

ANNUAL FINANCIAL REPORT  
OF THE  
CITY OF LAVON, TEXAS

Fiscal Year Ended September 30, 2020

*Mayor*  
*Vicki Sanson*



**CITY OF LAVON, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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# INTRODUCTORY SECTION

**City of Lavon, Texas  
Principal Officials  
September 30, 2020**

***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

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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 unit, 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, 2020, 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 unit, each major fund, and the aggregate remaining fund information of the City of Lavon, Texas as of September 30, 2020, and the respective changes in financial position, where applicable, and cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Required Supplementary Information, as listed in the table of contents, 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.

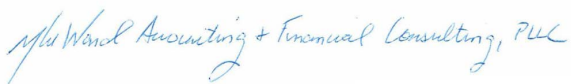
### *Other Information*

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 introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, is 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Respectfully Submitted,



**Mike Ward Accounting & Financial Consulting, PLLC**

July 29, 2021  
Point, Texas

## CITY OF LAVON, TEXAS

### MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2020

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, 2020. 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 \$11,346,003 (net position). Of this amount, \$7,797,911, or 69%, is investment in capital assets, \$59,850, or 1%, is restricted for court and police use. The remaining unrestricted net position of \$3,488,242, or 31%, 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 \$1,776,776. 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 \$17,629,038. This represents an increase of \$16,184,802 in net fund balance.
- As of the close of the current fiscal year, the unassigned fund balance for the General Fund was \$2,572,209 which was approximately 88% of total General Fund expenditures.

#### 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.

## **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, 2020**

*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 DISCUSSION AND ANALYSIS (continued)  
SEPTEMBER 30, 2020**

**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 2021, rates set for fees and taxes are estimated to meet operational demand similar to the current year.

The adopted tax rate for FY 2020-2021 will be a tax rate of \$0.478956 per \$100 valuation.

**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.

**CITY OF LAVON, TEXAS  
MANAGEMENT DISCUSSION AND ANALYSIS (continued)  
SEPTEMBER 30, 2020**

**Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 17,766,511	\$ 1,663,222	\$ 1,198,077	\$ 1,409,425	\$ 18,964,588	\$ 3,072,647
Capital assets	5,923,629	5,852,140	4,381,019	4,049,857	10,304,648	9,901,997
<b>Total assets</b>	<b>23,690,140</b>	<b>7,515,362</b>	<b>5,579,096</b>	<b>5,459,282</b>	<b>29,269,236</b>	<b>12,974,644</b>
Deferred outflows-pension	132,950	143,578	-	-	132,950	143,578
Current liabilities	131,964	208,011	28,741	29,673	160,705	237,684
Long-term liabilities	15,358,596	501,782	2,398,841	2,731,000	17,757,437	3,232,782
<b>Total liabilities</b>	<b>15,490,560</b>	<b>709,793</b>	<b>2,427,582</b>	<b>2,760,673</b>	<b>17,918,142</b>	<b>3,470,466</b>
Deferred inflows of resources						
Pension	125,041	48,791	-	-	125,041	48,791
Unavailable revenue-tax note	-	-	13,000	29,738	13,000	29,738
<b>Total deferred inflows</b>	<b>125,041</b>	<b>48,791</b>	<b>13,000</b>	<b>29,738</b>	<b>138,041</b>	<b>78,529</b>
Net position:						
Net investment in capital assets	5,302,000	5,521,379	2,495,911	2,435,805	7,797,911	7,957,184
Restricted	59,850	61,201	-	-	59,850	61,201
Unrestricted	2,845,639	1,317,776	642,603	233,066	3,488,242	1,550,842
<b>Total net position</b>	<b>\$ 8,207,489</b>	<b>\$ 6,900,356</b>	<b>\$ 3,138,514</b>	<b>\$ 2,668,871</b>	<b>\$ 11,346,003</b>	<b>\$ 9,569,227</b>

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 \$11,346,003 as of September 30, 2020. The City's net position increased by \$1,776,776 for the fiscal year ended September 30, 2020.

***Net investment in capital assets:***

The City's net position of net investment in capital assets of, \$7,797,911, or 69%, 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 \$59,850, 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, \$58,423, or 97.6%, and \$1,427, or 2.4%, for police use.

***Unrestricted net position:***

Unrestricted net position of \$3,488,242 or, 31%, 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, 2020**

**Changes in Net Position**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 1,193,603	\$ 459,053	\$ 1,631,068	\$ 1,163,943	\$ 2,824,671	\$ 1,622,996
Capital grants and contributions	281,694	83,976	153,180	123,000	434,874	206,976
Operating grants and contributions	15,663	67,696	-	-	15,663	67,696
<b>General revenues:</b>						
Property tax	1,777,860	1,464,173	-	-	1,777,860	1,464,173
Sales tax	467,231	337,064	-	-	467,231	337,064
Franchise tax	155,754	159,027	-	-	155,754	159,027
Investment income	16,024	15,339	11,629	47,440	27,653	62,779
Miscellaneous	46,217	3	(40)	-	46,177	3
<b>Total revenues</b>	<b>3,954,046</b>	<b>2,586,331</b>	<b>1,795,837</b>	<b>1,334,383</b>	<b>5,749,883</b>	<b>3,920,714</b>
<b>Expenses:</b>						
<b>Program expenses</b>						
General government	\$ 884,419	998,474	-	-	884,419	998,474
Public services	64,472	122,166	-	-	64,472	122,166
Public safety	1,291,651	1,023,801	-	-	1,291,651	1,023,801
Public works	442,998	402,497	-	-	442,998	402,497
Parks and recreation	10,922	3,975	-	-	10,922	3,975
Interest on long-term debt	13,548	-	-	-	13,548	-
Sewer and garbage	-	-	1,055,189	884,513	1,055,189	884,513
<b>Total expenses</b>	<b>2,708,010</b>	<b>2,550,913</b>	<b>1,055,189</b>	<b>884,513</b>	<b>3,763,199</b>	<b>3,435,426</b>
Change in net assets before other						
Financing sources (uses)	1,246,036	35,418	740,648	449,870	1,986,684	485,288
Other financing sources (uses):						
Transfers	271,005	337,814	(271,005)	(337,814)	-	-
Bond issue costs	(209,908)	-	-	-	(209,908)	-
Total other financing sources (uses)	61,097	337,814	(271,005)	(337,814)	(209,908)	-
<b>Total change in net position</b>	<b>1,307,133</b>	<b>373,232</b>	<b>469,643</b>	<b>112,056</b>	<b>1,776,776</b>	<b>485,288</b>
Net position - October 1	6,900,356	6,527,124	2,668,871	2,556,815	9,569,227	9,083,939
<b>Net position - September 30</b>	<b>\$ 8,207,489</b>	<b>\$ 6,900,356</b>	<b>\$ 3,138,514</b>	<b>\$ 2,668,871</b>	<b>\$11,346,003</b>	<b>\$ 9,569,227</b>

Governmental activities increased net position by \$1,307,133. This is due, in part, to an increase in total tax revenues of \$440,581 and transfers from the business activities.

