

City of Lone Star, Texas
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
For the year ended September 30, 2019

City of Lone Star, Texas
TABLE OF CONTENTS
Year ended September 30, 2019

<u>Exhibit</u>		<u>Page</u>
	Official Directory	1
	Independent Auditor's Report	2-3
	Management's Discussion and Analysis	4-11
	<u>Basic Financial Statements</u>	
	Government Wide Statements:	
A-1	Statement of Net Position	12
B-1	Statement of Activities	13
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	14
C-2	Reconciliation for C-1	15
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balance	16
C-4	Reconciliation for C-3	17
C-5	Budgetary Comparison Schedule - General Fund	18
	Proprietary Fund Financial Statements:	
D-1	Statement of Net Position	19
D-2	Statement of Revenues, Expenses, and Changes in Fund Net Position	20
D-3	Statement of Cash Flows	21
	<u>Component Unit</u>	
E-1	Balance Sheet	22
E-2	Statement of Revenues, Expenses, and Change in Fund Balance	23
	Notes to the Financial Statements	24-37
	<u>Required Supplementary Information</u>	
	Schedule of Changes in Net Pension Liability and Related Ratios	38
	<u>Report on Internal Controls and Compliance</u>	
	Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in accordance with <i>Government Auditing Standards</i>	39
	Schedule of Findings and Questioned Costs	40
	Schedule of Status of Prior Findings	40
	Corrective Action Plan	40

CITY OF LONE STAR, TEXAS
SEPTEMBER 30, 2019

CITY COUNCIL

Randy Hodges
Mayor

Jerri Chism
Mayor Pro-tem

Trent Duke
Alderman

Rudy Dudley
Alderman

Lynn Cox
Alderman

Mona Brown
Alderman

CITY OFFICIALS

Devon Whatley
City Secretary

Landon Tidmore
Fire Chief

Stan Lowry
Attorney

Steven Blythe
Chief of Police



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, and City Council City of Lone Star, Texas

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Lone Star, Texas, as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and net pension liability information on pages 4 through 11, 18 and 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 22, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

July 22, 2020

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lone Star, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities and performance for the year ended September 30, 2019. The information presented here should be read in conjunction with the independent auditor's report and the City's financial statements.

FINANCIAL HIGHLIGHTS

The City's total combined net position was \$2.96 million at September 30, 2019. \$2.3 million of the net position was invested in capital assets, net of related debt. Unrestricted net position was \$123 thousand at September 30, 2019. During the year, the City's expenses were \$1.63 million and \$1.49 million was generated in taxes, charges for services and other revenues from governmental and proprietary activities.

The general fund balance was \$95 thousand at September 30, 2019.

Approximately 96% of the taxes levied for 2018-19 were collected by September 30, 2019.

In November 2019, the City was notified of approval of a Texas Department of Agriculture, Community Development Block Grant in the amount of \$275,000 to be used for water and sewer system improvements.

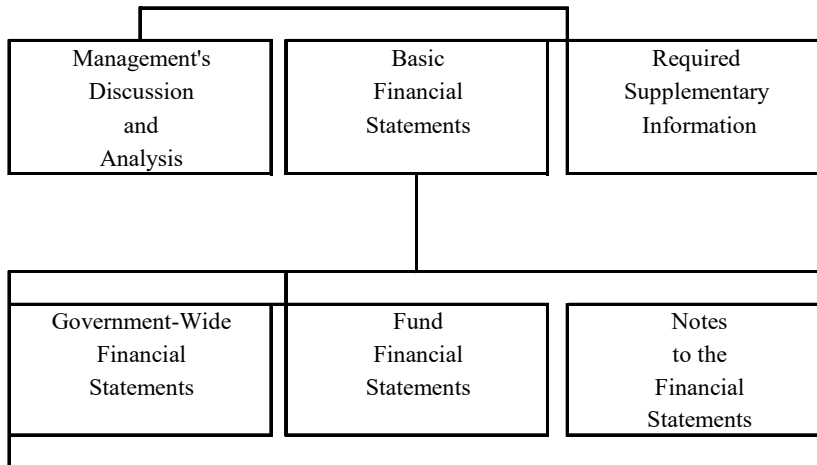
City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts--*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide information about the City's activities as a whole and present a longer-term view of the City's property and debt obligations. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer operations.

Figure A-1. Required Components of the City's Annual Financial Report



Summary ⇄ Detail

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the City's Government-wide Fund Financial Statements

<i>Type of Statements</i>	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses: self insurance	Instances in which the City is the trustee or agent for someone else's resources
<i>Required financial statements</i>	Statement of net position	Balance sheet	Statement of net position	Statement of fiduciary net position
	Statement of activities	Statement of revenues, Expenditures & changes in fund balances	Statement of revenues, expenses and changes in fund net position Statement of cash flows	Statement of changes in fiduciary net position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon after	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net position* and how they have changed. Net position-the difference between the City's assets and liabilities-is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, consideration should be given to additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as public safety, streets and bridges, judicial and general administration. Property taxes and charges for services finance most of these activities.

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*-not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

- *Governmental funds*-Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them.
- *Proprietary funds*-Services for which the City charges customers a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both long-term and short-term financial information. *Internal service funds* are used to report activities that provide supplies and services for the City's other programs and activities. The City has no internal service funds.

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was approximately \$2.96 million at September 30, 2019.

