

ANNUAL FINANCIAL REPORT 2020

FOR FISCAL YEAR ENDED
SEPTEMBER 30, 2020



CITY OF LEXINGTON TEXAS

604 Wheatley | Lexington, TX 78947
(P) 979.773.2221 | www.cityoflexingtontx.com

(This page intentionally left blank.)

ANNUAL FINANCIAL REPORT

of the

City of Lexington, Texas

**For the Year Ended
September 30, 2020**

(This page intentionally left blank.)

City of Lexington, Texas

TABLE OF CONTENTS

September 30, 2020

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	5

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position	18
Statement of Activities	20

Fund Financial Statements

Governmental Funds:

Balance Sheet	22
Reconciliation of the Balance Sheet to the Statement of Net Position	23
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25

Proprietary Funds:

Statement of Net Position	26
Statement of Revenues, Expenses, and Changes in Net Position	27
Statement of Cash Flows	28

Notes to the Financial Statements	31
--	----

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance- Budget and Actual - General Fund	57
Schedule of Changes in Net Pension Liability and Related Ratios	58
Schedule of Employer Contributions to Pension Plan	60

(This page intentionally left blank.)



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Lexington, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Lexington, Texas (the "City"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City as of September 30, 2020 and the respective changes in financial position and, where applicable, cash flows thereof for the period 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, schedule of changes in net pension liability and related ratios, schedule of employer contributions to pension plan, and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

Brooks Watson & Co.

Brooks Watson & Co., PLLC
Certified Public Accountants
Houston, Texas
June 3, 2021

(This page intentionally left blank.)

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

(This page intentionally left blank.)

City of Lexington, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2020

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the City of Lexington's financial activities for the year ending September 30, 2020. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. GASB Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. This financial reporting model requires governments to present certain basic financial statements as well as an MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Financial Highlights

- The City's total combined net position was \$6,497,505 at September 30, 2020. Of this, \$1,362,662 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental fund reported a fund balance of \$15,636, a decrease of \$45,543.
- As of the end of the year, the unassigned fund deficit of the general fund was \$33,589.
- The City had an overall increase in net position of \$142,395, which is primarily due to the primary government's operating income of the utility operations.
- The City closed the year with a net pension liability of \$153,992.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City of Lexington. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

City of Lexington, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

The Statement of Net Position presents information on all of the City of Lexington's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Lexington is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

1. Governmental Activities - Most of the City's basic services are reported here, including general government, garbage, public safety (police and fire); parks and recreation, and public works. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. Business-Type Activities - Services involving a fee for those services. These services, the City's electricity and water distribution and wastewater collection/treatment services are reported here.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City of Lexington. They are usually segregated for specific activities or objectives. The City of Lexington uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Lexington maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. The general fund is considered to be a major fund.

The City of Lexington adopts an annual appropriated budget for its general and utility funds. A budgetary comparison schedule has been provided to demonstrate compliance with the general fund budget.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electricity and water distribution, wastewater collection/treatment, and water construction operations. The proprietary fund financial statements provide separate information for the electric and water distribution and wastewater collection/treatment funds. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Component Unit

The City maintains the accounting and financial statements for one component unit. The Lexington Economic Development Corporation is a discretely presented component unit displayed on the government-wide financial statements.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund and schedule of funding progress for Texas Municipal Retirement System. RSI can be found after the basic financial statements.

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Lexington, assets exceeded liabilities by \$6,497,505 as of September 30, 2020, in the primary government.

The largest portion of the City's net position, \$5,085,618, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 125,865	\$ 190,395	\$ 1,918,707	\$ 1,872,748	\$ 2,044,572	\$ 2,063,143
Capital assets, net	1,399,946	1,335,945	4,873,958	4,962,803	6,273,904	6,298,748
Total Assets	1,525,811	1,526,340	6,792,665	6,835,551	8,318,476	8,361,891
Deferred Outflows	29,986	79,139	16,868	44,517	46,854	123,656
Other liabilities	102,598	121,895	426,397	344,436	528,995	466,331
Long-term liabilities	277,932	400,577	1,005,437	1,263,529	1,283,369	1,664,106
Total Liabilities	380,530	522,472	1,431,834	1,607,965	1,812,364	2,130,437
Deferred Inflows	35,495	-	19,966	-	55,461	-
Net Position:						
Net investment in capital assets	1,220,569	1,110,531	3,865,049	3,797,803	5,085,618	4,908,334
Restricted	49,225	44,242	-	-	49,225	44,242
Unrestricted	(130,022)	(71,766)	1,492,684	1,474,300	1,362,662	1,402,534
Total Net Position	\$ 1,139,772	\$ 1,083,007	\$ 5,357,733	\$ 5,272,103	\$ 6,497,505	\$ 6,355,110