Business-type activities increased net position by \$469,643.

**CITY OF LAVON, TEXAS  
MANAGEMENT DISCUSSION AND ANALYSIS (continued)  
SEPTEMBER 30, 2020**

**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, 2020, the City's governmental funds reported total fund balances of \$17,629,038, a 1121% comparison with the prior year's total ending fund balance. The components of total fund balance are as follows:

- Restricted fund balances of \$15,052,973, or 85.4%, of total fund balance consists of amounts restricted by external laws or contractual obligations. These are as follows:
  - \$14,628,389, or 97.2% for capital improvements;
  - \$58,423, or .4%, for court use;
  - \$1,427, or .01%, for police;
  - \$364,734, or 2.4%, for debt service;
- Assigned fund balance of \$3,856, or 0.02%, of total fund balance, is for public safety.
- Unassigned fund balance of \$2,572,209, or 14.6%, 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 \$2,572,209, compared to \$1,286,912 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 88% 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 revised 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 \$642,603.

**CITY OF LAVON, TEXAS  
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2020**

**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, 2020, totals \$10,304,648 (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 1.2%.

**Capital Assets  
September 30, 2020  
(net of accumulated depreciation)**

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Land	\$ 1,805,756	\$ 1,805,756	\$ -	\$ -	\$ 1,805,756	\$ 1,805,756
Buildings & Improvements	484,458	534,117	-	-	484,458	534,117
Infrastructure	2,834,937	2,952,782	1,889,359	1,968,461	4,724,296	4,921,243
Machinery & Equipment	713,667	551,285	85,330	85,330	798,997	636,615
Construction in Progress	84,811	8,200	2,406,330	1,996,066	2,491,141	2,004,266
<b>Total</b>	<b>\$ 5,923,629</b>	<b>\$ 5,852,140</b>	<b>\$ 4,381,019</b>	<b>\$ 4,049,857</b>	<b>\$ 10,304,648</b>	<b>\$ 9,901,997</b>

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, 2020, the City had outstanding long-term debt in the amount of \$17,648,859, an increase of \$14,587,098.

**Outstanding Debt  
As of September 30, 2020**

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Capital Leases Payable	\$ 340,110	\$ 330,761	\$ -	\$ -	\$ 340,110	\$ 330,761
Bonds Payable	\$ 14,909,908	\$ -	\$ 2,385,841	\$ -	17,295,749	-
Notes Payable	-	-	13,000	2,731,000	13,000	2,731,000
<b>Total</b>	<b>\$ 15,250,018</b>	<b>\$ 330,761</b>	<b>\$ 2,398,841</b>	<b>\$ 2,731,000</b>	<b>\$ 17,648,859</b>	<b>\$ 3,061,761</b>

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, 2020**

**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 2021, rates set for fees and taxes are estimated to meet operational demand similar to the current year.

The adopted tax rate for FY 2020-2021 will be a tax rate of \$0.478956 per \$100 valuation.

**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, 2020**

	<u>Primary Government</u>		<u>Total</u>	<u>Component Unit EDC</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>		
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,823,831	\$ 573,240	\$ 2,397,071	\$ 183,373
Receivables (net of allowance for uncollectibles)	171,307	98,154	269,461	35,752
Note receivable	-	13,000	13,000	-
Restricted assets:				
Cash and cash equivalents	15,771,373	513,683	16,285,056	-
Capital assets not being depreciated:				
Land	1,805,756	-	1,805,756	-
Construction in process	84,811	2,406,330	2,491,141	-
Capital assets net of accumulated depreciation:				
Building & improvements	484,458	-	484,458	-
Infrastructure & improvements	2,834,937	1,889,359	4,724,296	-
Machinery & equipment	713,667	85,330	798,997	-
<b>Total assets</b>	<u>23,690,140</u>	<u>5,579,096</u>	<u>29,269,236</u>	<u>219,125</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources-pension	132,950	-	132,950	-
<b>LIABILITIES</b>				
Accounts payable	107,393	-	107,393	-
Payroll liabilities	14,548	-	14,548	-
Other liabilities	10,023	28,741	38,764	-
Non-current liabilities:				
Due within one year:				
Compensated absences	33,339	-	33,339	-
Capital lease payable	166,158	-	166,158	-
Bonds payable	90,000	395,000	485,000	-
Note payable	-	13,000	13,000	13,000
Due in more than one year:				
Compensated absences	-	-	-	-
Capital lease payable	173,952	-	173,952	-
Net pension liability	35,310	-	35,310	-
Net OPEB liability	39,929	-	39,929	-
Bonds payable	14,819,908	1,990,841	16,810,749	-
Note payable	-	-	-	-
<b>Total liabilities</b>	<u>15,490,560</u>	<u>2,427,582</u>	<u>17,918,142</u>	<u>13,000</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources-pension	125,041	-	125,041	-
Unavailable revenue-note receivable	-	13,000	13,000	-
<b>Total deferred inflows of resources</b>	<u>125,041</u>	<u>13,000</u>	<u>138,041</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	5,302,000	2,495,911	7,797,911	-
Restricted for:				
Court uses	58,423	-	58,423	-
Police	1,427	-	1,427	-
Unrestricted	2,845,639	642,603	3,488,242	206,125
<b>Total net position</b>	<u>\$ 8,207,489</u>	<u>\$ 3,138,514</u>	<u>\$ 11,346,003</u>	<u>\$ 206,125</u>