Table A-1
The City's Net Position
(in thousands of dollars)

	Governmental Activities		Business Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	327	256	923	757	1,250	1,013
Capital and non-current assets	884	767	1,913	1,549	2,797	2,316
TOTAL ASSETS	<u>1,211</u>	<u>1,023</u>	<u>2,836</u>	<u>2,306</u>	<u>4,047</u>	<u>3,329</u>
DEFERRED OUTFLOWS OF RESOURCES	25	38	51	26	76	64
Long-term liabilities	-	-	585	-	585	-
Other liabilities	204	143	348	141	552	284
TOTAL LIABILITIES	<u>204</u>	<u>143</u>	<u>348</u>	<u>141</u>	<u>552</u>	<u>284</u>
Unavailable revenue-property taxes	31	30	-	-	31	30
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>31</u>	<u>30</u>	<u>-</u>	<u>-</u>	<u>31</u>	<u>30</u>
Invested in capital assets net of related debt	884	767	1,417	1,549	2,301	2,316
Restricted	50	52	480	172	530	224
Unrestricted	67	69	57	471	124	540
TOTAL NET POSITION	<u>1,001</u>	<u>888</u>	<u>1,954</u>	<u>2,192</u>	<u>2,955</u>	<u>3,080</u>

Net position invested in capital assets reflects the book value of the City's capital assets in excess of the debt which financed those assets. The \$124 thousand of unrestricted net position represents resources available to fund the programs of the City for the next fiscal year.

Net position of the City decreased by \$125 thousand.

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in net position.

The City's total revenues were \$1.49 million. 18% of this came from property taxes, 15% came from sales taxes and other taxes, and 55% came from charges for services.

The total cost of all programs was \$1.6 million. Approximately 41% of this was for water and sewer, and 59% was for general fund operations.

Table A-2
The City's Changes in Net Position
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
<u>Program Revenues</u>						
Charges for service	194	186	631	692	825	878
Capital Grants and Contributions	171	37	-	-	171	37
<u>General Revenues</u>						
Property taxes	261	260	-	-	261	260
Other taxes and fees	221	231	-	-	221	231
Investment earnings	1	1	1	-	2	1
Other	2	6	6	1	8	7
Total Revenues	<u>850</u>	<u>721</u>	<u>638</u>	<u>693</u>	<u>1,488</u>	<u>1,414</u>
Expenses						
Administrative	78	100	-	-	78	100
City and sanitation	196	195	-	-	196	195
Employee	434	406	-	-	434	406
Fire	27	34	-	-	27	34
Police	71	73	-	-	71	73
Public works	34	18	-	-	34	18
Water and sewer	-	-	675	646	675	646
Unallocated depreciation	117	105	-	-	117	105
Total Expenses	<u>957</u>	<u>931</u>	<u>675</u>	<u>646</u>	<u>1,632</u>	<u>1,577</u>
Transfers in (out)	220	168	(200)	(168)	20	-
Increase (Decrease) in Net Position	113	(42)	(237)	(121)	(124)	(163)
Beginning Net Position	888	930	2,192	2,313	3,080	3,243
Ending Net Position	<u>1,001</u>	<u>888</u>	<u>1,955</u>	<u>2,192</u>	<u>2,956</u>	<u>3,080</u>

Table A-3 presents the cost of each of the City's largest functions as well as each function's *net cost* (total cost less generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

Table A-3
Net Cost of Selected City Functions
(in thousands of dollars)

	Total Cost of Services		Net Costs of Services	
	2019	2018	2019	2018
Water and sewer	675	646	44	(45)
Administration, sanitation and public safety	957	931	592	708

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City reported fund balance in its governmental funds of approximately \$113 thousand at September 30, 2019. This balance is composed of the following in thousands.

General	95
Special revenue	<u>18</u>
	<u><u>113</u></u>

The general fund balance was up \$11 thousand. The special revenue fund balance decreased \$2 thousand.

General Fund Budgetary Highlights

No significant budget amendments were made during the year. Actual revenues were more than budgeted by about 9%. Actual expenditures were \$124 thousand more than budgeted.

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table A-4
City's Capital Assets
(in thousands of dollars)

	Governmental Activities		Business-Type Activities	
	2019	2018	2019	2018
Land and construction in progress	353	385	707	244
Buildings	148	148	-	-
Machinery, equipment and vehicles	700	751	155	185
Improvements	645	443	-	-
Water and sewer system	-	-	4,430	4,430
Streets	200	200	-	-
Totals at historical cost	<u>2,046</u>	<u>1,927</u>	<u>5,292</u>	<u>4,859</u>
Total accumulated depreciation	<u>(1,162)</u>	<u>(1,161)</u>	<u>(3,378)</u>	<u>(3,310)</u>
Net capital assets	<u>884</u>	<u>766</u>	<u>1,914</u>	<u>1,549</u>

Long-Term Debt

Table A-5
City's Long-Term Debt
(in thousands of dollars)

	Governmental Activities		Business-Type Activities	
	2019	2018	2019	2018
Bonds payable	-	-	496	-
	<u>-</u>	<u>-</u>	<u>496</u>	<u>-</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2020 budget and tax rate. The City is anticipating some growth in the tax base. The City is working on an economic development growth plan and increased sales tax collections. No significant increase or decrease was budgeted for expenditures or revenues so no significant change is anticipated to the City's equity position. No significant fixed asset acquisitions are budgeted.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Lone Star's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the City Manager's Office.

