texas as of September 30, 2019, and the respective changes in financial position, where applicable, and cash flows, thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance

with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

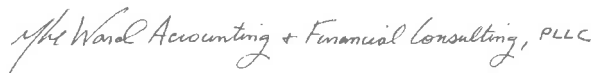
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully Submitted,



Mike Ward Accounting & Financial Consulting, PLLC

March 25, 2020
Point, Texas

CITY OF LAVON, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2019

As management of the City of Lavon ("City"), we offer the readers of the City of Lavon's financial statements this narrative overview and analysis of the financial activities of the City of Lavon for the fiscal year ended September 30, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City of Lavon exceeded its liabilities and deferred inflows/outflows at the close of the fiscal year by \$9,569,227 (net position). Of this amount, \$7,957,184, or 83%, is investment in capital assets, \$61,201, or 1%, is restricted for court and police use. The remaining unrestricted net position of \$1,550,842, or 16%, may be used to meet the City's ongoing obligations to its citizens and creditors in accordance with the City's fund designation and policies.
- The City's total net position increased \$485,288. This is due to a slight increase in revenues over expenditures within both the governmental and business type activities.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$1,444,236. This represents an increase of \$384,523 in net fund balance.
- As of the close of the current fiscal year, the unassigned fund balance for the General Fund was \$1,286,912 which was approximately 49% of total General Fund expenditures.
- The City added one capital lease payable of \$104,651 for the purchase of two vehicles for the Police Department. With this new capital lease payable, and payments applied to existing long-term debt, total long-term debt decreased \$413,962.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Lavon's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**CITY OF LAVON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2019**

Basic Financial Statements

The first two statements (pages 19-22) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 23-31) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the Governmental Fund financial statements, 2) the Proprietary Fund financial statements, and 3) the Fiduciary Fund statements.

The next section of the basic financial statements are the **notes**. The notes to the financial statements explain in detail some of the data contained in the statements. After the notes, **required supplemental information** (pages 55-58) is provided to show details about the City's pension plan. **Supplemental information** (pages 61-72) is also included to provide combining non-major fund financial statements for other major governmental funds and component unit information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide both short and long-term information about the City's financial status as a whole.

The Statement of Net Position presents information on all of the City's assets and liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both government-wide financial statements include not only the City itself (known as the primary government) but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component unit activity. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes, sales taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The final category is the component unit. The City includes one separate legal entity in its report – City of Lavon Economic Development Corporation. Although legally separate, this "component unit" is important because the City is financially accountable to them.

The government-wide financial statements are on pages 18-22 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories as previously described.

**CITY OF LAVON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2019**

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

Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what funds are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps to determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Other Governmental Funds. Data from the other governmental funds is provided in the form of combining statements in the supplementary information. Governmental Fund financial statements can be found on pages 23-26 of this report.

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) original budget; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, such as cash flows. The City has only two proprietary funds, the Wastewater Utility Fund and the Solid Waste Utility Fund.

The basic proprietary fund financial statements can be found on pages 27-29 of this report.

Fiduciary Funds – Fiduciary Funds are used to account for amounts held on behalf of others by the City as a trustee, or fiduciary. The City is the trustee, or fiduciary, for certain amounts held on behalf of Collin County. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. The activities of this fund are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose.

**CITY OF LAVON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2019**

The fiduciary fund financial statement can be found on pages 30-31.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 32-52 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information. Combining statements and individual fund statements can be found on pages 61-62 of this report.

**CITY OF LAVON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2019**

The fiduciary fund financial statement can be found on page 32.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 30-52 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information. Combining statements and individual fund statements can be found on pages 61-72 of this report.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2019**

Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 1,663,222	\$ 1,315,311	\$ 1,409,425	\$ 3,294,829	\$ 3,072,647	\$ 4,610,140
Capital assets	5,852,140	5,857,153	4,049,857	2,437,647	9,901,997	8,294,800
Total assets	7,515,362	7,172,464	5,459,282	5,732,476	12,974,644	12,904,940
Deferred outflows-pension	143,578	78,431	-	-	143,578	78,431
Current liabilities	208,011	224,065	29,673	29,204	237,684	253,269
Long-term liabilities	501,782	434,657	2,731,000	3,104,086	3,232,782	3,538,743
Total liabilities	709,793	658,722	2,760,673	3,133,290	3,470,466	3,792,012
Deferred inflows of resources						
Pension	48,791	65,049	-	-	48,791	65,049
Unavailable revenue-tax note	-	-	29,738	42,371	29,738	42,371
Total deferred inflows	48,791	65,049	29,738	42,371	78,529	107,420
Net position:						
Net investment in capital assets	5,521,379	5,485,516	2,435,805	2,174,695	7,957,184	7,660,211
Restricted	61,201	54,625	-	-	61,201	54,625
Unrestricted	1,317,776	986,983	233,066	382,120	1,550,842	1,369,103
Total net position	\$ 6,900,356	\$ 6,527,124	\$ 2,668,871	\$ 2,556,815	\$ 9,569,227	\$ 9,083,939

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The net position of the City exceeded liabilities by \$9,569,227 as of September 30, 2019. The City's net position increased by \$485,288 for the fiscal year ended September 30, 2019

Net investment in capital assets:

The City's net position of net investment in capital assets of, \$7,957,184, or 83%, reflects the City's investment in capital assets (e.g. land, buildings, infrastructure, and equipment) less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets is reported net of outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities

Restricted net position:

The restricted net position of \$61,201, or 1%, of total net position represents resources that are subject to external restrictions on their use, or by enabling legislation. Restricted net position is comprised of state imposed restrictions for court use, \$59,774, or 97.7%; \$1,427, or 2.3%, for police use.

Unrestricted net position:

Unrestricted net position of \$1,550,842 or, 16%, is available to fund the City programs and obligations to its citizens and creditors.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2019**

Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 459,053	\$ 639,639	\$ 1,163,943	\$ 1,356,567	\$ 1,622,996	\$ 1,996,206
Capital grants and contributions	83,976	52,389	123,000	-	206,976	52,389
Operating grants and contributions	67,696	655	-	-	67,696	655
General revenues:						
Property tax	1,464,173	1,299,867	-	-	1,464,173	1,299,867
Sales tax	337,064	344,566	-	-	337,064	344,566
Franchise tax	159,027	132,014	-	-	159,027	132,014
Investment income	15,339	5,894	47,440	20,908	62,779	26,802
Miscellaneous	3	137	-	-	3	137
Total revenues	2,586,331	2,475,161	1,334,383	1,377,475	3,920,714	3,852,636
Expenses:						
Program expenses						
General government	\$ 998,474	770,019	-	-	998,474	770,019
Public services	122,166	134,270	-	-	122,166	134,270
Public safety	1,023,801	933,747	-	-	1,023,801	933,747
Public works	402,497	411,528	-	-	402,497	411,528
Parks and recreation	3,975	1,729	-	-	3,975	1,729
Interest on long-term debt	-	11,255	-	-	-	11,255
Sewer and garbage	-	-	884,513	950,242	884,513	950,242
Total expenses	2,550,913	2,262,548	884,513	950,242	3,435,426	3,212,790
Change in net assets before other financing sources (uses)	35,418	212,613	449,870	427,233	485,288	639,846
Other financing sources (uses):						
Transfers	337,814	232,729	(337,814)	(232,729)	-	-
Total other financing sources (uses)	337,814	232,729	(337,814)	(232,729)	-	-
Total change in net position	373,232	445,342	112,056	194,504	485,288	639,846
Net position - October 1	6,527,124	6,105,370	2,556,815	2,362,311	9,083,939	8,467,681
Prior period adjustments	-	(23,588)	-	-	-	(23,588)
Net position - September 30	\$ 6,900,356	\$ 6,527,124	\$ 2,668,871	\$ 2,556,815	\$ 9,569,227	\$ 9,083,939

Governmental activities increased net position by \$373,232. This is due, in part, to an increase in total tax revenues of \$183,817 and transfers from the business activities.

Business-type activities increased net position by \$112,056.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2019**

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds are to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

At September 30, 2019, the City's governmental funds reported total fund balances of \$1,444,236, a 36% increase in comparison with the prior year's total ending fund balance. The components of total fund balance are as follows:

- Restricted fund balances of \$61,202, or 4.2%, of total fund balance consists of amounts restricted by external laws or contractual obligations. These are as follows:
 - \$59,775, or 97.7%, for court use;
 - \$1,427, or 2.3%, for police;
- Assigned fund balance of \$3,216, or 0.2%, of total fund balance, is for public safety.
- Unassigned fund balance of \$1,286,912, or 89.1%, of total fund balance, represents the residual available balance that has not been restricted, committed, or assigned by management, City Council, or otherwise.

General Fund - The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$1,286,912, compared to \$1,001,286 at the end of the prior fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 49% of total General Fund expenditures.

General Fund Budgetary Highlights: Generally, budget amendments fall into one of three categories: (1) amendments made to adjust estimates that are used to prepare the original budget ordinance once exact information is available, (2) amendments made to recognize new funding sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services. During the fiscal year, the City did not revise the original adopted budget.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the proprietary funds at the end of the fiscal year amounted to \$233,066.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2019**

Capital Asset and Debt Administration

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of September 30, 2019, totals \$9,901,997 (net of accumulated depreciation). These assets include land, buildings and improvements, infrastructure, vehicles and equipment. The total increase in capital assets for the current fiscal year was approximately 20.5%.

**Capital Assets
September 30, 2019
(net of accumulated depreciation)**

	Governmental		Business-type		Total	
	2019	2018	2019	2018	2019	2018
Land	\$1,805,756	\$ 805,756	\$ -	\$ -	\$1,805,756	\$ 805,756
Buildings & Improvements	534,117	559,514	-	-	534,117	559,514
Infrastructure	2,952,782	2,912,065	1,968,461	2,047,563	4,921,243	4,959,628
Machinery & Equipment	551,285	571,618	85,330	85,330	636,615	656,948
Construction in Progress	8,200	8,200	1,996,066	304,754	2,004,266	312,954
Total	\$5,852,140	\$4,857,153	\$4,049,857	\$ 2,437,647	\$9,901,997	\$7,294,800

More detailed information about the City's capital assets is presented in Note G to the financial statements.

Long-Term Debt - As of September 30, 2019, the City had outstanding long-term debt in the amount of \$3,061,761, an increase of \$413,962.

**Outstanding Debt
As of September 30, 2019**

	Governmental		Business-type		Total	
	2019	2018	2019	2018	2019	2018
Capital Leases Payable	\$ 330,761	\$ 371,637	\$ -	\$ 6,086	\$ 330,761	\$ 377,723
Notes Payable	-	-	2,731,000	3,098,000	2,731,000	3,098,000
Total	\$ 330,761	\$ 371,637	\$2,731,000	\$ 3,104,086	\$3,061,761	\$3,475,723

More detailed information about the City's long-term debt is presented in Note I to the financial statements.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2019**

Economic Factors and Next Year's Budgets and Rates

The annual budget is developed to provide efficient, effective, and economic uses of the City's resources, as well as a means to accomplish the highest priority objectives. Through the budget, the City Council and administration set the direction of the City, allocate its resources, and establish its priorities.