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, 2020**

	<b>Program Revenues</b>			
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Capital Grants and Contributions</b>	<b>Operating Grants and Contributions</b>
<b>Function/Program Activities</b>				
<b>Primary Government</b>				
Governmental Activities:				
General government	\$ 884,419	\$ 13,170	\$ 281,694	\$ 13,650
Public service	64,472	201,783	-	-
Public safety	1,291,651	75,115	-	2,013
Public works	442,998	896,258	-	-
Parks and recreation	10,922	7,277	-	-
Bond issue costs	209,908	-	-	-
Interest on long-term debt	13,548	-	-	-
<b>Total governmental activities</b>	<b>2,917,918</b>	<b>1,193,603</b>	<b>281,694</b>	<b>15,663</b>
Business-type Activities:				
Wastewater	659,087	1,082,761	153,180	-
Solid waste	396,102	548,307	-	-
<b>Total business-type activities</b>	<b>1,055,189</b>	<b>1,631,068</b>	<b>153,180</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 3,973,107</b>	<b>\$ 2,824,671</b>	<b>\$ 434,874</b>	<b>\$ 15,663</b>
<b>Component units:</b>				
Economic Development Corporation	\$ 64,070	\$ -	\$ -	\$ -
<b>Total component unit:</b>	<b>\$ 64,070</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**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 Unit
Governmental Activities	Business Activities	Total	EDC
\$ (575,905)	\$ -	\$ (575,905)	\$ -
137,311	-	137,311	-
(1,214,523)	-	(1,214,523)	-
453,260	-	453,260	-
(3,645)	-	(3,645)	-
(209,908)	-	(209,908)	-
(13,548)	-	(13,548)	-
<u>(1,426,958)</u>	<u>-</u>	<u>(1,426,958)</u>	<u>-</u>
-	576,854	576,854	-
-	152,205	152,205	-
<u>-</u>	<u>729,059</u>	<u>729,059</u>	<u>-</u>
<u>\$ (1,426,958)</u>	<u>\$ 729,059</u>	<u>\$ (697,899)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (64,070)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (64,070)</u>
\$ 1,777,860	\$ -	\$ 1,777,860	\$ -
467,231	-	467,231	155,934
155,754	-	155,754	-
16,024	11,589	27,613	274
46,217	-	46,217	496
271,005	(271,005)	-	-
<u>2,734,091</u>	<u>(259,416)</u>	<u>2,474,675</u>	<u>156,704</u>
1,307,133	469,643	1,776,776	92,634
6,900,356	2,668,871	9,569,227	113,491
<u>\$ 8,207,489</u>	<u>\$ 3,138,514</u>	<u>\$ 11,346,003</u>	<u>\$ 206,125</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, 2020**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,823,831	\$ -	\$ -	\$ 1,823,831
Receivables (net of allowance for uncollectibles)	171,307	-	(99)	171,208
Cash and cash equivalents - restricted	15,342,852	364,734	63,805	15,771,391
<b>Total assets</b>	<b>17,337,990</b>	<b>364,734</b>	<b>63,706</b>	<b>17,766,430</b>
<b>LIABILITIES</b>				
Accounts payable	107,292	-	-	107,292
Payroll accrual	14,548	-	-	14,548
Unearned revenues	-	-	-	-
Assets held for others	-	-	-	-
Other liabilities	10,023	-	-	10,023
<b>Total liabilities</b>	<b>131,863</b>	<b>-</b>	<b>-</b>	<b>131,863</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property tax revenue	5,529	-	-	5,529
<b>Total deferred inflows of resources</b>	<b>5,529</b>	<b>-</b>	<b>-</b>	<b>5,529</b>
<b>FUND BALANCES</b>				
Restricted for:				
Capital improvements	14,628,389	-	-	14,628,389
Court use	-	-	58,423	58,423
Police	-	-	1,427	1,427
Public works	-	-	-	-
Debt service	-	364,734	-	364,734
Assigned for:				
Police	-	-	3,856	3,856
Unassigned	2,572,209	-	-	2,572,209
<b>Total fund balances</b>	<b>17,200,598</b>	<b>364,734</b>	<b>63,706</b>	<b>17,629,038</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 17,337,990</b>	<b>\$ 364,734</b>	<b>\$ 63,706</b>	<b>\$ 17,766,430</b>

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, 2020**

**Total fund balances - governmental funds balance sheet** \$ 17,629,038

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. 8,458,908

Accumulated depreciation has not been included in the governmental fund financial statements. (2,535,279)

Accrued liabilities for compensated absences have not been reflected in the fund financial statements. (33,339)

Revenue reported as deferred inflow of resources in the governmental fund financial statements was recorded as revenue in the government-wide financial statements.

Net pension asset that is not available within the current period and, therefore, is not reported within in the fund financial statements. (39,929)

Net other pension benefit liability is not due and payable in the current period, and therefore, is not reported in the fund financial statements. (35,328)

Deferred inflows/outflows of resources for pension are not reported in the fund financial statements. 13,437

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. (15,250,019)

**Net position of governmental activities - statement of net position** \$ 8,207,489

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, 2020**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes:				
Property	\$ 1,041,361	\$ 741,963	\$ -	\$ 1,783,324
Sales	467,231	-	-	467,231
Franchise	155,754	-	-	155,754
Charge for services	155,867	-	-	155,867
Intergovernmental revenue - state and local	265,908	15,786	1,186	282,880
Licenses and permits	896,258	-	-	896,258
Fines and fees	64,828	-	1,535	66,363
Donations	14,480	-	-	14,480
Miscellaneous	46,214	-	-	46,214
Investment income	16,024	-	-	16,024
<b>Total revenues</b>	<u>3,123,925</u>	<u>757,749</u>	<u>2,721</u>	<u>3,884,395</u>
<b>EXPENDITURES</b>				
Current operating:				
General government	900,989	-	-	900,989
Public services	63,400	-	1,072	64,472
Public safety	1,273,729	-	-	1,273,729
Public works	208,938	-	-	208,938
Parks and recreation	1,793	-	-	1,793
Debt service:		-		
Principal retirement	160,668	-	-	160,668
Interest	13,048	-	-	13,048
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
<b>Total expenditures</b>	<u>2,914,159</u>	<u>-</u>	<u>1,072</u>	<u>2,915,231</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	209,766	757,749	1,649	969,164
<b>Other revenues and financing sources (uses)</b>				
Transfers	759,287	(485,921)	(2,361)	271,005
Sale of assets	75,115	-	-	75,115
Note proceeds	14,869,518	-	-	14,869,518
<b>Total other financing sources (uses)</b>	<u>15,703,920</u>	<u>(485,921)</u>	<u>(2,361)</u>	<u>15,215,638</u>
<b>Net change in fund balances</b>	15,913,686	271,828	(712)	16,184,802
<b>Fund balances, October 1</b>	1,286,912	92,906	64,418	1,444,236
<b>Fund balances, September 30</b>	<u>\$ 17,200,598</u>	<u>\$ 364,734</u>	<u>\$ 63,706</u>	<u>\$ 17,629,038</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  
 FOR THE YEAR ENDED SEPTEMBER 30, 2020**