BASIC FINANCIAL STATEMENTS

GOVERNMENT WIDE STATEMENTS

City of Lone Star, Texas
STATEMENT OF NET POSITION
As of September 30, 2019

	Primary Government		Total	Component Unit
	Governmental Activities	Business-Type Activities		Economic Development Corporation
ASSETS				
Current Assets				
Cash and cash equivalents	134,297	210,189	344,486	185,666
Accounts receivable, net of allowances	159,612	83,734	243,346	-
Inventory	-	8,972	8,972	-
Due from other funds	-	140,000	140,000	-
Other	40	-	40	-
Total current assets	293,949	442,895	736,844	185,666
Restricted Assets				
Cash and cash equivalents	32,720	480,363	513,083	-
Total restricted assets	32,720	480,363	513,083	-
Capital Assets				
Land and construction in progress	352,588	706,801	1,059,389	40,960
Other capital assets, net of accumulated depreciation	531,886	1,206,284	1,738,170	42,732
Total capital assets	884,474	1,913,085	2,797,559	83,692
Other Assets	-	-	-	-
Total assets	1,211,143	2,836,343	4,047,486	269,358
DEFERRED OUTFLOWS OF RESOURCES				
Deferred resource outflow TMRS	25,154	51,071	76,225	-
Total deferred outflows of resources	25,154	51,071	76,225	-
LIABILITIES				
Accounts payable and accrued expenses	42,648	305,845	348,493	-
Due to other funds	140,000	-	140,000	-
Total current liabilities	182,648	305,845	488,493	-
Liabilities payable from restricted assets				
Bonds payable current	-	42,000	42,000	-
	-	42,000	42,000	-
Non-current liabilities				
Meter deposits	-	87,125	87,125	-
Bonds payable non-current	-	454,000	454,000	-
Net pension liability	9,737	19,473	29,210	-
OPEB liability	12,084	24,534	36,618	-
Total non-current liabilities	21,821	585,132	606,953	-
Total liabilities	204,469	932,977	1,137,446	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	31,145	-	31,145	-
Total inflows of resources	31,145	-	31,145	-
NET POSITION				
Net investment in capital assets	884,474	1,417,085	2,301,559	83,692
Restricted for improvements and deposits	32,720	480,363	513,083	-
Restricted for special revenue funds and other	17,584	-	17,584	-
Unrestricted	65,905	56,989	122,894	185,666
Total net position	1,000,683	1,954,437	2,955,120	269,358

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

City of Lone Star, Texas
STATEMENT OF ACTIVITIES
For the year ended September 30, 2019

	Net (Expense) Revenue and Changes in Net Position						Component Unit Economic Development Corporation
	Program Revenues			Primary Government			
	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental activities							
Administration	78,010	-	-	(78,010)	-	(78,010)	-
City and sanitation	195,595	154,311	-	(41,284)	-	(41,284)	-
Employee	434,733	-	-	(434,733)	-	(434,733)	-
Fire	26,753	-	12,161	(14,592)	-	(14,592)	-
Police	71,200	40,097	25,160	(5,943)	-	(5,943)	-
Public works	33,942	-	134,030	100,088	-	100,088	-
Unallocated depreciation	117,203	-	-	(117,203)	-	(117,203)	-
Total governmental activities	<u>957,436</u>	<u>194,408</u>	<u>171,351</u>	<u>(591,677)</u>	<u>-</u>	<u>(591,677)</u>	<u>-</u>
Business-type activities							
Water & sewer	675,578	631,263	-	-	(44,315)	(44,315)	-
Total business-type activities	<u>675,578</u>	<u>631,263</u>	<u>-</u>	<u>-</u>	<u>(44,315)</u>	<u>(44,315)</u>	<u>-</u>
Total primary government	<u>1,633,014</u>	<u>825,671</u>	<u>171,351</u>	<u>(591,677)</u>	<u>(44,315)</u>	<u>(635,992)</u>	<u>-</u>
Component Unit							
LS EDC	31,173	-	-	-	-	-	(31,173)
Total Component Unit	<u>31,173</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,173)</u>
General revenues							
Taxes							
Property taxes				260,402	-	260,402	-
Sales and other taxes				220,994	-	220,994	74,553
Investment earnings				1,165	1,387	2,552	202
Miscellaneous				2,487	5,620	8,107	-
Total general revenues				<u>485,048</u>	<u>7,007</u>	<u>492,055</u>	<u>74,755</u>
Other Sources (Uses)							
Transfers in (out)				220,000	(200,000)	20,000	(20,000)
Changes in Net Position				113,371	(237,308)	(123,937)	23,582
Net position -- beginning				887,312	2,191,745	3,079,057	245,776
Net position -- ending				<u>1,000,683</u>	<u>1,954,437</u>	<u>2,955,120</u>	<u>269,358</u>

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

City of Lone Star, Texas
BALANCE SHEET
 Governmental Funds
 as of September 30, 2019

	General	Special Revenue	Total Governmental Funds
ASSETS			
Cash and cash equivalents	116,713	17,584	134,297
Accounts receivable, net of allowances	159,612	-	159,612
Other	40	-	40
Restricted cash and cash equivalents	32,720	-	32,720
Total Assets	309,085	17,584	326,669
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES			
Liabilities			
Accounts payable and accrued expenses	42,648	-	42,648
Due to other funds	140,000	-	140,000
Total Liabilities	182,648	-	182,648
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	31,145	-	31,145
Total inflows of resources	31,145	-	31,145
Fund Balances			
Reserved for			
Future year's expenditures	32,720	-	32,720
Reported in special revenue funds	-	17,584	17,584
Unassigned			
Reported in the general fund	62,572	-	62,572
Total Fund Balances	95,292	17,584	112,876
Total Liabilities, deferred inflows of resources and Fund Balances	309,085	17,584	326,669

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

City of Lone Star, Texas
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 for the year ended September 30, 2019

Total Fund Balances - Governmental Funds	112,876
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,927,155, and the accumulated depreciation was \$1,160,584. The net effect of including the beginning balances for capital assets (net of depreciation) and in the governmental activities is to increase (decrease) position.	766,571
Current year capital outlays are expenditures in the final financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2019 capital outlays is to increase net position.	235,106
The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(117,203)
Recognition of the City's net pension liability is not reported in the funds.	(9,737)
Deferred resource outflows related to the pension plan are not reported in the funds.	25,154
Recognition of the City's total OPEB liability is not reported in the funds.	<u>(12,084)</u>
Net Position of Governmental Activities	<u><u>1,000,683</u></u>

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

City of Lone Star, Texas
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES--GOVERNMENTAL FUNDS
for the year ended September 30, 2019