The City annually reviews all of its fees as part of the budget adoption process. Fees for general government as well as user charges are evaluated and, if needed, adjusted to meet the needs of the operations of the systems. The budget is adopted and a tax rate is approved to meet the demands of the budget. For 2020, rates set for fees and taxes are estimated to meet operational demand similar to the current year.

The adopted tax rate for FY 2019-2020 will increase to a tax rate of \$0.478957 per \$100 valuation. Tax revenue is expected to increase based on rate increase, and due to new property being added to the tax roll.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in the City's finances. Questions concerning the information found in this report or requests for additional financial information should be directed to the City of Lavon, PO Box 340, Lavon, Texas 75166.



BASIC FINANCIAL STATEMENTS

**CITY OF LAVON, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

	Primary Government		Total	Component Units		
	Governmental Activities	Business-type Activities		EDC	TIF	PID's
ASSETS						
Cash and cash equivalents	\$ 1,229,170	\$ 164,585	\$ 1,393,755	\$ 123,202	\$ -	\$ -
Receivables (net of allowance for uncollectibles)	81,770	98,154	179,924	20,027	-	-
Note receivable	-	29,738	29,738	-	-	-
Prepaid item	-	-	-	-	-	-
Restricted assets:						
Cash and cash equivalents	352,282	1,116,948	1,469,230	-	933,587	4,944,538
Capital assets not being depreciated:						
Land	1,805,756	-	1,805,756	-	-	-
Construction in process	8,200	1,996,066	2,004,266	-	-	157,848
Capital assets net of accumulated depreciation:						
Building & improvements	534,117	-	534,117	-	-	-
Infrastructure & improvements	2,952,782	1,968,461	4,921,243	-	-	-
Machinery & equipment	551,285	85,330	636,615	-	-	-
Total assets	7,515,362	5,459,282	12,974,644	143,229	933,587	5,102,386
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows of resources-pension	143,578	-	143,578	-	-	-
LIABILITIES						
Accounts payable	193,463	937	194,400	-	-	8,162
Payroll liabilities	14,548	-	14,548	-	-	-
Other liabilities	-	28,736	28,736	-	-	-
Non-current liabilities:						
Due within one year:						
Compensated absences	-	-	-	-	-	-
Capital lease payable	141,642	-	141,642	-	-	-
Bonds payable	-	-	-	-	-	230,000
Note payable	-	393,000	393,000	-	-	-
Due in more than one year:						
Compensated absences	33,339	-	33,339	-	-	-
Capital lease payable	189,119	-	189,119	-	-	-
Net pension liability	107,253	-	107,253	-	-	-
Net OPEB liability	30,429	-	30,429	-	-	-
Bonds payable	-	-	-	-	-	9,321,100
Note payable	-	2,338,000	2,338,000	29,738	-	-
Total liabilities	709,793	2,760,673	3,470,466	29,738	-	9,559,262
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows of resources-pension	48,791	-	48,791	-	-	-
Unavailable revenue-note receivable	-	29,738	29,738	-	-	-
Total deferred inflows of resources	48,791	29,738	78,529	-	-	-
NET POSITION						
Net investment in capital assets	5,521,379	2,435,805	7,957,184	-	-	-
Restricted for:						
Capital improvements	-	-	-	-	-	-
Court uses	59,774	-	59,774	-	-	-
Police	1,427	-	1,427	-	-	-
Public works	-	-	-	-	-	-
Unrestricted	1,317,776	233,066	1,550,842	113,491	933,587	(4,456,876)
Total net position	\$ 6,900,356	\$ 2,668,871	\$ 9,569,227	\$ 113,491	\$ 933,587	\$ (4,456,876)

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



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

Function/Program Activities	Expenses	Program Revenues		
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 998,474	\$ 16,871	\$ 83,976	\$ -
Public service	122,166	113,386	-	-
Public safety	1,023,801	4,824	-	67,696
Public works	402,497	310,849	-	-
Parks and recreation	3,975	13,123	-	-
Interest on long-term debt	-	-	-	-
Total governmental activities	2,550,913	459,053	83,976	67,696
Business-type Activities:				
Wastewater	550,863	622,463	123,000	-
Solid waste	333,650	541,480	-	-
Total business-type activities	884,513	1,163,943	123,000	-
Total primary government	\$ 3,435,426	\$ 1,622,996	\$ 206,976	\$ 67,696
Component units:				
Economic Development Corporation	\$ 76,313	\$ -	\$ 2,151	\$ -
Tax Increment Fund	-	195,272	-	-
Public Improvement District	782,837	-	2,546,518	-
Total component unit:	\$ 859,150	\$ 195,272	\$ 2,548,669	\$ -

General revenues:
Property tax
Sales & mixed beverage tax
Franchise tax
Investment income
Miscellaneous
Transfers
Total general revenues
Change in net position
Net position - beginning
Net position - ending

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

Net (Expense) Revenue and Changes in Net Position						
Primary Government			Component Units			
Governmental Activities	Business Activities	Total	EDC	TIF	PID	
\$ (897,627)	\$ -	\$ (897,627)	\$ -	\$ -	\$ -	
(8,780)	-	(8,780)	-	-	-	
(951,281)	-	(951,281)	-	-	-	
(91,648)	-	(91,648)	-	-	-	
9,148	-	9,148	-	-	-	
-	-	-	-	-	-	
<u>(1,940,188)</u>	<u>-</u>	<u>(1,940,188)</u>	<u>-</u>	<u>-</u>	<u>-</u>	
-	194,600	194,600	-	-	-	
-	207,830	207,830	-	-	-	
-	402,430	402,430	-	-	-	
<u>\$ (1,940,188)</u>	<u>\$ 402,430</u>	<u>\$ (1,537,758)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
\$ -	\$ -	\$ -	\$ (74,162)	\$ -	\$ -	
-	-	-	-	195,272	-	
-	-	-	-	-	1,763,681	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (74,162)</u>	<u>\$ 195,272</u>	<u>\$ 1,763,681</u>	
\$ 1,464,173	\$ -	\$ 1,464,173	\$ -	\$ -	\$ -	
337,064	-	337,064	112,331	-	-	
159,027	-	159,027	-	-	-	
15,339	47,440	62,779	-	-	2,804	
3	-	3	-	-	-	
337,814	(337,814)	-	-	-	-	
<u>2,313,420</u>	<u>(290,374)</u>	<u>2,023,046</u>	<u>112,331</u>	<u>-</u>	<u>2,804</u>	
373,232	112,056	485,288	38,169	195,272	1,766,485	
6,527,124	2,556,815	9,083,939	75,322	738,315	(6,223,361)	
<u>\$ 6,900,356</u>	<u>\$ 2,668,871</u>	<u>\$ 9,569,227</u>	<u>\$ 113,491</u>	<u>\$ 933,587</u>	<u>\$ (4,456,876)</u>	

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

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

	General Fund	Debt Service Fund	Other Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 1,229,170	\$ -	\$ -	\$ 1,229,170
Receivables (net of allowance for uncollectibles)	81,784	-	-	81,784
Cash and cash equivalents - restricted	194,960	92,906	64,418	352,284
Total assets	1,505,914	92,906	64,418	1,663,238
LIABILITIES				
Accounts payable	193,460	-	-	193,460
Payroll accrual	14,548	-	-	14,548
Total liabilities	208,008	-	-	208,008
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property tax revenue	10,994	-	-	10,994
Total deferred inflows of resources	10,994	-	-	10,994
FUND BALANCES				
Restricted for:				
Court use	-	-	59,775	59,775
Police	-	-	1,427	1,427
Public works	-	-	-	-
Debt service	-	92,906	-	92,906
Assigned for:				
Police	-	-	3,216	3,216
Unassigned	1,286,912	-	-	1,286,912
Total fund balances	1,286,912	92,906	64,418	1,444,236
Total liabilities, deferred inflows of resources and fund balances	\$ 1,505,914	\$ 92,906	\$ 64,418	\$ 1,663,238

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

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

Total fund balances - governmental funds balance sheet	\$ 1,444,236
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,145,982
Accumulated depreciation has not been included in the governmental fund financial statements.	(2,293,842)
Net other pension benefit liability is not due and payable in the current period, and therefore, is not reported in the fund financial statements.	(137,682)
Deferred inflows/outflows of resources for pension are not reported in the fund financial statements.	105,762
Long-term liabilities, including notes payable and capital leases, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(364,100)</u>
Net position of governmental activities - statement of net position	<u><u>\$ 6,900,356</u></u>

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

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

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 716,867	\$ 744,000	\$ -	\$ 1,460,867
Sales	337,064	-	-	337,064
Franchise	159,027	-	-	159,027
Charge for services	29,994	-	-	29,994
Intergovernmental revenue - state and local	135,410	-	1,139	136,549
Licenses and permits	310,849	-	-	310,849
Fines and fees	108,909	-	4,478	113,387
Donations	15,127	-	-	15,127
Investment income	15,339	-	-	15,339
Total revenues	1,828,586	744,000	5,617	2,578,203
EXPENDITURES				
Current operating:				
General government	897,591	-	-	897,591
Public services	119,163	-	3,002	122,165
Public safety	903,324	-	-	903,324
Public works	264,751	-	-	264,751
Parks and recreation	2,246	-	-	2,246
Debt service:				
Principal retirement	145,527	-	-	145,527
Interest	13,772	-	-	13,772
Capital outlays				
General government	15,500	-	-	15,500
Public safety	138,479	-	-	138,479
Public works	130,215	-	-	130,215
Parks	7,400	-	-	7,400
Total expenditures	2,637,968	-	3,002	2,640,970
Excess (deficiency) of revenues over (under) expenditures	(809,382)	744,000	2,615	(62,767)
Other revenues and financing sources (uses)				
Transfers	798,284	(463,846)	3,376	337,814
Sale of assets	4,824	-	-	4,824
Note proceeds	104,652	-	-	104,652
Total other financing sources (uses)	907,760	(463,846)	3,376	447,290
Net change in fund balances	98,378	280,154	5,991	384,523
Fund balances, October 1	1,001,286	-	58,427	1,059,713
Prior period adjustments	187,248	(187,248)	-	-
Fund balances, September 30	\$ 1,286,912	\$ 92,906	\$ 64,418	\$ 1,444,236

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

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

**Net change in fund balances - statement of revenues, expenditures and
changes in fund balances - governmental funds** **\$ 384,523**

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

Current year capital outlays are expenditures in the fund financial statements, 291,594
but these are shown as an increase in capital assets in the government-wide
financial statements. The effect of removing the 2019 capital outlays is to
increase net position.

Depreciation is not recognized as an expense in governmental funds since it (296,606)
does not require the use of current financial resources. The effect of recording
the current year's depreciation is to decrease net position.

Current year long-term debt principal payments on contractual obligations 145,527
are expenditures in the fund financial statements but are shown as reductions
in long-term debt in the government-wide financial statements.

In governmental fund financial statements the proceeds from capital leases (104,652)
are shown as other financing sources but are shown as an increase in liabilities
in the government-wide statements.

Deferred revenue reported within the governmental fund financial statements 3,306
is eliminated from the government-wide financial statements through an adjustment
to property taxes within the government wide financial statements.

Current year changes in pension expense do not require the use of current (50,460)
resources; therefore, this is not reported as expenditures in governmental funds.