<b>Net change in fund balances - statement of revenues, expenditures and changes in fund balances - governmental funds</b>	<b>\$ 16,184,802</b>
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 2020 capital outlays is to increase net position.	400,588
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net position.	(241,438)
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.	83,904
In governmental fund financial statements the proceeds from capital leases are shown as other financing sources but are shown as an increase in liabilities in the government-wide statements.	(15,090,823)
Deferred revenue reported within the governmental fund financial statements is eliminated from the government-wide financial statements through an adjustment to property taxes within the government wide financial statements.	(5,465)
Current year changes in pension expense do not require the use of current resources; therefore, this is not reported as expenditures in governmental funds.	(24,435)
<b>Change in net position - statement of activities</b>	<b><u>\$ 1,307,133</u></b>

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, 2020**

	<u>Utility Fund</u>
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 573,240
Receivables (net of allowance for uncollectibles)	98,148
Note receivable	13,000
Cash and cash equivalents - restricted	513,683
Total current assets	<u>1,198,071</u>
<b>Noncurrent assets:</b>	
<b>Capital assets:</b>	
Construction in progress	2,406,330
Infrastructure	2,699,905
Machinery and equipment	85,330
Less: accumulated depreciation	<u>(810,546)</u>
Total capital assets (net of accumulated depreciation)	<u>4,381,019</u>
<b>Total assets</b>	<u><u>5,579,090</u></u>
<b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable	-
<b>Payables from restricted funds:</b>	
Note payable	13,000
Bonds payable	395,000
Total current liabilities	<u>408,000</u>
<b>Noncurrent liabilities:</b>	
Note payable	-
Bonds payable	1,990,841
Accrued Interest	28,736
Total noncurrent liabilities	<u>2,019,577</u>
<b>Total liabilities</b>	<u><u>2,427,577</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue-note receivable	13,000
<b>Total deferred inflows of resources</b>	<u>13,000</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,982,178
Restricted for capital projects	513,733
Unrestricted	642,602
<b>Total net position</b>	<u><u>\$ 3,138,513</u></u>

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, 2020**

	<b>Utility Fund</b>
<b>OPERATING REVENUES:</b>	
Charges for services	\$ 1,631,067
<b>Total operating revenues</b>	<u>1,631,067</u>
<b>OPERATING EXPENSES:</b>	
Supplies and materials	-
Contractual services	600,446
Repairs and maintenance	195,049
Utilities	48,836
Depreciation	79,102
<b>Total operating expenses</b>	<u>923,433</u>
<b>Operating income (loss)</b>	<u>707,634</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
Intergovernmental revenue	153,180
Debt issuance costs	(68,280)
Interest expense	(63,476)
Investment income	11,589
<b>Total non-operating revenues (expenses)</b>	<u>33,013</u>
Capital contribution	-
Transfers	(271,005)
<b>Change in net position</b>	469,642
<b>Net position, October 1</b>	<u>2,668,871</u>
<b>Net position, September 30</b>	<u>\$ 3,138,513</u>

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

**CITY OF LAVON, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<b>Utility Fund</b>
<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 1,631,067
Cash paid to suppliers for goods and services	<u>(845,262)</u>
<b>Net cash provided by (used for) operating activities</b>	<b><u>785,805</u></b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers to other funds	(271,005)
<b>Net cash provided by (used for) noncapital financial activities</b>	<b><u>(271,005)</u></b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Principal paid on long-term debt	(2,718,000)
Interest paid on long-term debt	21,424
Acquisition of capital assets	(410,264)
Debt proceeds	<u>2,385,841</u>
<b>Net cash provided by (used for) capital and related financing activities</b>	<b><u>(720,999)</u></b>
<b>Cash Flows from Investing Activities</b>	
Interest income	<u>11,589</u>
<b>Net cash provided by (used for) investing activities</b>	<b><u>11,589</u></b>
<b>Net increase (decrease) in cash and cash equivalents</b>	(194,610)
<b>Cash and cash equivalents at beginning of year</b>	<u>1,281,533</u>
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 1,086,923</u></b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income (loss)	<u>\$ 707,634</u>
Adjustment to reconcile operating income to net cash provided by operating activities	
Depreciation	79,102
Changes in assets and liabilities:	
(Decrease) increase in:	
Receivables	-
Increase (decrease) in:	
Accounts payable	(931)
Other liabilities	-
Total adjustments	<u>78,171</u>
<b>Net cash provided by operating activities</b>	<b><u>\$ 785,805</u></b>

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, 2020**

	<b>Collin County TIF Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 10,023
<b>Total assets</b>	<u>10,023</u>
<b>LIABILITIES</b>	
Other liabilities	10,023
<b>Total liabilities</b>	<u>\$ 10,023</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, 2020**

<b>Collin County TIF</b>	<b>Balance September 30, 2019</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance September 30, 2020</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 495,217	\$ -	\$ (485,194)	\$ 10,023
<b>Total Assets</b>	<u>495,217</u>	<u>-</u>	<u>(485,194)</u>	<u>10,023</u>
<b>LIABILITIES</b>				
Collin County TIF	495,217	-	(485,194)	10,023
<b>Total Liabilities</b>	<u>\$ 495,217</u>	<u>\$ -</u>	<u>\$ (485,194)</u>	<u>\$ 10,023</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, 2020**

**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") is a discretely presented component unit 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.

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, 2020**

**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, 2020**

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

**CITY OF LAVON, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
 3. Measurement Focus, Basis of Accounting (continued)  
 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, 2020

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, 2020**

**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 \$0.478957 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, 2020**

**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, 2020**

**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, 2020, the carrying amount of the City's deposits was \$18,682,127 and the bank balance was \$18,759,752. The City's cash deposits at September 30, 2020 and during the year ended September 30, 2020 were entirely covered by FDIC or by pledged collateral held in the City's name. Cash and cash equivalents as of September 30, 2020 consist of and are classified in the accompanying financial statements as follows:

**Statement of Net Position:**

**Primary Government**

Cash and cash equivalents	\$ 2,397,071
Restricted assets-cash and cash equivalents	16,285,056
<b>Total Cash and Cash Equivalents</b>	<b><u>\$ 18,682,127</u></b>

**Governmental - Restricted Cash**

Court use	50,895
Police Use	79,512
Fire Use	3,107
Debt Service	364,734
Covid 19 Assistance	224,300
Capital Projects	15,142,122
Streets	160,278
Escrow	85,278
Other	174,830
<b>Total Restricted Cash</b>	<b><u>\$ 16,285,056</u></b>

**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, 2020**

**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. The City collected 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.

During the 2019-20 fiscal year, a resolution recommending the termination of the Tax Increment Financing District No. 1 was approved upon fulfillment of all obligations and resulted in a termination of all past agreements.