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
REVENUES			
Ad valorem taxes	260,402	-	260,402
Sales tax	148,807	-	148,807
Franchise fees	70,390	1,797	72,187
Fines	40,097	-	40,097
Charges for services	154,311	-	154,311
Intergovernmental	37,321	134,030	171,351
Interest income	1,165	-	1,165
Other	2,487	-	2,487
Total revenues	<u>714,980</u>	<u>135,827</u>	<u>850,807</u>
EXPENDITURES			
Current			
Administrative	78,010	-	78,010
City and sanitation	195,595	-	195,595
Employee	421,664	-	421,664
Fire	26,753	-	26,753
Police	64,685	-	64,685
Public works	23,610	-	23,610
Capital outlay			
Fire	-	-	-
Police	35,659	-	35,659
Public works and other	10,332	205,962	216,294
Total Expenditures	<u>856,308</u>	<u>205,962</u>	<u>1,062,270</u>
Excess (deficiency) of revenues over expenditures	<u>(141,328)</u>	<u>(70,135)</u>	<u>(211,463)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	220,000	67,953	287,953
Operating transfers out	(67,953)	-	(67,953)
Total Other Financing Sources (Uses)	<u>152,047</u>	<u>67,953</u>	<u>220,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	10,719	(2,182)	8,537
Fund balance, beginning of year	<u>84,573</u>	<u>19,766</u>	<u>104,339</u>
Fund balance, end of year	<u>95,292</u>	<u>17,584</u>	<u>112,876</u>

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

City of Lone Star, Texas
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
for the year ended September 30, 2019

Total Net Change in Fund Balances - Governmental Funds	8,537
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2019 capital outlays is to increase net position.	235,106
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(117,203)
Pension contributions made after the measurement date but in the current fiscal year were de-expended and reduced net pension liability.	7,236
The City's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	(20,620)
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	(319)
OPEB contributions made after the measurement date but in the current fiscal year were de-expended and reduced the liability.	646
OPEB expense relating to GASB 75 is recorded in the SOA but not in the funds.	<u>(12)</u>
Change in Net Position of Governmental Activities	<u><u>113,371</u></u>

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

City of Lone Star, Texas
BUDGETARY COMPARISON SCHEDULE
 General Fund
 for the year ended September 30, 2019

	Original And Final Budget	Actual Amounts GAAP Basis	Variance with Final Budget Positive or (Negative)
REVENUES			
Ad valorem taxes	266,904	260,402	(6,502)
Sales tax	131,004	148,807	17,803
Franchise fees	73,200	70,390	(2,810)
Fines	38,982	40,097	1,115
Charges for services	147,000	154,311	7,311
Intergovernmental	-	37,321	37,321
Interest income	-	1,165	1,165
Other	27,759	2,487	(25,272)
Total Revenues	<u>684,849</u>	<u>714,980</u>	<u>30,131</u>
EXPENDITURES			
Current			
Administrative	45,914	78,010	(32,096)
City and sanitation	181,960	195,595	(13,635)
Employee	361,971	421,664	(59,693)
Fire	31,196	26,753	4,443
Police	29,232	64,685	(35,453)
Public works	28,096	23,610	4,486
Capital outlay			
Fire	5,000	-	5,000
Police	20,376	35,659	(15,283)
Public works and other	-	10,332	(10,332)
Total Expenditures	<u>703,745</u>	<u>856,308</u>	<u>(152,563)</u>
Excess of revenues over (under) expenditures	<u>(18,896)</u>	<u>(141,328)</u>	<u>(122,432)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	220,000	220,000
Operating transfers out	-	(67,953)	(67,953)
Total other sources (uses)	<u>-</u>	<u>152,047</u>	<u>152,047</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(18,896)</u>	<u>10,719</u>	<u>29,615</u>
FUND BALANCE			
Beginning of year	<u>84,573</u>	<u>84,573</u>	<u>-</u>
End of year	<u>65,677</u>	<u>95,292</u>	<u>29,615</u>

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

PROPRIETARY FUND FINANCIAL STATEMENTS

City of Lone Star, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
as of September 30, 2019

	Enterprise Fund	Total Proprietary Funds
ASSETS		
Current assets		
Cash and cash equivalents	210,189	210,189
Accounts receivable, net of allowance	83,734	83,734
Inventory	8,972	8,972
Due from other funds	140,000	140,000
Total current assets	442,895	442,895
RESTRICTED ASSETS		
Cash and cash equivalents	480,363	480,363
Total restricted assets	480,363	480,363
CAPITAL ASSETS		
Land and construction in progress	706,801	706,801
Other capital assets, net of accumulated depreciation	1,206,284	1,206,284
Total capital assets	1,913,085	1,913,085
Total assets	2,836,343	2,836,343
DEFERRED OUTFLOWS OF RESOURCES		
Deferred resource outflows TMRS	51,071	51,071
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	305,845	305,845
Total current liabilities	305,845	305,845
Liabilities payable from restricted assets		
Bonds payable, current	42,000	42,000
Total liabilities payable from restricted assets	42,000	42,000
Non-current liabilities		
Meter deposits	87,125	87,125
Bonds payable non-current	454,000	454,000
Net pension liability	19,473	19,473
OPEB liability	24,534	24,534
Total non-current liabilities	585,132	585,132
Total liabilities	932,977	932,977
NET POSITION		
Invested in capital assets	1,417,085	1,417,085
Restricted for improvements and deposits	480,363	480,363
Unrestricted	56,989	56,989
Total net position	1,954,437	1,954,437

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

City of Lone Star, Texas
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the year ended September 30, 2019