Change in net position - statement of activities \$ 373,232

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

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

	Wastewater Fund	Solid Waste Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 164,585	\$ -	\$ 164,585
Receivables (net of allowance for uncollectibles)	54,678	43,476	98,154
Note receivable	29,738	-	29,738
Cash and cash equivalents - restricted	1,116,948	-	1,116,948
Total current assets	1,365,949	43,476	1,409,425
Noncurrent assets:			
Capital assets:			
Construction in progress	1,996,066	-	1,996,066
Infrastructure	2,699,905	-	2,699,905
Machinery and equipment	85,330	-	85,330
Less: accumulated depreciation	(731,444)	-	(731,444)
Total capital assets (net of accumulated depreciation)	4,049,857	-	4,049,857
Total assets	5,415,806	43,476	5,459,282
LIABILITIES			
Current liabilities:			
Accounts payable	937	-	937
Payables from restricted funds:			
Note payable	393,000	-	393,000
Total current liabilities	393,937	-	393,937
Noncurrent liabilities:			
Note payable	2,338,000	-	2,338,000
Accrued Interest	28,736	-	28,736
Total noncurrent liabilities	2,366,736	-	2,366,736
Total liabilities	2,760,673	-	2,760,673
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-note receivable	29,738	-	29,738
Total deferred inflows of resources	29,738	-	29,738
NET POSITION			
Net investment in capital assets	2,435,805	-	2,435,805
Unrestricted	189,590	43,476	233,066
Total net position	\$ 2,625,395	\$ 43,476	\$ 2,668,871

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

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Wastewater Utility	Solid Waste Utility	Total
OPERATING REVENUES:			
Charges for services	\$ 622,463	\$ 541,480	\$ 1,163,943
Total operating revenues	622,463	541,480	1,163,943
OPERATING EXPENSES:			
Supplies and materials	-	12,293	12,293
Contractual services	-	321,357	321,357
Repairs and maintenance	335,287	-	335,287
Utilities	39,376	-	39,376
Depreciation	79,102	-	79,102
Total operating expenses	453,765	333,650	787,415
Operating income (loss)	168,698	207,830	376,528
NON-OPERATING REVENUES (EXPENSES):			
Intergovernmental revenue	123,000	-	123,000
Interest expense	(97,098)	-	(97,098)
Investment income	47,440	-	47,440
Total non-operating revenues (expenses)	73,342	-	73,342
Capital contribution	-	-	-
Transfers	(131,818)	(205,996)	(337,814)
Change in net position	110,222	1,834	112,056
Net position, October 1	2,515,173	41,642	2,556,815
Prior period adjustments	-	-	-
Net position, September 30	\$ 2,625,395	\$ 43,476	\$ 2,668,871

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

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

	Wastewater Utility	Solid Waste Utility	Total
Cash Flows from Operating Activities			
Cash received from customers	\$ 616,405	\$ 539,645	\$ 1,156,050
Cash paid to suppliers for goods and services	(345,458)	(333,650)	(679,108)
Cash paid to employees	-	-	-
Net cash provided by (used for) operating activities	270,947	205,995	476,942
Cash Flows from Noncapital Financing Activities			
Transfers to other funds	(131,817)	(205,995)	(337,812)
Due from LEDC	-	-	-
Intergovernmental revenue	123,000	-	123,000.00
Net cash provided by (used for) noncapital financial activities	(8,817)	(205,995)	(214,812)
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	(373,086)	-	(373,086)
Interest paid on long-term debt	(125,834)	-	(125,834)
Acquisition of capital assets	(1,691,312)	-	(1,691,312)
Debt proceeds	-	-	-
Net cash provided by (used for) capital and related financing activities	(2,190,232)	-	(2,190,232)
Cash Flows from Investing Activities			
Interest income	47,440	-	47,440
Net cash provided by (used for) investing activities	47,440	-	47,440
Net increase (decrease) in cash and cash equivalents	(1,880,662)	-	(1,880,662)
Cash and cash equivalents at beginning of year	3,162,195	-	3,162,195
Cash and cash equivalents at end of year	\$ 1,281,533	\$ -	\$ 1,281,533
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 168,698	\$ 207,830	\$ 376,528
Adjustment to reconcile operating income to net cash provided by operating activities			
Depreciation	79,102	-	79,102
Changes in assets and liabilities:			
(Decrease) increase in:			
Receivables	(6,058)	(1,835)	(7,893)
Increase (decrease) in:			
Accounts payable	29,205	-	29,205
Other liabilities	-	-	-
Total adjustments	102,249	(1,835)	100,414
Net cash provided by operating activities	\$ 270,947	\$ 205,995	\$ 476,942

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

**CITY OF LAVON, TEXAS
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 SEPTEMBER 30, 2019**

	<u>Collin County TIF Fund</u>
ASSETS	
Cash and cash equivalents	\$ 495,217
Total assets	<u>495,217</u>
LIABILITIES	
Other liabilities	495,217
Total liabilities	<u>\$ 495,217</u>

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

**CITY OF LAVON, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Collin County TIF	Balance September 30, 2018	Additions	Deductions	Balance September 30, 2019
ASSETS				
Cash and cash equivalents	\$ 412,096	\$ 83,121	\$ -	\$ 495,217
Total Assets	<u>412,096</u>	<u>83,121</u>	<u>-</u>	<u>495,217</u>
LIABILITIES				
Collin County TIF	412,096	83,121	-	495,217
Total Liabilities	<u>\$ 412,096</u>	<u>\$ 83,121</u>	<u>\$ -</u>	<u>\$ 495,217</u>

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

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lavon, Texas ("City") was incorporated in 1972 and is currently governed by an elected mayor and five-member council and provides the following services to its citizens: Public Safety (Police and Fire), Public Works, Waste Water Utilities, Solid Waste Utilities and General Administrative Services.

The accounting reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments-Audit and Accounting Guide*, and by the Financial Accounting Standards, when applicable. The more significant accounting policies of the City are described below:

1. Reporting Entity

The City is a municipal corporation governed by an elected mayor and a five-member council, and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. The City is therefore considered a financial reporting entity as defined by GASB within Statement No. 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations are Component Units".

Under GASB 14, component units are organizations for which the City is financially accountable, and all other organizations for which the nature and significance of their relationship are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component unit(s) may be discretely presented in a separate column from the primary government, or blended within the financial statements of the primary government. GASB 39 added clarification to GASB 14 by including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component unit, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component unit, is entitled to, or has the ability to otherwise access, are significant to the primary government.

The financial statements of the following component units have been "discretely presented" in the accompanying reports because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component units provide services entirely or almost entirely to the citizenry and not the City.

The Lavon Economic Development Corporation ("EDC"), the Tax Increment Fund ("TIF"), and the Public Improvement Districts (PID), are discretely presented component units of the City. The EDC is governed by a board of seven directors, all of whom are appointed by the City Council of the City and whom can be removed from office by the City Council at its will. The nature and significance of the relationship between the primary government and the EDC is such that exclusion would cause the City's financials to be misleading and incomplete. The EDC is legally separate, but due to the City appointing the voting majority of the EDC board, it is classified as a discretely presented component unit. The funding for the EDC occurs by the City transferring 25% of City sales tax collections to the EDC. The TIF and PIDs are managed by a third party administrator appointed by the City Council and can be terminated by the City Council at its will. The nature and significance of the relationship between the primary government and the TIF and PIDs is such that exclusion would cause the City's financial statements to be incomplete. The TIF and PIDs are legally separate but classified as a discretely presented component unit.

In addition, GASB Statement No. 61 considers an organization that does not meet the financial accountability criteria for being included as a component unit if management's professional judgment determines it to be necessary and misleading if omitted. This evaluation includes consideration of whether a financial benefit or burden exists in the relationship between the entities. Management has not identified any additional organizations that fit this criteria.

The basic financial statements are prepared in conformity with GAAP which require the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities on the statement of net assets and statement of activities. Significantly, the City's statement of net position includes both noncurrent assets and noncurrent liabilities. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets, including infrastructure.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Basis of Presentation

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Management's Discussion and Analysis includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented in the required supplementary section that compares the budget with actual results.

The City's basic financial statements include the accounts of all City operations. In evaluating how to define the City for financial reporting purposes, management has considered all entities for which the City is considered to be financially accountable. As required by GAAP, these financial statements present the City, and its component units, entities for which the City is considered to be financially accountable. The discretely presented component units have been reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the City.

The basic financial statements include both government-wide, (based on the City as a whole), and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Police, Fire, Public Works, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the capital requirements of a particular function or program, and c) grants and contributions that are restricted to meeting the operational requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenue. Internally dedicated resources are also reported as general revenues rather than as program revenues.

The net cost (by function) is normally covered by general revenue (property and sales taxes, franchise fees, and interest income).

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns within the fund financial statements. The major governmental fund is the general fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and proprietary combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the wastewater and solid waste funds are charges to customers for sales and services. The wastewater utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for business-type funds include the cost of sales and service and administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The City's Fiduciary Fund is presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, individuals, pension participants, etc.) and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and proprietary categories, as well as the fiduciary fund. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2. Basis of Presentation (continued)

3. Measurement Focus, Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements and fiduciary fund statements. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position, and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled sewer services which are accrued. Expenses are recognized as the liability is incurred.

Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period, or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available when they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable shortly after year end as required by GASB Interpretation No. 6.

Ad valorem, franchise and sales tax revenues recorded in the General Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to inter-governmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met.

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

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

The *General Fund* is the operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contracted agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position.

Proprietary funds are financed and operated in a manner similar to private business enterprise. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The following are descriptions of the proprietary funds of the City.

The *Wastewater Utility Fund* accounts for the operation of the City's wastewater utility system, a self-supporting activity, which renders services on a user charge basis to residents and businesses located in Lavon.

The *Solid Waste Fund* accounts for the operation of the City's solid waste collection activity. The City collects monthly user charges from subscribers and contracts with a third party for the collection of solid waste.

Agency funds account for amounts held on behalf of others by the City as a trustee, or fiduciary. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. The activities of these funds are excluded from the City's other financial statements because the City cannot use them to finance its operations. The City is responsible for ensuring that the assets reported are used for their intended purpose. The following is a description of the fiduciary fund of the City:

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3. Measurement Focus, Basis of Accounting (continued)

The City reports the following major governmental fund:

The *Collin County TIF* is used to account for assets held by the City in an agency capacity for Collin County. This fiduciary fund records only assets and liabilities and therefore has no measurement focus.

4. Financial Statement Amounts

a. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

b. Prepaid Items

Prepaid balances are for payments made by the City for which benefits extend beyond the fiscal year, and the reserve for prepaid items has been recognized to signify that a portion of the fund balance is not available for other subsequent expenditures. Prepaid items are recorded using the consumption method.

c. Receivable and Payable

Trade and property tax receivables are shown net of an allowance for uncollectibility.

The City believes that sufficient detail of receivable and payable balances are provided in the financial statements to avoid the obscuring of significant components by aggregation.

d. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

e. Capital Assets

Capital assets, which include land, buildings, equipment, vehicles and infrastructure, purchased or acquired, are reported in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund type financial statements. The City defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical, if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current year.