Long-term liabilities for the primary government decreased due to principal payments made on outstanding debt during the year.

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

Statement of Activities:

The following table provides a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Revenues						
Program revenues:						
Charges for services	\$ 157,829	\$ 492,440	\$ 2,045,907	\$ 1,776,589	\$ 2,203,736	\$ 2,269,029
Grants and contributions	29,759	-	11,250	-	41,009	-
General revenues:						
Property taxes	291,257	273,545	-	-	291,257	273,545
Sales taxes	196,050	173,470	-	-	196,050	173,470
Franchise and local taxes	32,400	24,485	-	-	32,400	24,485
Investment income	-	-	10,042	11,729	10,042	11,729
Other revenue	22,303	9,319	-	-	22,303	9,319
Total Revenues	729,598	973,259	2,067,199	1,788,318	2,796,797	2,761,577
Expenses						
General government	197,056	221,318	-	-	197,056	221,318
Police department	378,011	362,927	-	-	378,011	362,927
Fire services	40,281	21,530	-	-	40,281	21,530
Sanitation services	-	243,251	-	-	-	243,251
Parks and recreation	18,249	14,094	-	-	18,249	14,094
Public works	104,502	80,435	-	-	104,502	80,435
Welfare	10,488	15,486	-	-	10,488	15,486
Interest and fiscal charges	11,025	13,906	-	-	11,025	13,906
Utilities	-	-	1,894,790	1,554,388	1,894,790	1,554,388
Total Expenses	759,612	972,947	1,894,790	1,554,388	2,654,402	2,527,335
Change in Net Position						
Before Transfers	(30,014)	312	172,409	233,930	142,395	234,242
Transfers	86,779	23,366	(86,779)	(23,366)	-	-
Total	86,779	23,366	(86,779)	(23,366)	-	-
Change in Net Position	56,765	23,678	85,630	210,564	142,395	234,242
Beginning Net Position	1,083,007	1,059,329	5,272,103	5,061,539	6,355,110	6,120,868
Ending Net Position	\$ 1,139,772	\$ 1,083,007	\$ 5,357,733	\$ 5,272,103	\$ 6,497,505	\$ 6,355,110

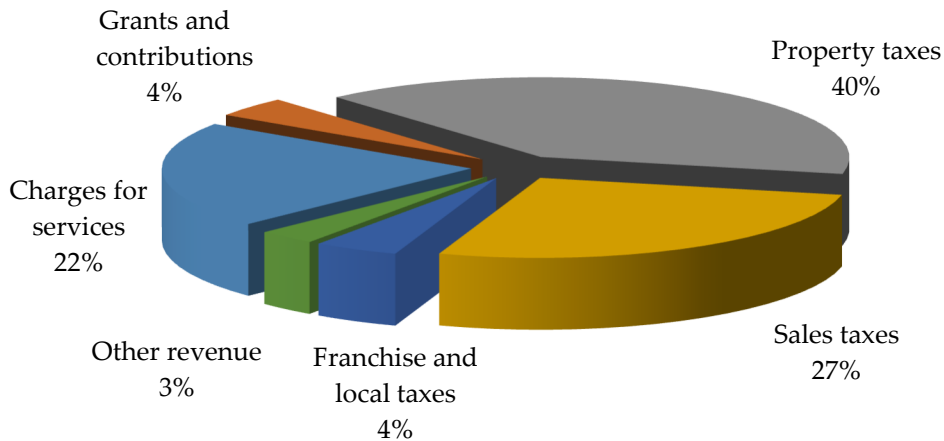
City of Lexington, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