	Enterprise Fund	Total Proprietary Funds
OPERATING REVENUES		
Charges for sales and services	631,263	631,263
Miscellaneous	5,620	5,620
Total Operating Revenues	<u>636,883</u>	<u>636,883</u>
OPERATING EXPENSES		
Personnel costs	224,363	224,363
Maintenance, operations, and contractual services	159,801	159,801
Materials and supplies	36,393	36,393
Water purchased	103,741	103,741
Depreciation	136,644	136,644
Total Operating Expenses	<u>660,942</u>	<u>660,942</u>
Net operating income (loss)	<u>(24,059)</u>	<u>(24,059)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,387	1,387
Interest on debt	(14,636)	(14,636)
Total nonoperating revenues (expenses)	<u>(13,249)</u>	<u>(13,249)</u>
Income (loss) before contributions and transfers	(37,308)	(37,308)
Transfers to other funds	(200,000)	(200,000)
Contributed capital-grants	<u>-</u>	<u>-</u>
Change in Net Position	(237,308)	(237,308)
Net position, beginning of year	2,191,745	2,191,745
Net position, end of year	<u><u>1,954,437</u></u>	<u><u>1,954,437</u></u>

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

City of Lone Star, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended September 30, 2019

	Enterprise Fund	Total Proprietary Funds
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	650,201	650,201
Cash payments to suppliers for goods and services	(268,690)	(268,690)
Cash payments to employees for services and benefits	(221,412)	(221,412)
Net cash provided by (used in) operating activities	<u>160,099</u>	<u>160,099</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Change in due from/ due to other funds	(20,000)	(20,000)
Transfers to other funds	(200,000)	(200,000)
Net cash provided by (used in) noncapital financing activities	<u>(220,000)</u>	<u>(220,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(291,023)	(291,023)
Debt proceeds	496,000	
Interest paid on debt	(14,636)	
Grant proceeds	-	-
Net cash provided by (used in) capital and related financing activities	<u>190,341</u>	<u>(291,023)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	1,387	1,387
Net cash provided by (used in) investing activities	<u>1,387</u>	<u>1,387</u>
Net increase (decrease) in cash and cash equivalents	131,827	131,827
Cash and cash equivalents, beginning of year	<u>558,725</u>	<u>558,725</u>
Cash and cash equivalents, end of year	<u><u>690,552</u></u>	<u><u>690,552</u></u>
RECONCILIATION OF OPERATING INCOME		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	(24,059)	(24,059)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	136,644	136,644
Decrease in accounts receivable and inventory	7,061	7,061
Increase in meter deposits	3,000	3,000
Increase in accounts payable and accrued expenses	37,453	37,453
Net cash provided by (used in) operating activities	<u><u>160,099</u></u>	<u><u>160,099</u></u>

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

COMPONENT UNIT

City of Lone Star, Texas
BALANCE SHEET
COMPONENT UNIT
 September 30, 2019

	<u>Economic Development Corporation</u>
ASSETS	
Cash and cash equivalents	185,666
TOTAL ASSETS	<u>185,666</u>
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable and accrued expenses	-
TOTAL LIABILITIES	<u>-</u>
Fund Balances	
Unassigned	185,666
TOTAL FUND BALANCES	<u>185,666</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>185,666</u>

The accompanying notes are an integral part of this statement.

City of Lone Star, Texas
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 COMPONENT UNIT
 for the year ended September 30, 2019

	<u>Economic Development Corporation</u>
REVENUES	
Sales tax	74,553
Interest	202
Total revenues	<u>74,755</u>
EXPENDITURES	
Current	
Economic development	20,000
General and administrative	4,481
Capital outlay	57,464
Total expenditures	<u>81,945</u>
Excess of expenditures over revenues	(7,190)
Fund balance at beginning of year	<u>192,856</u>
Fund balance at end of year	<u><u>185,666</u></u>

The accompanying notes are an integral part of this statement.

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Lone Star, Texas is a City government operating under the applicable laws and regulations of the State of Texas. It is governed by City Council elected by registered voters of the City. The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants.

A. REPORTING ENTITY

The City Council is elected by the public and it has the authority to make decisions and significantly influence operations. It has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity."

INDIVIDUAL COMPONENT UNIT DISCLOSURES-Discretely presented Component Units

The Lone Star Economic Development Corporation (LS EDC), is a non-profit corporation. The Corporation is organized exclusively for the purposes of promoting and developing the commercial, industrial, and manufacturing enterprises and to promote and encourage employment and the public welfare in the City of Lone Star, Texas. The Corporation is funded by a one-half of one percent sales and use tax. The Corporation does not provide services to the primary government; therefore, the Corporation is considered a discretely presented component unit, the Lone Star EDC does not have separately issued financial statements.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, charges for services, grants and other intergovernmental revenues. Business type activities include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include fees charges for water, sewer, and garbage service. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2019

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION continued

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

D. PENSIONS

The fiduciary net position of the Texas Municipal Retirement System (TMRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TMRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

E. FUND ACCOUNTING

The City reports the following major governmental funds:

1. **The General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Special Revenue Funds** --The city accounts for resources restricted to, or designated for, specific purposes by the city or a grantor in a special revenue fund.

Additionally, the City reports the following major proprietary fund:

1. **Enterprise Funds** -- The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The City's major Enterprise Fund is the water and sewer fund.

F. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.
3. Capital assets, which include land, buildings, machinery and equipment and roads and bridges are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2019

F. OTHER ACCOUNTING POLICIES continued

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, machinery and equipment of the City and the component units are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-25
Mobile equipment	5-7
General equipment	5-10
Water and sewer system	40
Streets	30

4. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
5. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
6. Investments are recorded at fair market value.
7. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both government-wide and proprietary fund financial statements to the extent those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.
8. The City implemented GASB Statement No. 63, Financial Reporting of Deferred Out flows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has one type of item that qualifies for reporting in this category, property taxes. This amount will be recognized as an inflow of resources in the subsequent years as collected.

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

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the City's total OPEB liability for the TMRS Supplemental Death Benefits Fund has been determined based on the provisions of GASB Statement No. 75.

10. 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 Includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaids) or because they must remain intact such as the principal of an endowment.