**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	\$ 151,318	\$ -	\$ 151,318
Fees and Charges	121,554	109,060	230,614
Other	-	-	-
Gross Receivables	<u>272,872</u>	<u>109,060</u>	<u>381,932</u>
Less: allowance for uncollectible	<u>(101,565)</u>	<u>(10,906)</u>	<u>(112,471)</u>
<b>Net Total Receivables</b>	<b><u>\$ 171,307</u></b>	<b><u>\$ 98,154</u></b>	<b><u>\$ 269,461</u></b>

**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	\$ 29,738	\$ -	\$ (16,738)	\$ 13,000	\$ 13,000

Note receivable requirements are as follows:

<u>Year ending September 30</u>	<u>Payment</u>
2021	13,000
<b>Total</b>	<b><u>\$ 13,000</u></b>

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**G. CAPITAL ASSETS**

Capital asset activity for the period ended September 30, 2020 was as follows:

	<b>Beginning Balances</b>	<b>Transfers</b>	<b>Additions</b>	<b>Decreases</b>	<b>Ending Balances</b>
<b>Governmental Activities</b>					
Capital assets, not being depreciated					
Land	\$ 1,805,756	\$ -	\$ -	\$ -	\$ 1,805,756
Construction in Progress	8,200	-	76,611	-	84,811
Total capital assets, not being depreciated	<u>1,813,956</u>	<u>-</u>	<u>76,611</u>	<u>-</u>	<u>1,890,567</u>
Capital assets, being depreciated:					
Buildings & Improvements	982,243	-	-	-	982,243
Infrastructure	4,116,994	-	-	-	4,116,994
Machinery & Equipment	1,232,789	-	236,315	-	1,469,104
Total capital assets being depreciated	<u>6,332,026</u>	<u>-</u>	<u>236,315</u>	<u>-</u>	<u>6,568,341</u>
Less accumulated depreciation for:					
Buildings & Improvements	(448,126)	-	(49,659)	-	(497,785)
Infrastructure	(1,164,212)	-	(117,845)	-	(1,282,057)
Machinery & Equipment	(681,504)	-	(73,933)	-	(755,437)
Total accumulated depreciation	<u>(2,293,842)</u>	<u>-</u>	<u>(241,437)</u>	<u>-</u>	<u>(2,535,279)</u>
Total capital assets, being depreciated, net	<u>4,038,184</u>	<u>-</u>	<u>(5,122)</u>	<u>-</u>	<u>4,033,062</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 5,852,140</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 71,489</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 5,923,629</u></b>
<b>Business-type Activities</b>					
Capital assets, not being depreciated					
Construction in Progress	\$ 1,996,065	\$ -	\$ 410,264	\$ -	\$ 2,406,329
Total capital assets, not being depreciated	<u>1,996,065</u>	<u>-</u>	<u>410,264</u>	<u>-</u>	<u>2,406,329</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	(697,025)	-	(67,498)	-	(764,523)
Machinery & Equipment	(34,419)	-	(11,604)	-	(46,023)
Total accumulated depreciation	<u>(731,444)</u>	<u>-</u>	<u>(79,102)</u>	<u>-</u>	<u>(810,546)</u>
Total capital assets, being depreciated, net	<u>2,053,792</u>	<u>-</u>	<u>(79,102)</u>	<u>-</u>	<u>1,974,690</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$ 4,049,857</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 331,162</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 4,381,019</u></b>

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

Governmental activities:	
General Government	\$ 20,105
Public Safety	115,758
Public Works	103,845
Parks and Recreation	1,729
<b>Total depreciation expense - governmental activities</b>	<b><u>\$ 241,437</u></b>
Business-type activities:	
<b>Wastewater services</b>	<b><u>\$ 79,102</u></b>

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**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, 2020, is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Capital Leases Payable	\$ 330,761	\$ 181,415	\$ (172,066)	\$ 340,110	\$ 166,158
Bonds Payable	-	12,595,000	-	12,595,000	90,000
Bond Premium	-	2,314,908	-	2,314,908	-
Net Pension Liability	107,253	-	(71,943)	35,310	-
OPEB Liability	30,429	9,500	-	39,929	-
Compensated Absences	33,339	-	-	33,339	-
Governmental activity					
<b>Total long-term liabilities</b>	<b>\$ 501,782</b>	<b>\$ 15,100,823</b>	<b>\$ (244,009)</b>	<b>\$ 15,358,596</b>	<b>\$ 256,158</b>
<b>Business-type Activities</b>					
Capital Leases Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Notes Payable	2,731,000	-	(2,718,000)	13,000	13,000
Bonds Payable	-	2,300,000	-	2,300,000	395,000
Bond Premium	-	85,841	-	85,841	-
Business-type activity					
<b>Total long-term liabilities</b>	<b>\$ 2,731,000</b>	<b>\$ 2,385,841</b>	<b>\$ (2,718,000)</b>	<b>\$ 2,398,841</b>	<b>\$ 408,000</b>

**Changes in Governmental Long-term Debt**

**Capital Leases:**

Description	Interest Rate Payable	Amounts Issue	Amounts Outstanding September 30, 2019	Issued	Retired	Amounts Outstanding September 30, 2020	Due Within One Year
CNH Capital	7.00%	21,773	-	-	-	-	-
Community FNB	3.56%	199,000	82,552	-	(19,571)	62,981	20,266
Community 1st National Bank	3.35%	99,625	40,883	-	(20,100)	20,783	20,783
Community 1st National Bank	3.35%	76,285	32,703	-	(26,029)	6,674	6,674
Community 1st National Bank	4.71%	55,163	37,253	-	(37,253)	-	-
Motorola Solutions, Inc.	3.90%	73,562	56,234	-	(18,018)	38,216	18,735
Community 1st National Bank	5.23%	18,740	12,673	-	(6,185)	6,488	6,488
Community 1st National Bank	2.99%	104,651	68,463	-	(33,513)	34,950	34,950
Community 1st National Bank	3.96%	65,737	-	65,737	-	65,737	21,067
Community 1st National Bank	1.54%	33,410	-	33,410	(11,397)	22,013	10,715
Motorola Solutions, Inc.	3.52%	82,268	-	82,268	-	82,268	26,480
<b>Total Capital Lease Obligations</b>		<b>\$ 830,214</b>	<b>\$ 330,761</b>	<b>\$ 181,415</b>	<b>\$ (172,066)</b>	<b>\$ 340,110</b>	<b>\$ 166,158</b>

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2021	166,158	13,045	179,203
2022	101,077	6,639	107,716
2023	72,875	2,672	75,547
<b>Totals</b>	<b>\$ 340,110</b>	<b>\$ 22,356</b>	<b>\$ 362,466</b>