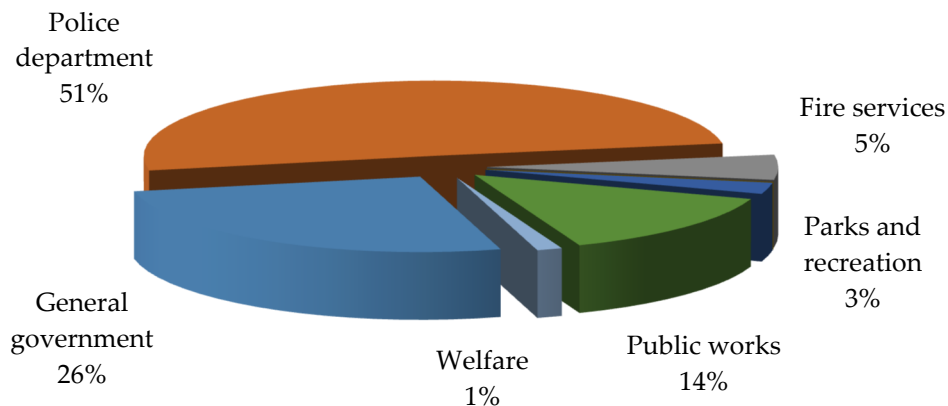
Governmental Activities - Revenues



For the year ended September 30, 2020, revenues from governmental activities totaled \$729,598. Sales tax and property tax are the City's largest revenue sources. Sales taxes and franchise taxes increased by \$22,580 and \$7,915, respectively due to economic growth fueled by local purchases. Property taxes increased by \$17,712 due to greater appraised property values. Charges for services decreased by \$334,611 primarily as a result of sanitation revenues now being recorded in the utility fund. In prior years, the City recorded these revenues in the general fund. Other revenues increased by \$12,984 primarily as a result of nonrecurring proceeds received from sale of capital assets in the current year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



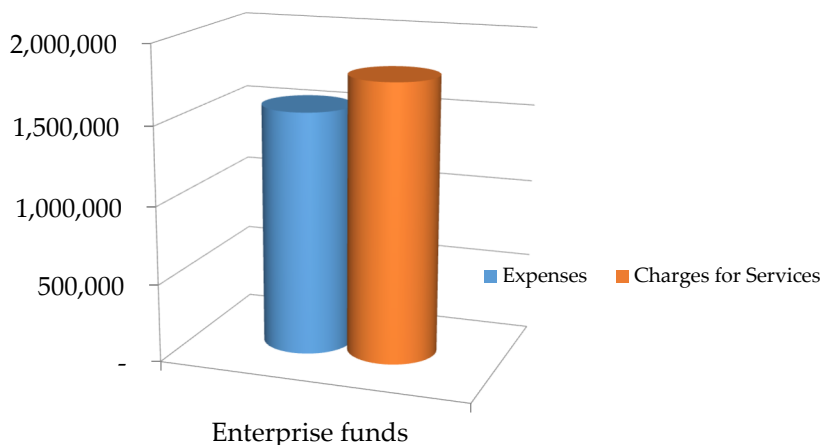
For the year ended September 30, 2020, expenses for governmental activities totaled \$759,612. This represents a decrease of \$213,335 or 22% from the prior year. The City's largest functional expense is the police department of \$378,011, which primarily consists of salaries and benefits. Expenses for the police department increased by \$15,084 or 4%, which is considered relatively consistent with the prior year. General government expenses decreased by \$24,262 or 12% primarily due to a reduction in employee

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

benefit expenses as a result of the decrease in the City's net pension liability. Public works expenses increased by \$24,067 or 30% due primarily to greater personnel costs and nonrecurring street maintenance expenses in the current year. Sanitation service expenses were not recognized within governmental activities in the current year, as the City now accounts for the sanitation service activity in the utility fund. All other departmental expenses remained relatively consistent with the previous year.