Restricted fund balance Includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2019

F. OTHER ACCOUNTING POLICIES continued

Committed fund balance Includes the portion of net resources for which the City Council has imposed limitation of use. Amounts that can be used only for the specific purposes determined by a resolution of the City Council. Commitments may be changed or lifted only by a resolution of the City Council. The resolution must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.

Assigned fund balance Includes the portion of net resources for which an *intended* use has been established by the City Council, or the City Administrator authorized to do so by the City Council. Assignments of fund balances are 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 for the purpose of that fund.

Unassigned fund balance Includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

11. Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position.

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

Formal budgetary integration is employed as a management control device during the year for the general fund. This budget is adopted on a basis consistent with generally accepted accounting principles. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

The budgets for the operating funds and proprietary fund operations are prepared on the cash and expenditures basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year the applicable purchase orders are expected to be issued. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

The City does not record encumbrances as part of its accounting records.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

City Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk The City has no investments in foreign currency.

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2019

A. CASH, CASH EQUIVALENTS AND INVESTMENTS continued

As of September 30, 2019, the following are the City's cash and cash equivalents with respective maturities and credit rating:

<u>Type of Deposit</u>	<u>Fair Value</u>	<u>Maturity in Less than 1 year</u>	<u>Maturity in 1-10 Years</u>	<u>Maturity in Over 10 Years</u>	<u>Credit Rating</u>
Cash, Money Markets and FDIC Insured Accounts	857,569	857,569	-	-	N/A
Total Cash and Cash Equivalents	<u>857,569</u>	<u>857,569</u>	<u>-</u>	<u>-</u>	

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Lone Star State Bank/ Community Bank
- b. At September 30, 2019, deposits were secured by a \$720,000 FHLB letter of credit.
- c. The bank balances of cash, savings, and time deposit accounts amounted to approximately \$875,000 at September 30, 2019.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$250,000.

Investments

City Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. City of Lone Star, Texas is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for City of Lone Star, Texas are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments in commercial paper, corporate bonds, mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs).

Custodial Credit Risk for Investments To limit 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 investment or collateral securities that are in possession of an outside party the City requires counterparties to register the securities in the name of the City and hand them over to the City or its designated agent. This includes securities in securities lending transactions. All of the securities are in the City's name and held by the City or its agent.

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the City limits investments to less than 5% of its total investments. The City further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City requires all of the investment portfolio to have maturities of less than one year.

Foreign Currency Risk for Investments The City limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not allowing foreign investments.

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2019

A. CASH, CASH EQUIVALENTS AND INVESTMENTS continued

The City categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The 2018 assessed valuation (net of exemptions) was \$49,201,000 with a tax rate of \$0.52 per \$100 valuation. Property tax revenue available was \$256,000.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are deposited into the general fund. Allowances for uncollectible tax receivables within the General Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND TRANSFERS AND BALANCES

Interfund balances are as follows:

Due from General Fund to:

Enterprise Fund	<u>140,000</u>
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City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2019

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2019, were as follows:

	Property Taxes	Charges for Services	Intergovern- mental	Other	Total Receivables
Governmental Activities:					
General Fund	51,908	-	-	135,995	187,903
Major Special Revenue fund	-	-	-	-	-
Total - Governmental Activities	<u>51,908</u>	<u>-</u>	<u>-</u>	<u>135,995</u>	<u>187,903</u>
Amounts not scheduled for collection during the subsequent year	<u>20,763</u>	<u>7,528</u>	<u>-</u>	<u>-</u>	<u>28,291</u>
Business Type Activities:					
Major Enterprise Fund	-	111,180	-	-	111,180
Total-Business Type Activities	<u>-</u>	<u>111,180</u>	<u>-</u>	<u>-</u>	<u>111,180</u>
Amounts not scheduled for collection during the subsequent year	<u>-</u>	<u>27,446</u>	<u>-</u>	<u>-</u>	<u>27,446</u>

Payables at September 30, 2019, were as follows:

	Accounts	Salaries and Benefits	Due to Other Governments	Other	Total Payables
Governmental Activities:					
General Fund	32,148	10,500	-	-	42,648
Major Special Revenue fund	-	-	-	-	-
Total - Governmental Activities	<u>32,148</u>	<u>10,500</u>	<u>-</u>	<u>-</u>	<u>42,648</u>
Amounts not scheduled for payment during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business Type Activities:					
Major Enterprise Fund	61,838	34,034	-	209,973	305,845
Total-Business Type Activities	<u>61,838</u>	<u>34,034</u>	<u>-</u>	<u>209,973</u>	<u>305,845</u>
Amounts not scheduled for payment during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2019

F. CAPITAL ASSET ACTIVITY

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

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental Activities:				
Land and construction in progress	384,781	-	(32,193)	352,588
Buildings	148,478	-	-	148,478
Improvements	442,893	238,154	(36,000)	645,047
Machinery, equipment and vehicles	751,003	29,145	(80,047)	700,101
Streets	200,000	-	-	200,000
Totals at Historic Cost	1,927,155	267,299	(148,240)	2,046,214
Less Accumulated Depreciation for:				
Buildings	(81,220)	(5,939)	-	(87,159)
Improvements	(265,738)	(29,871)	36,000	(259,609)
Machinery, equipment and vehicles	(613,626)	(81,393)	80,047	(614,972)
Streets	(200,000)	-	-	(200,000)
Total Accumulated Depreciation	(1,160,584)	(117,203)	116,047	(1,161,740)
Governmental Activities Capital Assets, Net	766,571	150,096	(32,193)	884,474
Business-Type Activities:				
Land and construction in progress	243,878	462,924	-	706,802
Water and sewer system	4,429,860	-	-	4,429,860
Mobile equipment	184,081	38,073	(68,932)	153,222
Office equipment	1,495	-	-	1,495
Totals at Historic Cost	4,859,314	500,997	(68,932)	5,291,379
Less Accumulated Depreciation for:				
Water and Sewer System	(3,191,164)	(128,329)	-	(3,319,493)
Mobile equipment	(117,923)	(8,315)	68,932	(57,306)
Office equipment	(1,495)	-	-	(1,495)
Total Accumulated Depreciation	(3,310,582)	(136,644)	68,932	(3,378,294)
Business-Type Activities Capital Assets, net	1,548,732	364,353	(137,864)	1,913,085
Primary Government Capital Assets, net	2,315,303	514,449	(170,057)	2,797,559