**Bonds Payable:**

Description	Interest Rate Payable	Amounts Issue	Amounts Outstanding September 30, 2019	Issued	Retired	Amounts Outstanding September 30, 2020	Due Within One Year
Series 2020	2.00% to 4.00%	\$ 12,595,000	\$ -	\$ 12,595,000	\$ -	\$ 12,595,000	\$ 90,000
<b>Total Bonds Payable Obligations</b>		<b>\$ 12,595,000</b>	<b>\$ 412,985</b>	<b>\$ 12,620,028</b>	<b>\$ 438,013</b>	<b>\$ 12,595,000</b>	<b>\$ 90,000</b>

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**I. LONG-TERM OBLIGATIONS** (continued)

Debt service requirements are as follows:

Year Ending September 30:	Total		
	Principal	Interest	Requirements
2021	90,000	551,546	641,546
2022	105,000	490,650	595,650
2023	105,000	488,550	593,550
2024	105,000	486,450	591,450
2025	110,000	484,300	594,300
2026 to 2030	3,195,000	2,106,500	5,301,500
2031 to 2035	3,905,000	1,398,900	5,303,900
2036 to 2040	4,980,000	521,800	5,501,800
<b>Totals</b>	<b>\$ 12,595,000</b>	<b>\$ 6,528,696</b>	<b>\$ 19,123,696</b>

**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 police 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 \$65,737 for the purchase of two police vehicles for the police department. This lease will be paid in full in FY2023.

The City incurred a capital lease payable with Community First National Bank in the amount of \$33,410 for the purchase of a cascade system for the fire department. This lease will be paid in full in FY2022.

The City incurred a capital lease payable with Motorola Solutions, Inc. in the amount of \$82,268 for the purchase of communication equipment for the fire department. This lease will be paid in full in FY2023.

**Bonds Payable**

The City has the following Bonds Payable:

The City incurred bonded debt totaling \$12,595,000 for the purpose of improving city infrastructure.

**Changes in Business-type Long-term Debt**

Description	Interest Rate Payable	Amounts Issued	Amounts Outstanding			Amounts Outstanding September 30, 2020	Due Within One Year
			September 30 2019	Issued	Retired		
2014 Tax Note	4.00%	\$ 84,000	\$ 26,000	\$ -	\$ (13,000)	\$ 13,000	\$ 13,000
2018 Tax Note	2.270% to 2.814%	3,060,000	2,705,000	-	(2,705,000)	-	-
Series 2020 Bonds	2.00%	2,300,000	-	2,300,000	-	2,300,000	395,000
Total Bonds & Notes		5,444,000	2,731,000	2,300,000	(2,718,000)	2,313,000	408,000
<b>Total Long Term Obligations</b>		<b>\$ 5,444,000</b>	<b>\$ 2,731,000</b>	<b>\$ 2,300,000</b>	<b>\$ (2,718,000)</b>	<b>\$ 2,313,000</b>	<b>\$ 408,000</b>

Debt service requirements are as follows:

Year Ending September 30:	Total		
	Principal	Interest	Requirements
2021	408,000	49,297	457,297
2022	465,000	33,450	498,450
2023	470,000	24,100	494,100
2024	480,000	14,600	494,600
2025	490,000	4,900	494,900
<b>Totals</b>	<b>\$ 2,313,000</b>	<b>\$ 126,347</b>	<b>\$ 2,439,347</b>

**CITY OF LAVON, TEXAS  
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**I. LONG-TERM OBLIGATIONS** (continued)

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.

The City incurred Series 2020 Refunding Bonds for the purpose of refunding the 2018 Tax Notes.

**J. 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.tmr.org](http://www.tmr.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  
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**K. PENSION PLAN  
 2. Benefits Provided (continued)**

*Employees covered by benefit terms:*

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

Number of:	Plan Year	
	2019	2018
Inactive employees or beneficiaries currently receiving benefits	4	3
Inactive employees entitled to but not yet receiving benefits	17	18
Active employees	19	18
<b>Total</b>	<b>40</b>	<b>39</b>

**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.

**4. Net Pension Liability**

The City's Net Pension Liability ("NPL") was measured as of December 31, 2019, 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, 2019 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, 2019 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  
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**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, 2019.

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2018	\$ 1,217,797	\$ 1,110,544	\$ 107,253
Changes for the year:			
Service cost	134,084	-	134,084
Interest	87,096	-	87,096
Change of benefit terms	13,437	-	13,437
Difference between expected and actual experience	(18,974)	-	(18,974)
Changes of assumptions	436	-	436
Contributions - employer	-	60,627	(60,627)
Contributions - employee	-	56,936	(56,936)
Net investment income	-	171,459	(171,459)
Benefit payments, including refunds of employee contributions	(15,932)	(15,932)	-
Administrative expense	-	(970)	970
Other changes	-	(30)	30
Net changes	200,147	272,090	(71,943)
Balance at 12/31/2019	<u>\$ 1,417,944</u>	<u>\$ 1,382,634</u>	<u>\$ 35,310</u>

**CITY OF LAVON, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**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:

1% Decrease 5.75%	Current Single Rate Assumption 6.75	1% Increase 7.75%
\$ 243,367	\$ 35,310	\$ (134,929)

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

For the year ended September 30, 2020, the City recognized a pension expense of \$98,168.

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

	<b>Deferred Outflow of Resources</b>	<b>Deferred Inflow of Resources</b>
Difference between expected and actual economic experience		\$ 17,910
Changes in actuarial assumptions	329	
Difference between projected and actual investment earnings		39,643
Contributions subsequent to the measurement date of December 31, 2019	59,835	-
<b>Total</b>	<b>\$ 60,164</b>	<b>\$ 57,553</b>

\$59,835 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		
2020	\$	(19,144)
2021		(15,176)
2022		(3,237)
2023		(19,667)
2024		-
<b>Total</b>	<b>\$</b>	<b>(57,224)</b>

**CITY OF LAVON, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**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 \$39,929 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date.

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

Inflation	2.50%
Salary increases	3.50% to 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, 2019 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	19
<b>Total</b>	<u><u>25</u></u>

**CITY OF LAVON, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**K. PENSION PLAN**

**6. Group-term Life Insurance (continued)**

**Changes in the Total OPEB Liability:**

Total OPEB Liability - beginning of year	\$	30,429
Changes for the year:		
Service costs		2,847
Interest on total OPEB liability		1,180
Changes in benefit terms		-
Differences between expected and actual experience		(2,849)
Changes in assumptions or other inputs		8,417
Benefit payments		(95)
<b>Total OPEB Liability - end of year</b>	<b>\$</b>	<b><u>39,929</u></b>

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 (1.75%) or 1-percentage-point higher (3.75%) than the current discount rate.