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2020, charges for services by business-type activities totaled \$2,045,907, which represents an increase of \$269,318 or 15% from the previous year. The increase was primarily a result of the City deciding to record sanitation service activity in the utility fund. In prior years, the City recorded these services within the general fund. Total expenses increased by \$340,402 or 22%, which is primarily due to the utility fund now recognizing the City's sanitation service activity. In addition, the City recognized greater code enforcement personnel costs, electric repairs/maintenance and supplies related expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of the end of the year the general fund reflected a total fund balance of \$15,636. Unassigned fund deficit totaled \$33,589 as of year-end.

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

There was a decrease in the general fund balance of \$45,543 from the prior year, due to governmental expenditures exceeding revenues and other financing sources in the current year. This is primarily due to more capital outlay expenditures for street improvements than originally budgeted for by the City.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total negative budget variance of \$45,543 in the general fund. Property tax and fines and forfeitures were the revenue categories most significantly below anticipated revenues. Total expenditures were greater than anticipated expenditures by \$41,307. Expenditures exceeded appropriations at the legal level of control for fire services, public works, debt service principal, and capital outlay.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$1,399,946 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$4,873,958 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- Purchase of public works machinery and equipment totaling \$124,990.
- Purchase of parks machinery and equipment totaling \$46,574.
- Purchase of new police equipment totaling \$22,735.
- New SCADA system for utility infrastructure in the amount of \$24,130.

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$950,000. During the year, the City had a reduction in the bonds outstanding of \$215,000. During the year, the City entered into a note payable agreement for \$22,735 and made principal payments on outstanding notes totaling \$68,772. The City had total notes payable outstanding of \$179,377 at year end. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

City of Lexington, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Lexington and improving services provided to their public citizens. The City is budgeting conservatively for the upcoming year and planning to maintain similar services.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Lexington's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Secretary at P.O. Box 56, Lexington, TX 78947.

(This page intentionally left blank.)

FINANCIAL STATEMENTS

City of Lexington, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	EDC
Assets				
Current assets:				
Cash and cash equivalents	\$ 11,781	\$ 973,076	\$ 984,857	\$ 164,595
Investments	-	-	-	45,160
Receivables, net	64,858	326,753	391,611	16,284
Notes receivable due within one year	-	1,103	1,103	-
Restricted cash	49,225	606,030	655,255	-
Total Current Assets	125,864	1,906,962	2,032,826	226,039
Notes receivable due in more than one year	-	11,745	11,745	-
Capital assets:				
Non-depreciable	347,092	235,727	582,819	-
Net depreciable capital assets	1,052,854	4,638,231	5,691,085	-
Total Noncurrent Assets	1,399,946	4,885,703	6,285,649	-
Total Assets	1,525,810	6,792,665	8,318,475	226,039
Deferred Outflows of Resources				
Pension contributions	20,831	11,718	32,549	-
Pension difference in experience	5,662	3,185	8,847	-
Pension assumption changes	3,493	1,965	5,458	-
Total Deferred Outflows of Resources	29,986	16,868	46,854	-

City of Lexington, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	EDC
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	83,640	214,421	298,061	-
Customer deposits	-	203,141	203,141	-
Accrued interest payable	3,399	4,239	7,638	-
Compensated absences, current	14,002	4,136	18,138	-
Long-term debt due in one year	69,537	220,000	289,537	-
Total Current Liabilities	170,578	645,937	816,515	-
Noncurrent liabilities:				
Long-term debt due in more than one year	109,840	730,000	839,840	-
Compensated absences, noncurrent	1,556	460	2,016	-
Net pension liability	98,555	55,437	153,992	-
Total Noncurrent Liabilities	209,951	785,897	995,848	-
Total Liabilities	380,529	1,431,834	1,812,363	-
<u>Deferred Inflows of Resources</u>				
Pension investment earnings	35,495	19,966	55,461	-
Total Deferred Inflows of Resources	35,495	19,966	55,461	-
<u>Net Position</u>				
Net investment in capital assets	1,220,569	3,865,049	5,085,618	-
Restricted	49,225	-	49,225	226,039
Unrestricted	(130,022)	1,492,684	1,362,662	-
Total Net Position	\$ 1,139,772	\$ 5,357,733	\$ 6,497,505	\$ 226,039

See Notes to Financial Statements.