Management elected not to retroactively report infrastructure assets within the scope of GASB 34.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings, structures and improvements	5-40 years
Equipment, including vehicles	5-10 years
Infrastructure	20-40 years

f. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and overtime not paid (comp time). All vacation and comp time is accrued at the close of the fiscal year end in the government-wide and proprietary fund financial statements.

g. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed during the year they are incurred.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (continued)

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.

h. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify in this category. The City's pension plan contributions made from the measurement date of the pension plan to the current fiscal year-end are deferred and will be recognized in the subsequent fiscal year-end. The other deferred outflow is the difference between projected and actual investment earnings that will be amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of a net position that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until that time. The City has three items that qualify in this category. Two of these items arise only under a modified accrual basis of accounting. Accordingly, unavailable revenue, is reported only in the governmental funds Balance Sheet. The governmental fund reports unavailable revenue from property tax and proprietary funds report a note receivable. The remaining items recorded as a deferred inflow of resources is recorded in the government-wide Statement of Net Position and fund level financial statements for the Wastewater Utility Fund's Statement of Net Position for the difference in projected and actual experience in the actuarial measurement of the total pension liability not recognized in the current year. The amount is deferred and will be amortized over a period of years determined by the Plan actuary. The differences will be amortized over the average remaining service life of all participants in the respective pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.

i. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

j. Fund Balance Policies

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by laws through constitutional provisions or enabling legislation that stipulates that amounts can only be spent for specific purposes.
- *Committed fund balance* - amounts that can only be used for specific purposes determined by a resolution of the City Council and remains binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned fund balance* - amounts that are constrained by the City's intent to be used for specific purposes. Assignment of fund balance is much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used.
- *Unassigned fund balance* - the residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (Continued)

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unassigned resources are available for use, it is the City's policy to use restricted resources first, followed by the committed, assigned and unassigned resources as they are needed.

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City considers an unassigned fund balance of 25% of expenditures should be maintained. The City considers an unassigned fund balance of less than 5% of expenditures to be cause for concern and a plan to adjust budget resources in subsequent fiscal years will be done to restore the balance.

The purpose of the City's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

Compliance with the provisions of the policy shall be reviewed as part of the annual operating budget adoption process and subsequent review will be included in the annual audit and financial statement preparation procedures. The City is in compliance with the policy at the end of the current fiscal period.

k. Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider a restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

l. Property Taxes

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year, to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due October 1, immediately following the levy date and are delinquent after the following January 31st. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within 60 days following the close of the fiscal year have been recognized as a revenue at the fund level.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraisal values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

The City's property tax rate for the current fiscal year is \$0.455700 per \$100 assessed value.

m. Comparative Data/Reclassification

Comparative total data for the current year to budget for the General Fund have been presented in the basic financial statements in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (Continued)

n. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

o. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management estimates.

p. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

q. Program Expenses

Certain indirect costs such as administrative costs are included in the program expense reported for individual functional activities.

B. COMPLIANCE AND ACCOUNTABILITY

1. Finance-Related Legal and Contractual Provisions

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:

<u>Violation</u>	<u>Action Taken</u>
None	N/A

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None	N/A

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

The following procedures are followed in establishing the budgetary data:

- No later than the fifteenth day of each August, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- The budget for the General Fund is legally adopted on a basis consistent with modified accrual basis. The majority of the City's capital projects are budgeted on an annual basis.
- The level of control (the level at which expenditures may not exceed budget) is the fund level. The City Council is the only body that can change the budgeted amounts from one line item to another.

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

C. CASH AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of both a depository contract and investment policy. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC").

Cash Deposits

At September 30, 2019, the carrying amount of the City's deposits was \$2,862,985 and the bank balance was \$2,886,573. The City's cash deposits at September 30, 2019 and during the year ended September 30, 2019 were entirely covered by FDIC or by pledged collateral held in the City's name. Cash and cash equivalents as of September 30, 2019 consist of and are classified in the accompanying financial statements as follows:

Statement of Net Position:

Primary Government

Cash and cash equivalents	\$ 1,393,755
Restricted assets-cash and cash equivalents	1,469,230
Total Cash and Cash Equivalents	<u>\$ 2,862,985</u>

Governmental - Restricted Cash

Court use	63,218
Police Use	84,244
Debt Service	92,906
Capital Projects	1,116,998
Streets	20,069
Escrow	31,378
Other	60,417
Total Restricted Cash	<u>\$ 1,469,230</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by national recognized agencies are designed to give an indication of credit risk. At year end, the City was not exposed to credit risk.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

Foreign Currency Risk

This is the risk that changes in exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

D. TAX INCREMENT FINANCING

The City established a Tax Increment Financing District No. 1 ("TIF") in December 2006 by Ordinance 2006-12-01 along with Collin County for project improvements within the City. Collin County District signed the agreement to participate. Currently, the City collects all property tax revenues for the TIF.

Tax Increment Financing is a tool that local governments can use to publicly finance needed structural improvements and enhance infrastructure within a defined area. These improvements are associated with economic development and are governed by the statutes within Chapter 311 of the Texas Tax Code. TIF is based upon the pledge of future real property taxes generated by new development within that defined geographical area. The public improvements make development of the area possible, which in turn enhances the value of the property. The taxes generated as a result of the enhanced property values are used to fund the public improvements within the area and other incidental costs. In areas designated as TIF districts, tax-based increases are removed from the general tax rolls and the revenue from the 'captured' tax base is used to finance site improvements or other economic development costs.

E. RECEIVABLES

Receivables as of year end for the City's individual major funds and non-major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental</u>	<u>Proprietary</u>	<u>Total</u>
Receivables:			
Taxes	\$ 72,613	\$ -	\$ 72,613
Fees and Charges	150,891	109,060	259,951
Other	-	-	-
Gross Receivables	<u>223,504</u>	<u>109,060</u>	<u>332,564</u>
Less: allowance for uncollectible	<u>(141,734)</u>	<u>(10,906)</u>	<u>(152,640)</u>
Net Total Receivables	<u>\$ 81,770</u>	<u>\$ 98,154</u>	<u>\$ 179,924</u>

F. NOTE RECEIVABLE

In June 2014, certain sewer infrastructure improvements were budgeted, and financed by using proceeds from the City of Lavon's 2014 Tax Note. The Economic Development Corporation agreed to indirectly pay for these improvements by repaying the principal and interest of the City of Lavon's 2014 Tax Note using local sales and use taxes received by the Corporation.

	<u>Beginning Balances</u>	<u>Issued</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Receive in One year</u>
Note receivable-EDC	\$ 42,022	\$ -	\$ (12,284)	\$ 29,738	\$ 13,909

Note receivable requirements are as follows:

Year ending September 30	Payment
2020	13,909
2021	15,829
Total	<u>\$ 29,738</u>

CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

G. CAPITAL ASSETS

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

	Beginning Balances	Transfers	Additions	Decreases	Ending Balances
Governmental Activities					
Capital assets, not being depreciated					
Land	\$ 1,805,756	\$ -	\$ -	\$ -	\$ 1,805,756
Construction in Progress	8,200	-	-	-	8,200
Total capital assets, not being depreciated	<u>1,813,956</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,813,956</u>
Capital assets, being depreciated:					
Buildings & Improvements	958,252	-	23,991	-	982,243
Infrastructure	3,963,878	-	153,116	-	4,116,994
Machinery & Equipment	1,118,302	-	114,487	-	1,232,789
Total capital assets being depreciated	<u>6,040,432</u>	<u>-</u>	<u>291,594</u>	<u>-</u>	<u>6,332,026</u>
Less accumulated depreciation for:					
Buildings & Improvements	(398,738)	-	(49,388)	-	(448,126)
Infrastructure	(1,051,813)	-	(112,399)	-	(1,164,212)
Machinery & Equipment	(546,684)	-	(134,820)	-	(681,504)
Total accumulated depreciation	<u>(1,997,235)</u>	<u>-</u>	<u>(296,607)</u>	<u>-</u>	<u>(2,293,842)</u>
Total capital assets, being depreciated, net	<u>4,043,197</u>	<u>-</u>	<u>(5,013)</u>	<u>-</u>	<u>4,038,184</u>
Governmental activities capital assets, net	\$ 5,857,153	\$ -	\$ (5,013)	\$ -	\$ 5,852,140
Business-type Activities					
Capital assets, not being depreciated					
Construction in Progress	\$ 304,754	\$ -	\$ 1,691,311	\$ -	\$ 1,996,065
Total capital assets, not being depreciated	<u>304,754</u>	<u>-</u>	<u>1,691,311</u>	<u>-</u>	<u>1,996,065</u>
Capital assets, being depreciated:					
Infrastructure	2,699,906	-	-	-	2,699,906
Machinery & Equipment	85,330	-	-	-	85,330
Total capital assets being depreciated	<u>2,785,236</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,785,236</u>
Less accumulated depreciation for:					
Infrastructure	(629,527)	-	(67,498)	-	(697,025)
Machinery & Equipment	(22,815)	-	(11,604)	-	(34,419)
Total accumulated depreciation	<u>(652,342)</u>	<u>-</u>	<u>(79,102)</u>	<u>-</u>	<u>(731,444)</u>
Total capital assets, being depreciated, net	<u>2,132,894</u>	<u>-</u>	<u>(79,102)</u>	<u>-</u>	<u>2,053,792</u>
Business-type activities capital assets, net	\$ 2,437,648	\$ -	\$ 1,612,209	\$ -	\$ 4,049,857
Depreciation expense was charged to functions/programs of the primary government as follows:					
Governmental activities:					
General Government		\$ 50,427			
Public Safety		111,339			
Public Works		133,112			
Parks and Recreation		1,729			
Total depreciation expense - governmental activities		<u>\$ 296,607</u>			
Business-type activities:					
Wastewater services		<u>\$ 79,102</u>			

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

H. CONSTRUCTION COMMITMENTS

A contract of \$2,192,134 was awarded to Heritage Constructors, Inc. for the expansion of the Bear Creek Wastewater Treatment Plant.

I. LONG-TERM OBLIGATIONS

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2019, is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Capital Leases Payable	\$ 371,637	\$ 104,652	\$ (145,528)	\$ 330,761	\$ 141,642
Compensated Absences	33,338	56,675	(56,674)	33,339	-
Governmental activity					
Total long-term liabilities	\$ 404,975	\$ 161,327	\$ (202,202)	\$ 364,100	\$ 141,642
Business-type Activities					
Capital Leases Payable	\$ 6,086	\$ -	\$ (6,086)	\$ -	\$ -
Notes Payable	3,098,000	-	(367,000)	2,731,000	393,000
Business-type activity					
Total long-term liabilities	\$ 3,104,086	\$ -	\$ (373,086)	\$ 2,731,000	\$ 393,000

Changes in Governmental Long-term Debt

Description	Interest Rate Payable	Amounts Issue	Amounts Outstanding September 30, 2018	Issued	Retired	Amounts Outstanding September 30, 2019	Due Within One Year
CNH Capital	7.00%	21,773	4,702	-	(4,702)	-	-
Community FNB	3.56%	199,000	101,452	-	(18,900)	82,552	19,571
Community 1st National Bank	3.35%	99,625	60,325	-	(19,442)	40,883	20,102
Community 1st National Bank	3.35%	76,285	57,693	-	(24,990)	32,703	26,028
Community 1st National Bank	4.71%	55,163	55,163	-	(17,910)	37,253	18,226
Motorola Solutions, Inc.	3.90%	73,562	73,562	-	(17,328)	56,234	18,018
Community 1st National Bank	5.23%	18,740	18,740	-	(6,067)	12,673	6,185
Community 1st National Bank	2.99%	104,651	-	104,651	(36,188)	68,463	33,512
Total Long Term Obligations		\$ 648,799	\$ 371,637	\$ 104,651	\$ (145,527)	\$ 330,761	\$ 141,642

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2020	141,642	12,695	154,337
2021	126,924	7,184	134,108
2022	40,466	2,292	42,758
2023	21,729	771	22,500
Totals	\$ 330,761	\$ 22,942	\$ 353,703

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

I. LONG-TERM OBLIGATIONS (continued)

Capital Leases

The City has the following lease agreements:

The City incurred a capital lease payable with Community First National Bank in the amount of \$199,000 for the purchase of a pumper truck for the fire department.