	<b>1% Decrease (1.75%)</b>	<b>Current Discount (2.75)</b>	<b>1% Increase (3.75%)</b>
Total OPEB Liability	\$ 49,972	\$ 39,929	\$ 32,371

Deferred (Inflows)/Outflows of Resources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 2,765
Changes in assumptions and other inputs	6,825	-
Contributions made subsequent to measurement date	1,238	-
<b>Total</b>	<b><u>\$ 8,063</u></b>	<b><u>\$ 2,765</u></b>

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

	<b>Net Deferred Outflows (Inflows) of Resources</b>
2020	\$ 788
2021	788
2022	788
2023	597
2024	577
Thereafter	522
<b>Total</b>	<b><u>\$ 4,060</u></b>

**L. HEALTH CARE COVERAGE**

During the year ended September 30, 2020, 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 \$800 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  
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FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**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. SUBSEQUENT EVENTS**

The City has evaluated all events or transactions that occurred after September 30, 2020 up through July 29, 2021, the date the financial statements were available to be issued. During this period, management was unaware of subsequent events requiring disclosures.



## REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LAVON, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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

	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Actuarially determined contributions	\$ 62,602	\$ 46,293	\$ 41,376	\$ 34,905	\$ 31,348	\$ 26,916
Contributions in relation to the actuarially determined contribution	\$ 62,602	\$ 46,293	\$ 41,376	\$ 34,905	\$ 31,348	\$ 26,916
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 948,929	\$ 863,063	\$ 849,615	\$ 849,615	\$ 716,730	\$ 643,698
Contributions as a percentage of covered employee payroll	6.60%	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 24 years  
 Asset Valuation Method 10 Year smoothed market; 12% soft corridor  
 Inflation 2.50%  
 Salary Increases 3.5% to 11.5% including inflation  
 Investment Rate of Return 6.75%  
 Retirement Age Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.  
 Mortality Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Notes: Increased employee contribution rate from 6% to 7%.

**CITY OF LAVON, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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

	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
<b>Total Pension Liability</b>						
Service cost	\$ 134,084	\$ 107,824	\$ 87,510	\$ 73,107	\$ 63,790	\$ 50,365
Interest (on the Total Pension Liability)	87,096	73,837	64,079	54,755	48,000	41,927
Changes of benefit terms	13,437	10,765	-	-	-	-
Difference between expected and actual experience	(18,974)	841	(18,993)	16,408	(6,720)	(4,139)
Change of assumptions	436	-	-	-	26,056	-
Benefit payments, including refunds of employee contributions	(15,932)	(9,362)	(8,523)	(18,178)	(2,425)	(13,802)
<b>Net Change in Total Pension Liability</b>	<u>200,147</u>	<u>183,905</u>	<u>124,073</u>	<u>126,092</u>	<u>128,701</u>	<u>74,351</u>
<b>Total Pension Liability - Beginning</b>	<u>1,217,797</u>	<u>1,033,892</u>	<u>909,819</u>	<u>783,727</u>	<u>655,026</u>	<u>580,675</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 1,417,944</u>	<u>\$ 1,217,797</u>	<u>\$ 1,033,892</u>	<u>\$ 909,819</u>	<u>\$ 783,727</u>	<u>\$ 655,026</u>
<b>Plan Fiduciary Net Position</b>						
Contributions - employers	\$ 60,627	\$ 49,957	\$ 45,199	\$ 33,642	\$ 28,967	\$ 17,097
Contributions - employees	56,936	44,445	42,481	35,837	32,185	28,942
Net investment income	171,459	(31,605)	118,796	51,019	1,033	36,148
Benefit payments, including refunds of employee contributions	(15,932)	(9,362)	(8,523)	(18,178)	(2,425)	(13,802)
Administrative expense	(970)	(612)	(618)	(579)	(629)	(377)
Other	(31)	(32)	(31)	(31)	(31)	(31)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>272,089</u>	<u>52,791</u>	<u>197,304</u>	<u>101,710</u>	<u>59,100</u>	<u>67,977</u>
<b>Plan Fiduciary Net Position - Beginning</b>	<u>1,110,545</u>	<u>1,057,754</u>	<u>860,450</u>	<u>758,740</u>	<u>699,640</u>	<u>631,663</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 1,382,634</u>	<u>\$ 1,110,545</u>	<u>\$ 1,057,754</u>	<u>\$ 860,450</u>	<u>\$ 758,740</u>	<u>\$ 699,640</u>
<b>Net Pension Liability (Asset) - Ending (a)-(b)</b>	<u>\$ 35,310</u>	<u>\$ 107,252</u>	<u>\$ (23,862)</u>	<u>\$ 49,369</u>	<u>\$ 24,987</u>	<u>\$ (44,614)</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	97.51%	91.19%	102.31%	94.57%	96.81%	106.81%
<b>Covered Employee Payroll</b>	\$ 948,929	\$ 888,907	\$ 849,615	\$ 716,730	\$ 643,698	\$ 578,842
<b>Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll</b>	3.72%	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, 2020**

	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
<b>Total OPEB Liability</b>			
Service cost	\$ 2,847	\$ 2,933	\$ 2,464
Interest (on the Total OPEB liability)	1,180	1,030	937
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(2,849)	(498)	-
Change of assumptions	8,417	(2,628)	2,777
Benefit payments, including refunds of employee contributions	(95)	(89)	(85)
<b>Net Change in Total Pension Liability</b>	<u>9,500</u>	<u>748</u>	<u>6,093</u>
<b>Total OPEB Liability - Beginning</b>	<u>30,429</u>	<u>29,681</u>	<u>23,588</u>
<b>Total OPEB Liability - Ending</b>	<u><u>\$ 39,929</u></u>	<u><u>\$ 30,429</u></u>	<u><u>\$ 29,681</u></u>
Covered employee payroll	\$ 948,929	\$ 888,907	\$ 849,615
Total OPEB Liability as a percentage of covered employee payroll	4.21%	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, 2020**