Depreciation expense was charged to governmental functions as follows:

Governmental Activities		Business-Type Activities	
Unallocated	<u>117,203</u>	Water and sewer system	<u>136,644</u>
	<u>117,203</u>		<u>136,644</u>

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2019

F. CAPITAL ASSET ACTIVITY continued

Discretely Presented Component Unit

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

	Beginning Balance	Additions	Retirements	Ending Balance
Economic Development:				
Land and construction in progress	40,960	-	-	40,960
Machinery and equipment	29,900	45,940	-	75,840
Totals at Historic Cost	<u>70,860</u>	<u>45,940</u>	<u>-</u>	<u>116,800</u>
Less Accumulated Depreciation for:				
Machinery and equipment	(17,940)	(15,168)	-	(33,108)
Total Accumulated Depreciation	<u>(17,940)</u>	<u>(15,168)</u>	<u>-</u>	<u>(33,108)</u>
LS EDC Capital Assets, Net	<u>52,920</u>	<u>30,772</u>	<u>-</u>	<u>83,692</u>

G. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended September 30, 2019.

	Balance at 10/01/18	Issued	Retired	Balance at 9/30/19	Due Within One Year
Business-Type Activities:					
Series 2019 A Revenue Bonds; 2.75% interest	-	402,000	-	402,000	36,000
Series 2019 B Revenue Bonds; 3.375% interest	-	94,000	-	94,000	6,000
Total Business-Type Activities	<u>-</u>	<u>496,000</u>	<u>-</u>	<u>496,000</u>	<u>42,000</u>

The annual requirements to amortize the debt outstanding as of September 30, 2019 follows:

Years Ending 9/30	Series A			Series B			Total Principal	Total Interest
	Principal	Interest	Total	Principal	Interest	Total		
2020	36,000	69,996	105,996	6,000	18,112	24,112	42,000	88,108
2021	37,000	68,436	(31,436)	7,000	17,762	24,762	44,000	86,198
2022	37,000	67,512	104,512	7,000	17,550	24,550	44,000	85,062
2023	38,000	66,495	104,495	7,000	17,314	24,314	45,000	83,809
2024	39,000	65,540	104,540	7,000	17,101	24,101	46,000	82,641
2025-2029	215,000	310,251	525,251	42,000	81,450	123,450	257,000	391,701
2030-2034	246,000	279,209	525,209	48,000	73,980	121,980	294,000	353,189
2035-2039	281,000	243,460	524,460	57,000	65,273	122,273	338,000	308,733
2040-2044	322,000	202,673	524,673	68,000	54,925	122,925	390,000	257,598
2045-2049	370,000	155,742	525,742	79,000	42,749	121,749	449,000	198,491
2050-2054	422,000	102,138	524,138	94,000	28,418	122,418	516,000	130,556
2055-2059	485,000	40,759	525,759	111,000	11,510	122,510	596,000	52,269
Totals	<u>2,528,000</u>	<u>1,672,211</u>	<u>4,063,339</u>	<u>533,000</u>	<u>446,144</u>	<u>979,144</u>	<u>3,061,000</u>	<u>2,118,355</u>

During the year, the City issued \$2,528,000 Series A 2019 A capital bonds and \$533,000 2019 Series B revenue bonds. As of 2019 \$496,000 of bond proceeds had been drawn for construction purposes.

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2019

H. DEFINED BENEFIT PENSION PLANS

Plan Description

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

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments 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.

Employees covered by benefit terms.

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

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	14
Active employees	<u>11</u>
	31

Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 2.26% and 2.13% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019, were \$9,598 and were equal to the required contributions.

Net Pension Liability

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

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.5% per year
Investment Rate of Return	6.75% per year

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%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study. These assumptions were used along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2018 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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 Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2019

H. DEFINED BENEFIT PENSION PLANS continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Nett Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2017	\$ 1,449,409	\$ 1,594,475	\$ (145,066)
Changes for the year:			
Service cost	38,268	-	38,268
Interest	96,786	-	96,786
Change of benefit terms	-	-	-
Difference between expected and actual experience	23,872	-	23,872
Changes of assumptions	-	-	-
Contributions - employer	-	10,445	(10,445)
Contributions - employee	-	22,915	(22,915)
Net investment income	-	(47,739)	47,739
Benefit payments, including refund of employee contributions	(69,345)	(69,345)	-
Administrative expense	-	(923)	923
Other changes	-	(48)	48
Net changes	\$ 89,581	\$ (84,695)	\$ 174,276
Balance at December 31, 2018	\$ 1,538,990	\$ 1,509,780	\$ 29,210

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2019

H. DEFINED BENEFIT PENSION PLANS continued

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability 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 in Discount Rate <u>(5.75%)</u>	Discount Rate <u>(6.75%)</u>	1% Increase in Discount Rate <u>(7.75%)</u>
City's net pension liability	\$ 226,400	\$ 29,210	\$ (134,342)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2019, the City recognized pension expense of \$30,217.