The City incurred a capital lease payable with CNH Capital in the amount of \$21,773 for the purchase of two mowers for public works.

The City incurred a capital lease payable with Community 1st National Bank in the amount of \$99,625 for the purchase of a new vehicle and a tractor.

The City incurred a capital lease payable with Community First National Bank in the amount of \$76,285 for the purchase of a vehicle for the police department and a vehicle for the public works department. This lease will be paid in full in FY2021.

The City incurred a capital lease payable with Community First National Bank in the amount of \$55,163 for the purchase of a vehicle for the fire department. This lease will be paid in full in FY2021.

The City incurred a capital lease payable with Motorola Solutions, Inc. in the amount of \$73,562 for the purchase of communication equipment for the police department. This lease will be paid in full in FY2022.

The City incurred a capital lease payable with Community First National Bank in the amount of \$18,740 for the purchase of communication equipment for the fire department. This lease will be paid in full in FY2021.

The City incurred a capital lease payable with Community First National Bank in the amount of \$104,651 for the purchase of two police vehicles for the fire department. This lease will be paid in full in FY2021.

Changes in Business-type Long-term Debt

Description	Interest Rate Payable	Amounts Issued	Amounts Outstanding September 30		Retired	Amounts Outstanding September 30,		Due Within One Year
			2018	Issued		2019		
2014 Tax Note	4.00%	\$ 84,000	\$ 38,000	\$ -	\$ (12,000)	\$ 26,000	\$ 13,000	
2018 Tax Note	2.270% to 2.814%	3,060,000	3,060,000	-	(355,000)	2,705,000	380,000	
Total Bonds & Notes		3,144,000	3,098,000	-	(367,000)	2,731,000	393,000	
First National Bank	3.33%	23,460	6,086	-	(6,086)	-	-	
Total Long Term Obligations		\$ 3,167,460	\$ 3,104,086	\$ -	\$ (373,086)	\$ 2,731,000	\$ 393,000	

Debt service requirements are as follows:

Year Ending September 30:	Total Requirements		
	Principal	Interest	
2020	393,000	64,747	457,747
2021	453,000	57,363	510,363
2022	450,000	48,350	498,350
2023	465,000	37,970	502,970
2023-2025	970,000	40,410	1,010,410
Totals	\$ 2,731,000	\$ 248,840	\$ 2,979,840

The City incurred a 2014 Tax Note in the amount of \$84,000 for the sewer infrastructure improvements.

The City incurred a 2018 Tax Note in the amount of \$3,060,000 for the expansion of the Bear Creek Wastewater Treatment Plant.

Capital Leases

The City has the following lease agreements:

The City incurred a capital lease payable with First National Bank in the amount of \$23,460 for the purchase of a 2016 Dodge truck. The lease was fully paid in FY2019.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

J. PUBLIC IMPROVEMENTS DISTRICTS

In September 2004, the City created a Public Improvement District ("PID") as authorized under Chapter 372 of the Texas Local Government Code. This PID was created for the benefit of Heritage Residential Development to be known as Heritage Public Improvement District No. 1. The PID was created for the acquisition, construction, and development of public improvements to include roads, drainage and storm water control system, sanitary sewage collection system, water supply and distribution system, other improvements and costs associated with the development and financing of these improvements.

A third party collects the special assessment for the debt issued and transfers money to Bank of New York who acts as the paying agent for the debt. The City does not have any direct or contingent liability or moral obligation for the payment of this debt. The outstanding balance for the special assessment bond at September 30, 2019 is:

Heritage Public Improvement District #1 Special Assessment Revenue Bonds, Series 2013: \$ 7,000,000

In August 2019, the City created a Public Improvement District ("PID") as authorized under Chapter 372 of the Texas Local Government Code. This PID was created for the benefit of Lakepoint Residential Development to be known as Lakepoint Public Improvement District No. 1. The PID was created for the acquisition, construction, and development of public improvements to include roads, drainage and storm water control system, sanitary sewage collection system, water supply and distribution system, other improvements and costs associated with the development and financing of these improvements.

A third party collects the special assessment for the debt issued and transfers money to Wilmington Trust who acts as the paying agent for the debt. The City does not have any direct or contingent liability or moral obligation for the payment of this debt. The outstanding balance for the special assessment bond at September 30, 2019 is:

Lakepoint Public Improvement District #1 Special Assessment Revenue Bonds, Series 2019: \$ 2,630,000

K. PENSION PLAN

1. Plan Description

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

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

2. Benefits Provided

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

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

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

K. PENSION PLAN

2. Benefits Provided (continued)

Employees covered by benefit terms:

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

	Plan Year	
	2018	2017
Number of:		
Inactive employees or beneficiaries currently receiving benefits	3	3
Inactive employees entitled to but not yet receiving benefits	18	18
Active employees	18	18
Total	39	39

3. Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.81% and 5.52% in calendar years 2018 and 2017. The City's contributions to TMRS for the fiscal year ending September 30, 2019 were \$54,558 and were equal to the required contributions.

4. Net Pension Liability

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

Actuarial assumptions:

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

Inflation	2.50%
Overall payroll growth	3.50% to 10.50% including inflation
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 96%. The rates are projected on a fully generational basis of scale BB to account for future mortality improvement. For disabled annuitants, 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% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2018 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period of December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

K. PENSION PLAN

4. Net Pension Liability (continued)

The expected rate of return on pension plan investments is 6.75%; the municipal bond rate is 3.71% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). A single discount rate of 6.75% was used to measure the total pension liability as of December 31, 2018.

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2017	\$ 1,033,892	\$ 1,057,754	\$ (23,862)
Changes for the year:			
Service cost	107,824	-	107,824
Interest	73,837	-	73,837
Change of benefit terms	10,765	-	10,765
Difference between expected and actual experience	841	-	841
Changes of assumptions	-	-	-
Contributions - employer	-	49,957	(49,957)
Contributions - employee	-	44,445	(44,445)
Net investment income	-	(31,605)	31,605
Benefit payments, including refunds of employee contributions	(9,362)	(9,362)	-
Administrative expense	-	(612)	612
Other changes	-	(33)	33
Net changes	183,905	52,790	131,115
Balance at 12/31/2018	<u>\$ 1,217,797</u>	<u>\$ 1,110,544</u>	<u>\$ 107,253</u>

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

K. PENSION PLAN

4. Net Pension Liability (continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability 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:

	Current Single Rate	
1% Decrease 5.75%	Assumption 6.75	1% Increase 7.75%
\$ 291,908	\$ 107,253	\$ (43,108)

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

For the year ended September 30, 2019, the City recognized a pension expense of \$50,457.

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

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual economic experience	\$ 5,208	\$ 9,712
Changes in actuarial assumptions	1,124	
Difference between projected and actual investment earnings	92,072	36,431
Contributions subsequent to the measurement date of December 31, 2018	42,205	-
Total	\$ 140,609	\$ 46,143

\$42,205 reported as deferred outflow of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the current fiscal year. Other amounts reported as deferred outflow and inflow of resources related to pension will be recognized in pension expense as follows:

Net deferred outflows (inflows) of resources:

December 31

2019	\$ 18,292
2020	4,698
2021	8,666
2022	20,605
2023	-
Total	\$ 52,261

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

K. PENSION PLAN

6. Group-term Life Insurance

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

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

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

Total OPEB Liability:

The City of Lavon's total OPEB liability of \$30,429 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.5% including inflation
Discount rate*	3.71%

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA index" rate as of December 31, 2018.

Mortality rates - service retirees:

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.

Mortality rates - disabled retirees:

RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Membership

Number of:

-Inactive employees currently receiving benefits	2
-Inactive employees entitled to but not yet receiving benefits	4
-Active employees	18
Total	24

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

K. PENSION PLAN

6. Group-term Life Insurance (continued)

Changes in the Total OPEB Liability:

Total OPEB Liability - beginning of year	\$ 29,681
Changes for the year:	
Service costs	2,933
Interest on total OPEB liability	1,030
Changes in benefit terms	-
Differences between expected and actual experience	(498)
Changes in assumptions or other inputs	(2,628)
Benefit payments	(89)
Total OPEB Liability - end of year	<u>\$ 30,429</u>

The following presents the Total OPEB Liability of the City of Lavon, Texas, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31 percent) or 1-percentage-point higher (4.31%) than the current discount rate.

	1% Decrease (2.71%)	Current Discount (3.71)	1% Increase (4.71%)
Total OPEB Liability	\$ 37,709	\$ 30,429	\$ 24,897

Deferred (Inflows)/Outflows of Resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 422
Changes in assumptions and other inputs	1,929	2,227
Contributions made subsequent to measurement date	1,040	-
Total	<u>\$ 2,969</u>	<u>\$ 2,649</u>

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

	Net Deferred Outflows (Inflows) of Resources
2019	\$ (53)
2020	(53)
2021	(53)
2022	(53)
2023	(244)
Thereafter	(264)
Total	<u>\$ (720)</u>

L. HEALTH CARE COVERAGE

During the year ended September 30, 2019, employees of the City were covered by a health insurance plan with TML Intergovernmental Employee Benefits Pool-United Health Care Choice Plan Plus ("Plan"). The City contributed approximately \$700 per month per employee and \$0 of the cost for dependent's. Employees, at their option, authorized payroll withholdings to pay contributions for dependents coverage. All contributions were paid to TML-IEBP. The Plan was authorized by article 3.51-2, Texas Insurance Code and is documented by contractual agreement.

M. INSURANCE COVERAGE

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League Intergovernmental Risk Pool, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$125,000 and for aggregated loss. According to the latest actuarial opinion dated October 1, 2018, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred, but not reported.

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

N. RISK MANAGEMENT

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

O. WASTEWATER DISPOSAL

The City contracts the operation of the wastewater treatment plant from the North Texas Municipal Water District ("District"), a district authorized by the Texas Constitution, Article XVI, Section 59; created by the Texas Legislature, Article 8280-141; and authorized to act by the confirming vote of the majority of the qualified voters in each of the cities comprising the District. The City provides for the payment of its contractual obligations with the District from revenues generated by the Wastewater Utility Fund.

P. LITIGATION

The City is subject to certain legal proceedings in the normal course of operations. It is the opinion of management, the aggregate liability, if any, with respect to potential legal actions will not materially adversely affect the City's financial position, results of operations, or cash flows.