	<b>Budget</b>		<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Adopted</b>	<b>Amended</b>		
<b>REVENUES</b>				
Taxes:				
Property	\$ 1,087,381	\$ 1,040,833	\$ 1,041,361	\$ 528
Sales	230,000	325,000	467,231	142,231
Franchise	150,000	150,000	155,754	5,754
Charge for services	162,000	179,464	155,867	(23,597)
Intergovernmental revenue - state and local	-	-	265,908	265,908
Licenses and permits	299,500	682,925	896,258	213,333
Fines and forfeitures	70,820	39,820	64,828	25,008
Donations	-	-	14,477	14,477
Investment income	2,689	2,689	16,024	13,335
Miscellaneous	25,000	29,000	46,217	17,217
<b>Total revenues</b>	<b>2,027,390</b>	<b>2,449,731</b>	<b>3,123,925</b>	<b>674,194</b>
<b>EXPENDITURES</b>				
Current operating:				
General government	823,853	913,803	900,989	12,814
Public works	301,537	308,537	208,938	99,599
Municipal court	91,495	91,495	63,400	28,095
Public safety	1,189,152	1,232,452	1,273,729	(41,277)
Parks and recreation	-	-	1,793	(1,793)
Debt service:				
Principal retirement	-	-	160,668	(160,668)
Interest	-	-	13,048	(13,048)
Capital outlays:				
General government	1,500	1,500	15,500	(14,000)
Public safety	218,688	236,188	138,479	97,709
Public works	130,286	71,149	130,215	(59,066)
Parks	-	-	7,400	(7,400)
<b>Total expenditures</b>	<b>2,756,511</b>	<b>2,855,124</b>	<b>2,914,159</b>	<b>(59,035)</b>
<b>Excess of revenues over expenditures</b>	<b>(729,121)</b>	<b>(405,393)</b>	<b>209,766</b>	<b>615,159</b>
<b>Other financing sources (uses)</b>				
Transfers	763,193	763,193	759,287	(3,906)
Sale of assets	500	75,000	75,115	115
Note proceeds	-	-	14,869,518	14,869,518
Total other financing sources (uses)	<b>763,693</b>	<b>838,193</b>	<b>15,703,920</b>	<b>14,865,727</b>
<b>Net change in fund balances</b>	<b>34,572</b>	<b>432,800</b>	<b>15,913,686</b>	<b>15,480,886</b>
<b>Fund balance, October 1</b>	<b>1,286,912</b>	<b>1,286,912</b>	<b>1,286,912</b>	
<b>Fund balance, September 30</b>	<b>\$ 1,321,484</b>	<b>\$ 1,719,712</b>	<b>\$ 17,200,598</b>	

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



## OTHER SUPPLEMENTARY INFORMATION

**CITY OF LAVON, TEXAS  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2020**

	<b>Municipal Court Tech Fund</b>	<b>Police TCLEOSE Fund</b>	<b>Police Seized Asset Fund</b>	<b>Municipal Court Security Fund</b>	<b>Court Funds</b>	<b>Total Other Governmental Funds</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents - restricted	10,783	3,857	1,427	13,108	34,630	63,805
<b>Total assets</b>	<u>10,783</u>	<u>3,857</u>	<u>1,427</u>	<u>13,108</u>	<u>34,630</u>	<u>63,805</u>
<b>LIABILITIES AND FUND BALANCE</b>						
Liabilities:						
Accounts payable	98	-	-	-	-	98
<b>Total liabilities</b>	<u>98</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>98</u>
Fund Balances:						
Restricted for:						
Court	10,685	-	-	13,108	34,630	58,423
Police	-	-	1,427	-	-	1,427
Designated for:						
Police	-	3,857	-	-	-	3,857
<b>Total fund balance</b>	<u>10,685</u>	<u>3,857</u>	<u>1,427</u>	<u>13,108</u>	<u>34,630</u>	<u>63,707</u>
<b>Total liabilities and fund balances</b>	<u>\$ 10,783</u>	<u>\$ 3,857</u>	<u>\$ 1,427</u>	<u>\$ 13,108</u>	<u>\$ 34,630</u>	<u>\$ 63,805</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, 2020**

	<b>Municipal Court Tech Fund</b>	<b>Police TCLEOSE Fund</b>	<b>Police Seized Asset Fund</b>	<b>Municipal Court Security Fund</b>	<b>Court Funds</b>	<b>Total Other Governmental Funds</b>
<b>REVENUES</b>						
Fines and forfeitures	\$ 1,093	\$ -	\$ -	\$ 388	\$ 54	\$ 1,535
Intergovernmental revenue - state and local	-	1,186	-	-	-	1,186
<b>Total Revenues</b>	<u>1,093</u>	<u>1,186</u>	<u>-</u>	<u>388</u>	<u>54</u>	<u>2,721</u>
<b>EXPENDITURES</b>						
Current:						
Court	1,581	-	-	(662)	153	1,072
Police	-	-	-	-	-	-
<b>Total Expenditures</b>	<u>1,581</u>	<u>-</u>	<u>-</u>	<u>(662)</u>	<u>153</u>	<u>1,072</u>
<b>Excess of revenues over expenditures</b>	(488)	1,186	-	1,050	(99)	1,649
<b>Other Financing Sources (uses)</b>						
Transfers	(100)	(545)	-	-	(1,716)	(2,361)
<b>Total Other Financing Sources (uses)</b>	<u>(100)</u>	<u>(545)</u>	<u>-</u>	<u>-</u>	<u>(1,716)</u>	<u>(2,361)</u>
<b>Net Change in Fund Balances</b>	(588)	641	-	1,050	(1,815)	(712)
<b>Fund Balances, October 1</b>	11,273	3,216	1,427	12,058	36,445	64,419
<b>Fund Balances, September 30</b>	<u>\$ 10,685</u>	<u>\$ 3,857</u>	<u>\$ 1,427</u>	<u>\$ 13,108</u>	<u>\$ 34,630</u>	<u>\$ 63,707</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, 2020**

	<u>EDC</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 183,373
Receivable-sales tax	35,751
<b>Total assets</b>	<u>219,124</u>
<b>LIABILITIES</b>	
Long-term liabilities:	
Note payable	13,000
<b>Total liabilities</b>	<u>13,000</u>
<b>FUND BALANCE</b>	
Fund Balance:	
Unassigned	206,124
<b>Total fund balance</b>	<u>206,124</u>
<b>Total liabilities and fund balance</b>	<u>\$ 219,124</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, 2020**

	<u>EDC</u>
<b>REVENUES</b>	
Sales tax	\$ 155,934
Interest income	274
Miscellaneous	496
<b>Total revenues</b>	<u>156,704</u>
<b>EXPENDITURES</b>	
Current operating:	
Professional and legal	17,923
Contractual services	40,498
Office expenses	2,059
<b>Total expenditures</b>	<u>64,071</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	92,633
<b>Net change in fund balance</b>	92,633
<b>Fund balance, October 1</b>	113,491
<b>Fund balance, September 30</b>	<u>\$ 206,124</u>

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