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	17,606	-
Changed is actuarial assumptions	-	-
Difference between projected and actual investment earnings	124,293	-
Contributions subsequent to the measurement date	<u>7,236</u>	<u>-</u>
Total	149,135	-

\$7,236 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2019	28,826
2020	14,449
2021	16,260
2022	31,074
2023	-
Thereafter	-

I. SUPPLEMENTAL DEATH BENEFITS/DEFINED BENEFIT OPEB PLAN

Plan Description

Texas Municipal Retirement System ("TRMS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

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

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2019

I. SUPPLEMENTAL DEATH BENEFITS/DEFINED BENEFIT OPEB PLAN continued

Employees covered by benefit terms:

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

Inactive employees currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>11</u>
	19

Actuarial assumptions:

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

Inflation	2.5%	per year
Overall payroll growth	3.5%	per year
Discount rate	3.3%	
Retirees' share of benefit-related costs	\$0	

Changes in the Total OPEB Liability

Total OPEB liability December 31, 2017	<u>\$ 36,606</u>
Changes for the year:	
Service cost	962
Interest on Total OPEB liability	1,225
Changes of benefit terms	-
Differences between expected and actual experience	500
Changes in assumptions or other inputs	(2,492)
*Benefit payments	<u>(183)</u>
Net changes	<u>\$ 12</u>
Total OPEB liability December 31, 2018	<u>\$ 36,618</u>

*Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for the retirees.

Sensitivity of the Total OPEB Liability to changes in the discount rate:

	1% Decrease (2.71%)	Discount Rate (3.71%)	1% Increase (4.71%)
Total OPEB Liability	\$ 43,427	\$ 36,618	\$ 31,266

Detailed information about the OPEB plan is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.trms.com.

J. COMMITMENTS

The City entered into a non-cancellable contract with the Northeast Texas Municipal Water District (NTMWD) for the purchase of treated water. \$103,740 was paid for water purchases during the year ended September 30, 2019.

K. HEALTH CARE COVERAGE

During the year ended September 30, 2019, employees of the City of Lone Star were covered by a health insurance plan with the Texas Municipal League. The City pays approximately \$6,500 monthly.

The contract between the City of Lone Star and the insurer is renewable October 1, 2019, and terms of coverage and premium costs are included in the contractual provisions.

L. RESTRICTED ASSETS

Certain enterprise fund assets are restricted for meter deposits.

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2019

M. CONTINGENCIES

Litigation

There are no lawsuits pending against the City.

Federal Award Programs (Grants)

The City has received Federal and State Awards for specific purposes that are subject to review and audit by the grantor agencies. Such audits could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the appropriate agency. City management does not believe that any significant costs will be incurred by the City.

N. RESERVED FUND EQUITY

Reservations of fund equity show amounts that are legally restricted for specific purposes. The purpose for each is indicated by the account title on the face of the balance sheet.

O. RISK MANAGEMENT

The City is exposed to various risks of loss to torts of theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2019, the City purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

P. DEFERRED INFLOWS OF RESOURCES

In the government wide statements and the governmental fund financial statements, the amount of the property taxes receivable expected to be collected in the future is reflected as a deferred inflow of resources and will be recognized as such each year as it is collected.

Q. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 22, 2020, the financial statement issuance date.

REQUIRED SUPPLEMENTARY INFORMATION

City of Lone Star, Texas
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
At December 31,

	2018	2017	2016	2015	2014
Total pension liability					
Service Cost	38,268	37,489	32,928	32,191	30,036
Interest (on the Total Pension Liability)	96,786	92,116	88,081	88,020	83,082
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	23,872	(12,275)	(21,986)	(37,498)	(1,592)
Changes of assumptions	-	-	-	8,593	-
Benefit payments, including refunds of employee contributions	(69,345)	(27,721)	(55,328)	(33,067)	(51,046)
Net change in total pension liability	89,581	89,609	43,695	58,239	60,480
Total pension liability - beginning	1,449,409	1,359,800	1,316,105	1,257,866	1,197,386
Total pension liability - ending	<u>1,538,990</u>	<u>1,449,409</u>	<u>1,359,800</u>	<u>1,316,105</u>	<u>1,257,866</u>
Plan fiduciary net position					
Contributions - employer	10,445	11,475	11,323	12,483	15,647
Contributions - employee	22,915	22,611	20,005	19,970	20,975
Net investment income	(47,739)	193,342	89,894	1,962	72,843
Benefit payments, including refunds of employee contributions	(69,345)	(27,721)	(55,328)	(33,067)	(51,046)
Administrative expense	(923)	(1,003)	(1,016)	(1,196)	(760)
Other	(48)	(51)	(55)	(59)	(63)
Net change in plan fiduciary net position	(84,695)	198,653	64,823	93	57,596
Plan fiduciary net position - beginning	1,594,475	1,395,821	1,330,998	1,330,904	1,273,308
Plan fiduciary net position - ending	<u>1,509,780</u>	<u>1,594,474</u>	<u>1,395,821</u>	<u>1,330,997</u>	<u>1,330,904</u>
Net pension liability	<u>29,210</u>	<u>(145,065)</u>	<u>(36,021)</u>	<u>(14,892)</u>	<u>(73,038)</u>
Plan fiduciary net position as a percentage of the total pension liability	98.10%	110.01%	102.65%	101.13%	105.81%
Covered-employee payroll	458,298	452,224	400,096	399,392	419,499
Net pension liability as a percentage of covered employee payroll	6.37%	-32.08%	-9.00%	-3.73%	-17.41%

NOTES:

Changes of benefit terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes of assumptions

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

REPORT ON INTERNAL CONTROLS AND COMPLIANCE



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

**Mayor and City Council
City of Lone Star
Lone Star, Texas**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Lone Star, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise City of Lone Star, Texas basic financial statements, and have issued our report thereon dated July 22, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.
July 22, 2020

City of Lone Star, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Type of Report on Financial Statements:	Unqualified
Control Deficiencies:	None
Material Weaknesses Involving Control Deficiencies:	None
Noncompliance Material to the Financial Statements:	None
Questioned Costs:	None

SCHEDULE OF STATUS OF PRIOR FINDINGS
For the year ended September 30, 2019

N/A

CORRECTIVE ACTION PLAN
For the year ended September 30, 2019

N/A