Q. TRANSFERS

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 334,438	
Utility Funds		337,814
Other	3,376	
Total Funds Transfers	\$ 337,814	\$ 337,814

Transfer from the business-type funds to the General Fund are made to pay for administrative costs.

R. PRIOR PERIOD ADJUSTMENTS

During the fiscal year, a prior period adjustment totaling \$187,248 occurred to establish the Debt Service Fund. The adjustment occurred between the Fund and the newly created Debt Service Fund, with a zero net effect.

S. SUBSEQUENT EVENTS

The City has evaluated all events or transactions that occurred after September 30, 2019 up through March 25, 2020, the date the financial statements were available to be issued. During this period, management was unaware of subsequent events requiring disclosures.

T. LAVON ECONOMIC DEVELOPMENT CORPORATION

The Lavon Economic Development Corporation ("LEDC") was incorporated on December 20, 2004. The LEDC is a non-profit industrial development corporation formed under the Texas Revised Civil Statutes Development Corporation Act of 1979. The LEDC is financed with a voter approved 1/2 cent sales tax to aid, promote, and further the economic development within the City.

1. Deposits and Investments

Cash and cash equivalents as of September 30, 2019 consist of and are classified in the accompanying financial statements as follows:

Unrestricted Cash and Cash Equivalents	<u>\$ 123,202</u>
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Credit Risk

State law restricts both time and demand deposits, including certificates of deposit, to those banks doing business in the State of Texas and further require full insurance of collateralization from these depositories (banks only).

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment collateral securities that are in the possession of another party. The Public Funds Investment Act does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

2. Receivables

Receivables at the year end for the LEDC were \$20,027. This is sales tax receivable due from the City. There is no allowance for uncollectible accounts.

3. Prepaid Items

Prepaid balances are for payments made by the LEDC for which benefits extend beyond September 30, 2019, and the related nonspendable fund balance amount has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures. The cost of governmental fund type prepaid balances are recorded as an expenditure when consumed rather than when purchased.

4. Note Payable

Description	Amounts Issued	Amounts Outstanding September 30 2018	Additions	Decreases	Amounts Outstanding September 30 2019	Due within one year
Note Payable to City	\$ 96,781	\$ 42,371	\$ -	\$ (12,633)	\$ 29,738	\$ 13,909

Debt service requirements are as follows:

Year ending September 30	Total Requirements
2020	13,909
2021	15,829
Total	\$ 29,738

LEDC signed an agreement in June 2014 to use local sales tax funds to fund improvements for the City of Lavon's sewer infrastructure. The City subsequently issued a tax note in the amount of \$84,000 and LEDC agreed to pay \$96,781 (including interest) over a period of 7 years.

5. Operating Lease

The LEDC has an operating lease with the City of Lavon to rent office space for \$5,000 annually beginning March 1, 2012 and ending in FY2019.

6. Litigation

Currently, management is unaware of significant pending litigation against the EDC.

7. Related Party

Pam Mundo, Executive Director for the LEDC, is also the president of Mundo & Associates, Inc. This firm is a consultant for LEDC for ongoing projects. Pam Mundo acts in an advisory capacity without any voting privileges nor does she have access to the bank account or signature authority.

One of the EDC's board members is contracted with EDC to provide IT services. The Board approved these services through bidding procedures. Management has determined that this does not pose any conflict of interest for either party.

8. Subsequent Events

The LEDC has evaluated all events or transactions that occurred after September 30, 2019 up through March 25, 2020, the date the financial statements were available to be issued. During this period management noted there were no subsequent events requiring disclosure.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

U. LAVON TAX INCREMENT FUND

The Lavon Tax Increment Fund ("TIF") was incorporated December 12, 2006. The reinvestment zone receives a portion of the property taxes collected in the City of Lavon. The city chose in fiscal year 2017 to separate the TIF into its own entity.

1. Deposits and Investments

Cash and cash equivalents as of September 30, 2019 consist of and are classified in the accompanying financial statements as follows:

Restricted Cash and Cash Equivalents	<u>\$ 933,587</u>
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2. Subsequent Events

The TIF has evaluated all events or transactions that occurred after September 30, 2019 up through March 25, 2020, the date the financial statements were available to be issued. During this period management noted there were no subsequent events requiring disclosure.

V. HERITAGE PUBLIC IMPROVEMENT DISTRICT

In September 2004, the City created a Public Improvement District ("PID") as authorized under Chapter 372 of the Texas Local Government Code. This PID was created for the benefit of Heritage Residential Development to be known as Heritage Public Improvement District No. 1. The PID was created for the acquisition, construction, and development of public improvements to include roads, drainage and storm water control system, sanitary sewage collection system, water supply and distribution system, other improvements and costs associated with the development and financing of these improvements.

1. Deposits and Investments

Cash and cash equivalents as of September 30, 2019 consist of and are classified in the accompanying financial statements as follows:

Restricted Cash and Cash Equivalents	<u>\$ 1,156,563</u>
--------------------------------------	---------------------

2. Subsequent Events

The Heritage Public Improvement District has evaluated all events or transactions that occurred after September 30, 2019 up through March 25, 2020, the date the financial statements were available to be issued. During this period management noted there were no subsequent events requiring disclosure.

W. LAKEPOINT PUBLIC IMPROVEMENT DISTRICT

In August 2019, the City created a Public Improvement District ("PID") as authorized under Chapter 372 of the Texas Local Government Code. This PID was created for the benefit of Lakepoint Residential Development to be known as Lakepoint Public Improvement District No. 1. The PID was created for the acquisition, construction, and development of public improvements to include roads, drainage and storm water control system, sanitary sewage collection system, water supply and distribution system, other improvements and costs associated with the development and financing of these improvements.

1. Deposits and Investments

Cash and cash equivalents as of September 30, 2019 consist of and are classified in the accompanying financial statements as follows:

Restricted Cash and Cash Equivalents	<u>\$ 3,787,975</u>
--------------------------------------	---------------------

2. Subsequent Events

The Lakepoint Public Improvement District has evaluated all events or transactions that occurred after September 30, 2019 up through March 25, 2020, the date the financial statements were available to be issued. During this period management noted there were no subsequent events requiring disclosure.



REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LAVON, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**SCHEDULE OF CONTRIBUTIONS
 LAST FIVE FISCAL YEARS (UNAUDITED)**

	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Actuarially determined contributions	\$ 46,293	\$ 41,376	\$ 34,905	\$ 31,348	\$ 26,916
Contributions in relation to the actuarially determined contribution	\$ 46,293	\$ 41,376	\$ 34,905	\$ 31,348	\$ 26,916
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 863,063	\$ 849,615	\$ 849,615	\$ 716,730	\$ 643,698
Contributions as a percentage of covered employee payroll	5.36%	4.87%	4.11%	4.37%	4.18%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 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.

Notes: Increased employee contribution rate from 5% to 6%.

**CITY OF LAVON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS-TMRS**

	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Total Pension Liability					
Service cost	\$ 107,824	\$ 87,510	\$ 73,107	\$ 63,790	\$ 50,365
Interest (on the Total Pension Liability)	73,837	64,079	54,755	48,000	41,927
Changes of benefit terms	10,765	-	-	-	-
Difference between expected and actual experience	841	(18,993)	16,408	(6,720)	(4,139)
Change of assumptions	-	-	-	26,056	-
Benefit payments, including refunds of employee contributions	(9,362)	(8,523)	(18,178)	(2,425)	(13,802)
Net Change in Total Pension Liability	183,905	124,073	126,092	128,701	74,351
Total Pension Liability - Beginning	1,033,892	909,819	783,727	655,026	580,675
Total Pension Liability - Ending (a)	\$ 1,217,797	\$ 1,033,892	\$ 909,819	\$ 783,727	\$ 655,026
Plan Fiduciary Net Position					
Contributions - employers	\$ 49,957	\$ 45,199	\$ 33,642	\$ 28,967	\$ 17,097
Contributions - employees	44,445	42,481	35,837	32,185	28,942
Net investment income	(31,605)	118,796	51,019	1,033	36,148
Benefit payments, including refunds of employee contributions	(9,362)	(8,523)	(18,178)	(2,425)	(13,802)
Administrative expense	(612)	(618)	(579)	(629)	(377)
Other	(32)	(31)	(31)	(31)	(31)
Net Change in Plan Fiduciary Net Position	52,791	197,304	101,710	59,100	67,977
Plan Fiduciary Net Position - Beginning	1,057,754	860,450	758,740	699,640	631,663
Plan Fiduciary Net Position - Ending (b)	\$ 1,110,545	\$ 1,057,754	\$ 860,450	\$ 758,740	\$ 699,640
Net Pension Liability (Asset) - Ending (a)-(b)	\$ 107,252	\$ (23,862)	\$ 49,369	\$ 24,987	\$ (44,614)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.19%	102.31%	94.57%	96.81%	106.81%
Covered Employee Payroll	\$ 888,907	\$ 849,615	\$ 716,730	\$ 643,698	\$ 578,842
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	12.07%	-2.81%	6.89%	3.88%	-7.71%

Note to Schedule:
N/A

**CITY OF LAVON, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
AND RELATED RATIOS-TMRS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>12/31/2018</u>	<u>12/31/2017</u>
Total OPEB Liability		
Service cost	\$ 2,933	\$ 2,464
Interest (on the Total OPEB liability)	1,030	937
Changes of benefit terms	-	-
Difference between expected and actual experience	(498)	-
Change of assumptions	(2,628)	2,777
Benefit payments, including refunds of employee contributions	(89)	(85)
Net Change in Total Pension Liability	<u>748</u>	<u>6,093</u>
Total OPEB Liability - Beginning	<u>29,681</u>	<u>23,588</u>
Total OPEB Liability - Ending	<u><u>\$ 30,429</u></u>	<u><u>\$ 29,681</u></u>
Covered employee payroll	\$ 888,907	\$ 849,615
Total OPEB Liability as a percentage of covered employee payroll	3.42%	3.49%

See accompanying notes to these financial statements for more detail.

Note: Years will continue to be added until there are 10 years for comparison.

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

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Adopted	Amended		
REVENUES				
Taxes:				
Property	\$ 987,176	\$ 714,947	\$ 716,867	\$ 1,920
Sales	155,000	208,000	337,064	129,064
Franchise	130,000	145,000	159,027	14,027
Charge for services	58,428	61,885	29,994	(31,891)
Intergovernmental revenue - state and local	64,500	64,500	135,410	70,910
Licenses and permits	146,500	313,379	310,849	(2,530)
Fines and forfeitures	70,000	70,000	108,909	38,909
Donations	-	-	15,124	15,124
Investment income	-	-	15,339	15,339
Miscellaneous	-	-	3	3
Total revenues	1,611,604	1,577,711	1,828,586	250,875
EXPENDITURES				
Current operating:				
General government	669,495	736,953	897,591	(160,638)
Public works	245,542	249,103	264,751	(15,648)
Municipal court	95,492	95,492	119,163	(23,671)
Public safety	895,675	922,847	903,324	19,523
Parks and recreation	-	-	2,246	(2,246)
Debt service:				
Principal retirement	145,527	145,527	145,527	-
Interest	13,772	13,772	13,772	-
Capital outlays:				
General government	1,500	1,500	15,500	(14,000)
Public safety	186,028	184,028	138,479	45,549
Public works	31,486	31,486	130,215	(98,729)
Parks	-	-	7,400	(7,400)
Total expenditures	2,284,517	2,380,708	2,637,968	(257,260)
Excess of revenues over expenditures	(672,913)	(802,997)	(809,382)	(6,385)
Other financing sources (uses)				
Transfers	628,341	786,341	798,284	11,943
Prior year carry-over	-	-	-	-
Sale of assets	2,000	4,824	4,824	-
Note proceeds	-	-	104,652	104,652
Total other financing sources (uses)	630,341	791,165	907,760	116,595
Net change in fund balances	(42,572)	(11,832)	98,378	110,210
Fund balance, October 1	1,001,286	1,001,286	1,001,286	
Prior period adjustments	-	-	187,248	
Fund balance, September 30	\$ 958,714	\$ 989,454	\$ 1,286,912	

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



SUPPLEMENTARY INFORMATION

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

	Municipal Court Tech Fund	Police TCLEOSE Fund	Police Seized Asset Fund	Municipal Court Security Fund	Court Funds	Total Other Governmental Funds
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents - restricted	11,273	3,216	1,427	12,057	36,445	64,418
Total assets	<u>11,273</u>	<u>3,216</u>	<u>1,427</u>	<u>12,057</u>	<u>36,445</u>	<u>64,418</u>

LIABILITIES AND FUND BALANCE

Liabilities:						
Accounts payable	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Fund Balances:						
Restricted for:						
Court	11,273	-	-	12,057	36,445	59,775
Police	-	-	1,427	-	-	1,427
Designated for:						
Police	-	3,216	-	-	-	3,216
Total fund balance	<u>11,273</u>	<u>3,216</u>	<u>1,427</u>	<u>12,057</u>	<u>36,445</u>	<u>64,418</u>
Total liabilities and fund balances	<u>\$ 11,273</u>	<u>\$ 3,216</u>	<u>\$ 1,427</u>	<u>\$ 12,057</u>	<u>\$ 36,445</u>	<u>\$ 64,418</u>

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

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

	Municipal Court Tech Fund	Police TCLEOSE Fund	Police Seized Asset Fund	Municipal Court Security Fund	Court Funds	Total Other Governmental Funds
REVENUES						
Fines and forfeitures	\$ 2,380	\$ -	\$ -	\$ 1,785	\$ 313	\$ 4,478
Intergovernmental revenue - state and local	-	1,139	-	-	-	1,139
Total Revenues	<u>2,380</u>	<u>1,139</u>	<u>-</u>	<u>1,785</u>	<u>313</u>	<u>5,617</u>
EXPENDITURES						
Current:						
Court	3,002	-	-	-	-	3,002
Police	-	-	-	-	-	-
Total Expenditures	<u>3,002</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,002</u>
Excess of revenues over expenditures	(622)	1,139	-	1,785	313	2,615
Other Financing Sources (uses)						
Transfers	99	(1,725)	-	-	5,002	3,376
Total Other Financing Sources (uses)	<u>99</u>	<u>(1,725)</u>	<u>-</u>	<u>-</u>	<u>5,002</u>	<u>3,376</u>
Net Change in Fund Balances	(523)	(586)	-	1,785	5,315	5,991
Fund Balances, October 1	11,796	3,802	1,427	10,272	31,130	58,427
Fund Balances, September 30	<u>\$ 11,273</u>	<u>\$ 3,216</u>	<u>\$ 1,427</u>	<u>\$ 12,057</u>	<u>\$ 36,445</u>	<u>\$ 64,418</u>

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

**CITY OF LAVON, TEXAS
BALANCE SHEET - COMPONENT UNIT
ECONOMIC DEVELOPMENT CORPORATION
SEPTEMBER 30, 2019**

	<u>EDC</u>
ASSETS	
Cash and cash equivalents	\$ 123,202
Receivable-sales tax	20,027
Total assets	<u>143,229</u>
LIABILITIES	
Long-term liabilities:	
Note payable	29,738
Total liabilities	<u>29,738</u>
FUND BALANCE	
Fund Balance:	
Unassigned	113,491
Total fund balance	<u>113,491</u>
Total liabilities and fund balance	<u>\$ 143,229</u>

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

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-COMPONENT UNIT
ECONOMIC DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>EDC</u>
REVENUES	
Sales tax	\$ 112,331
Contributions	2,148
Total revenues	<u>114,479</u>
EXPENDITURES	
Current operating:	
Advertising	7,373
Professional and legal	33,124
Office expenses	9,833
Business incentives	-
Total expenditures	<u>75,881</u>
Excess (deficiency) of revenues over (under) expenditures	38,598
Other revenues and financing sources (uses)	
Interest expense	<u>(432)</u>
Total other financing sources (uses)	<u>(432)</u>
Net change in fund balance	38,166
Fund balance, October 1	75,325
Fund balance, September 30	<u>\$ 113,491</u>

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

**CITY OF LAVON, TEXAS
 BALANCE SHEET - COMPONENT UNIT
 TAX INCREMENT FUND
 SEPTEMBER 30, 2019**

	<u>TIF</u>
ASSETS	
Cash and cash equivalents	\$ 933,587
Total assets	<u>933,587</u>
 FUND BALANCE	
Fund Balance:	
Nonspendable	-
Unassigned	933,587
Total fund balance	<u>933,587</u>
 Total liabilities and fund balance	<u>\$ 933,587</u>

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

**CITY OF LAVON, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION-TAX INCREMENT FUND
SEPTEMBER 30, 2019**

Total fund balances - governmental funds balance sheet	\$ 933,587
Amounts reported for governmental activities in the statement of net position are different because:	<u> -</u>
Net position of governmental activities - statement of net position	<u> -</u>

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

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-COMPONENT UNIT
TAX INCREMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>TIF</u>
REVENUES	
Total revenues	<u>\$ -</u>
EXPENDITURES	
Total expenditures	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	-
Other revenues and financing sources (uses)	
Intergovernmental revenues	187,733
Interest Income	7,539
Total other financing sources (uses)	<u>195,272</u>
Net change in fund balance	195,272
Fund balance, October 1	738,315
Fund balance, September 30	<u>\$ 933,587</u>

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

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

**Net change in fund balances - statement of revenues, expenditures and
changes in fund balances - governmental funds** \$ 195,272

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

-

Change in net position - statement of activities \$ 195,272

**CITY OF LAVON, TEXAS
 COMBINING BALANCE SHEET - COMPONENT UNIT
 PUBLIC IMPROVEMENT DISTRICT
 SEPTEMBER 30, 2019**

	<u>Heritage</u>	<u>Lake Point</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	1,156,563	3,787,975	\$4,944,538
Total assets	<u>1,156,563</u>	<u>3,787,975</u>	<u>4,944,538</u>
 FUND BALANCE			
Fund Balance:			
Unassigned	1,156,563	3,779,813	4,936,376
Total fund balance	<u>1,156,563</u>	<u>3,779,813</u>	<u>4,936,376</u>
 Total liabilities and fund balance	<u>\$ 1,156,563</u>	<u>\$ 3,779,813</u>	<u>\$ 4,936,376</u>

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

**CITY OF LAVON, TEXAS
CONSOLIDATED RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION-PUBLIC IMPROVEMENT DISTRICT
SEPTEMBER 30, 2019**

	<u>Heritage</u>	<u>Lake Point</u>	<u>Total</u>
Total fund balances - governmental funds balance sheet	\$ 1,156,563	\$ 3,779,813	\$ 4,936,376
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	157,848		157,848
Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(2,551,100)	(7,000,000)	(9,551,100)
Net position of governmental activities - statement of net position	<u>\$ (1,236,689)</u>	<u>\$ (3,220,187)</u>	<u>\$ (4,456,876)</u>

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

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-COMPONENT UNIT
PUBLIC IMPROVEMENT DISTRICT
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Heritage	Lake Point	Total
REVENUES			
Total revenues	\$ -	\$ -	\$ -
EXPENDITURES			
Management expenses	74,676	-	74,676
Total expenditures	74,676	-	74,676
Excess (deficiency) of revenues over (under) expenditures	(74,676)	-	(74,676)
Other revenues and financing sources (uses)			
Capital expenditures	-	(157,848)	(157,848)
Intergovernmental revenues	800,000	1,746,518	2,546,518
Bond proceeds	-	2,551,100	2,551,100
Interest income	-	2,804	2,804
Debt issuance costs	-	(362,761)	(362,761)
Principal on debt	(225,000)	-	(225,000)
Interest expense	(345,400)	-	(345,400)
Total other financing sources (uses)	229,600	3,779,813	4,009,413
Net change in fund balance	154,924	3,779,813	3,934,737
Fund balance, October 1	1,001,639	-	1,001,639
Fund balance, September 30	\$ 1,156,563	\$ 3,779,813	\$ 4,936,376

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

**CITY OF LAVON, TEXAS
CONSOLIDATED RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES-PUBLIC IMPROVEMENT DISTRICT
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Net change in fund balances - statement of revenues, expenditures and changes in fund balances - governmental funds	Heritage	Lake Point	Total
	\$ 154,924	3,779,813	3,934,737
Amounts reported for governmental activities in the statement of activities are different because:			
Current year capital outlays are expenditures in the fund financial statements, but these are shown as an increase in capital assets in the government-wide financial statements. The effect of removing the 2019 capital outlays is to increase net position.	-	157,848	157,848
Current year long-term debt principal payments on contractual obligations, are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.	225,000	-	225,000
Current year additions to long-term debt are considered income/proceeds in the fund financial statements but are shown as a long-term liability within the wide financial statements	-	(2,551,100)	(2,551,100)
Change in net position - statement of activities	\$ 379,924	\$ 1,386,561	\$ 1,766,485

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



CITY OF LAVON

P.O. Box 340 120 School Road

Lavon, TX 75166

(972) 843-4220

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March 25, 2020

Mike Ward Accounting & Financial Consulting, PLLC

266 RCR 1397

Point, Texas 75472

Dear Mr. Ward,

This representation letter is provided in connection with your audit of the financial statements of the City of Lavon, Texas which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows for the period ended September 30, 2019 then ended, and the related notes to the financial statements, for the purpose of expressing opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of March 25, 2020, the following representations made to you during your audit.

Financial Statements

1. I have fulfilled my responsibilities, as set out in the terms of the audit engagements letter dated January 16, 2019 including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and the component unit required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.
8. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not been prepared.
12. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management
 - Employees who have significant roles in internal controls, or
 - Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
16. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
18. We have disclosed to you the identity of the City's related parties and all related party relationships and transactions that we are aware.

Government-specific

19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
20. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
21. The City of Lavon has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
22. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.
23. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contract and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
24. As part of your audit, you assisted with preparation of the financial statements and related notes and schedule of expenditures of federal awards. We have designated an individual with suitable

skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal awards.

25. The City of Lavon has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
26. The City of Lavon has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
27. The financial statements include all component units.
28. The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.
29. All funds that meet the quantitative criteria in GASBs Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
30. Components of net position (net investment in capital assets, restricted, and unrestricted) and equity amounts are properly classified and, if applicable, approved.
31. Provisions for uncollectible receivables have been properly identified and recorded.
32. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
33. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, and operating and capital contributions.
34. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
35. Deposits and investment securities are properly classified as to risk and are properly disclosed.
36. Capital assets, including infrastructure, are properly capitalized, reported, and, if applicable, depreciated.
37. We have appropriately disclosed the City of Lavon's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both

restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

38. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

39. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Signed: 

Printed Name & Title: Kim Dobbs, City Administrator/City Secretary

Date: 03-25-2020



CITY OF LAVON Agenda Brief

MEETING: April 7, 2020

ITEM: 8

Item:

WORK SESSION

Receive from and discuss information with the city engineer, financial advisor, bond counsel and city staff regarding draft capital improvements plan (CIP) projects, project funding options and management of the tax rate. Discuss a long-term financial plan, a long-term capital plan and debt management policy.

Background:

During the FY 2019-20 budget discussions, city staff presented certain capital projects determined to be in need of immediate attention. The City Council discussed the benefit of a capital improvements plan (CIP) to identify and prioritize a comprehensive list of capital projects. At that time, specific limited street and drainage CIP projects were estimated to cost roughly \$2,500,000. In FY 19-20, 2.33 cents of the ad valorem tax rate per hundred dollars valuation was allocated to capital projects resulting in \$79,836 budgeted in a new account line item Capital Improvement Project Reserves (Account 50-8023). With this decisive action, the City Council communicated that certain projects could not be deferred any longer.

On January 7, 2020, the City Council engaged Freeman Millican, Inc. to prepare a CIP and conducted work sessions on January 21, 2020 and February 18, 2020 to discuss the CIP process, elements and priorities. At the end of February, with a remarkably positive outlook for municipal bond sales, the financial advisor, bond counsel, and staff discussed moving forward rapidly to maximize the City's position.

Items on the CIP project provide for:

- 1) maintenance of existing infrastructure in need of repair or reconstruction;
- 2) anticipated future growth; and/or
- 3) improved and enhanced safety.

With the turn of recent events, it is important to note that the process to finance improvements has a forty-five-day waiting period per state law and if the financial forecast for selling bonds changes, these beginning steps do not obligate the city to take action. At any time, the City Council can reduce the program or abandon it altogether. Depending on economic indicators, the project list may be adjusted. The proposed schedule allows for flexibility so that if it makes sense to obtain funding for specific projects deemed immediately critical, there is no lag time.

The proposed program does not require an increase in the property tax rate.

As part of this process, it is recommended that the City Council adopt a long-term financial plan, a long-term capital plan and a debt management policy. The financial advisor will discuss the city's financial position - current and projected – and what steps the City can take to manage the tax rate to ensure there are appropriate resources for maintenance and operations as well as capital projects.

The CIP **matters**:

Community Vision Assessment

In the Community Engagement Feedback Takeaways, a key feedback takeaway from the planning process includes **City Services & Infrastructure...** "prioritize improvements to the city's streets, mobility, and drainage infrastructure and would like to see an increased investment in parks, community facilities, and code enforcement." (CVA, p.9)

2019-21 Strategic Plan

The **Core Purpose** includes a purpose statement, "Serve as stewards of planning, infrastructure, and investment" (CVA, p.11). The second **Core Value** identifies "Safety – We believe that providing a safe community, with high quality infrastructure and services, is one of the primary purposes of our city government and maintaining safety as a strength of Lavon is extremely important (CVA, p. 11). Among **Two-Year Goals**, the second goal is, "Research Pricing and Prepare a Scope for a Capital improvements Program (CIP)." (CVA, p.13) The specific **Goal 2** description states that a "CIP can include items such as:

- Infrastructure (including Drainage and Storm Sewer, Sidewalks, and Trails.
- Streets/ Mobility
- City Facilities & Amenities (Including Parks)" (CVA, 14)

Attachment: Draft Schedule for Obtaining Funding for CIP projects



**Certificates of Obligations, Series 2020
General Obligation Refunding Bonds, Series 2020
Preliminary Schedule of Events**

Mar-20						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

Apr-20						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

May-20						
S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

Jun-20						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

Jul-20						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

Complete By	Day	Event
9-Mar-20	Monday	HilltopSecurities requests information for preparation of the Official Statement
6-Apr-20	Monday	HilltopSecurities receives requested information. HilltopSecurities begins preparation of the Official Statement
7-Apr-20	Tuesday	Council meeting to approve publication of Notice of Intent for Certificates
8-Apr-20	Wednesday	1st Notice of Intent Published
15-Apr-20	Wednesday	2nd Notice of Intent Published
15-Apr-20	Wednesday	Draft Preliminary Official Statement distributed to the City and Bond Counsel
22-Apr-20	Wednesday	HilltopSecurities receives comments on Preliminary Official Statement
27-Apr-20	Monday	Distribute POS to Rating Agency
Week of May 4th thru 8th		Rating Conference Call
22-May-20	Friday	Receive Rating
26-May-20	Tuesday	Electronically mail Official Statement to Potential Purchasers
2-Jun-20	Tuesday	Pricing
2-Jun-20	Tuesday	City passes Ordinance authorizing issuance of the Certificates and Bonds
2-Jul-20	Thursday	Closing and Delivery of Funds to the City and the Paying Agent

**CITY OF LAVON COMMUNITY VISION
CAPITAL IMPROVEMENTS PLAN
PRELIMINARY PROJECT COST**

6-Apr-20

Rank	CIP Project (by Ranking)	Estimated Project(s) cost (2020 Dollars)
1	Main/Geren/SH78 improvements	\$143,800
2	Moore Lane Paving/Drainage	\$656,500
3	North Geren/Windmill Drainage	\$51,800
4	City Hall fire protection (water line)	\$237,700
5	McClendon Rd (2755)/Bear Creek Bridge	\$1,288,000
6	CR484/Bear Creek Bridge	\$1,288,000
7	CR484 Paving Extension to GH Signal	\$1,717,000
8	Wolf Run drainage	\$64,300
9	FD/PD Expansion	\$575,000
10	Municipal System Fiber Upgrade	\$57,500
11	CR484 Paving	\$876,500
12	City Hall paving	\$502,900
13	Lake Shadow Drainage	\$30,400
14	FD/PD Complex	\$5,750,000
15	Citywide Park & Trail Improvements	\$575,000
16	Lake Road Paving	\$1,314,200
17	SH 78 Street lights	\$778,400
18	Rees Sports Complex	\$3,981,800
19	Fire Engine	\$1,092,500
20	Property for City Hall / Parking Expansion	\$46,600
21	Bear Creek WWTP expansion Ph 4	\$3,666,200
		\$24,694,100

The CIP is a dynamic document and is to be used as a critical planning tool. The CIP is reviewed and updated annually, so rankings and project scope may be modified from those currently presented. Rankings shown do not necessarily reflect actual order of projects to be undertaken by the City.

**City of Lavon
Projected Debt and I&S Tax Rate Impact**

A	B	C	D	E	F	G	H	I	J	K	L	M	N
Fiscal Year	Taxable Assessed Valuation (1)	Growth Rate	Current Debt Service	Series 2020 Certificates of Obligation (2)			Net Total P+H	I&S Tax Rate (3)	Commitment to D/S Offset (4)	I&S Tax Rate w/ D/S Offset (3)	Principal	Interest	Total P+H
End				Principal	Interest	Total P+H	Total P+H						
2020	\$ 343,275,346		\$ 464,132				\$ 464,132	\$ 0.1996		\$ 0.1996			
2021	350,140,853	2.0%	514,731	\$ -	\$ 436,042	\$ 436,042	\$ 950,773	0.2829	(230,000)	0.2144	\$ 105,000	\$ 119,496	\$ 224,496
2022	357,143,670	2.0%	500,743	-	402,500	402,500	903,243	0.2634	(230,000)	0.1964	115,000	106,313	221,313
2023	360,715,107	1.0%	504,201	-	402,500	402,500	906,701	0.2618	(215,000)	0.1997	120,000	102,200	222,200
2024	364,322,258	1.0%	501,897	-	402,500	402,500	904,397	0.2586	(215,000)	0.1971	125,000	97,913	222,913
2025	367,965,480	1.0%	508,929	-	402,500	402,500	911,429	0.2580	(200,000)	0.2014	130,000	93,450	223,450
2026	367,965,480	0.0%		555,000	392,788	947,788	947,788	0.2683	(200,000)	0.2117	135,000	88,813	223,813
2027	367,965,480	0.0%		575,000	373,013	948,013	948,013	0.2684	(185,000)	0.2160	140,000	84,000	224,000
2028	367,965,480	0.0%		595,000	352,538	947,538	947,538	0.2682	(185,000)	0.2159	145,000	79,013	224,013
2029	367,965,480	0.0%		620,000	331,275	951,275	951,275	0.2693	(170,000)	0.2212	150,000	73,850	223,850
2030	367,965,480	0.0%		640,000	309,225	949,225	949,225	0.2687	(170,000)	0.2206	155,000	68,513	223,513
2031	367,965,480	0.0%		660,000	286,475	946,475	946,475	0.2679	(155,000)	0.2241	160,000	63,000	223,000
2032	367,965,480	0.0%		685,000	262,938	947,938	947,938	0.2683	(155,000)	0.2245	165,000	57,313	222,313
2033	367,965,480	0.0%		710,000	238,525	948,525	948,525	0.2685	(140,000)	0.2289	170,000	51,450	221,450
2034	367,965,480	0.0%		735,000	213,238	948,238	948,238	0.2684	(140,000)	0.2288	180,000	45,325	225,325
2035	367,965,480	0.0%		760,000	187,075	947,075	947,075	0.2681	(125,000)	0.2327	185,000	38,938	223,938
2036	367,965,480	0.0%		790,000	159,950	949,950	949,950	0.2689	(125,000)	0.2335	190,000	32,375	222,375
2037	367,965,480	0.0%		815,000	131,863	946,863	946,863	0.2680	(110,000)	0.2369	195,000	25,638	220,638
2038	367,965,480	0.0%		1,080,000	98,700	1,178,700	1,178,700	0.3337	-	0.3337	205,000	18,638	223,638
2039	367,965,480	0.0%		1,120,000	60,200	1,180,200	1,180,200	0.3341	-	0.3341	210,000	11,375	221,375
2040	367,965,480	0.0%		1,160,000	20,300	1,180,300	1,180,300	0.3341	-	0.3341	220,000	3,850	223,850
			\$ 2,994,633	\$ 11,500,000	\$ 5,464,142	\$ 16,964,142	\$ 19,958,775		\$ (2,950,000)		\$ 3,200,000	\$ 1,261,458	\$ 4,461,458

(1) FYE 2020 value is actual per City budget. All other years assumed to grow per percentages in column "C".
 (2) Sizing includes all estimated expenses. Represents portion sold for tax-backed projects. Interest based on a projected interest rate of 3.50%; preliminary, subject to change.
 (3) FYE 2020 is actual I&S tax rate. All other rates calculated based on 96% collections.
 (4) Represents approximate annual dollars from the TIRZ assumed to be available to pay debt service.
 (5) Sizing includes all estimated expenses. Represents portion sold for sewer-backed projects. Interest based on a projected interest rate of 3.50%; preliminary, subject to change.