City of Lexington, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 197,056	\$ -	\$ -	\$ -
Police department	378,011	157,829	5,759	-
Fire services	40,281	-	-	-
Parks and recreation	18,249	-	-	24,000
Public works	104,502	-	-	-
Welfare	10,488	-	-	-
Interest and fiscal charges	11,025	-	-	-
Total Governmental Activities	759,612	157,829	5,759	24,000
Business-Type Activities				
Utilities	1,894,790	2,045,907	-	11,250
Total Primary Government Component Unit	\$ 2,654,402	\$ 2,203,736	\$ 5,759	\$ 35,250
Lexington EDC	183,197	-	-	-
Total Component Unit	\$ 183,197	\$ -	\$ -	\$ -

General Revenues:

Taxes
 Property taxes
 Sales taxes
 Franchise and local taxes
 Investment income
 Gain on sale of capital assets
 Other revenues
 Transfers

Total

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component
Governmental	Business-Type	Total	Unit
Activities	Activities		EDC
\$ (197,056)	\$ -	\$ (197,056)	\$ -
(214,423)	-	(214,423)	-
(40,281)	-	(40,281)	-
5,751	-	5,751	-
(104,502)	-	(104,502)	-
(10,488)	-	(10,488)	-
(11,025)	-	(11,025)	-
(572,024)	-	(572,024)	-
-	162,367	162,367	-
(572,024)	162,367	(409,657)	-
-	-	-	(183,197)
-	-	-	(183,197)
291,257	-	291,257	-
196,050	-	196,050	98,121
32,400	-	32,400	-
-	10,042	10,042	2,297
6,900	-	6,900	-
15,403	-	15,403	-
86,779	(86,779)	-	-
628,789	(76,737)	552,052	100,418
56,765	85,630	142,395	(82,779)
1,083,007	5,272,103	6,355,110	308,818
\$ 1,139,772	\$ 5,357,733	\$ 6,497,505	\$ 226,039

City of Lexington, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2020

	<u>General Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 11,781
Receivables, net	64,858
Restricted cash	49,225
Total Assets	\$ 125,864
<u>Liabilities</u>	
Accounts payable and accrued liabilities	\$ 83,640
Total Liabilities	83,640
<u>Deferred Inflows of Resources</u>	
Unavailable revenue - property taxes	26,588
Total Deferred Inflows of Resources	26,588
<u>Fund Balances</u>	
Restricted for:	
Municipal court security and technology	49,225
Unassigned	(33,589)
Total Fund Balance	15,636
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 125,864

See Notes to Financial Statements.

City of Lexington, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2020

Fund Balances - Total Governmental Funds	\$	15,636
Adjustments for the Statement of Net Position:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - non-depreciable		347,092
Capital assets - net depreciable		1,052,854
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds		
		26,588
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expenditure) until then.		
Pension contributions		20,831
Pension difference in experience		5,662
Pension assumption changes		3,493
Deferred (inflows) of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until then.		
Pension investment returns		(35,495)
Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.		
Accrued interest		(3,399)
Non-current liabilities due in one year		(69,537)
Non-current liabilities due in more than one year		(109,840)
Compensated absences		(15,558)
Net pension liability		(98,555)
Net Position of Governmental Activities	\$	<u>1,139,772</u>

See Notes to Financial Statements.

City of Lexington, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2020

	General Fund
<u>Revenues</u>	
Property tax	\$ 287,196
Sales tax	196,050
Franchise and local taxes	32,400
Intergovernmental	29,759
Fines and forfeitures	157,829
Other revenue	15,403
Total Revenues	718,637
<u>Expenditures</u>	
Current:	
General government	171,539
Police department	299,339
Fire services	38,180
Parks and recreation	7,118
Public works	78,606
Welfare	10,000
Debt service:	
Principal	68,772
Interest	11,025
Capital outlay	196,015
Total Expenditures	880,594
Excess (Deficiency) of Revenues Over (Under) Expenditures	(161,957)
<u>Other Financing Sources (Uses)</u>	
Issuance of notes payable	22,735
Sale of capital assets	6,900
Transfers in	86,779
Total Other Financing Sources (Uses)	116,414
Net Change in Fund Balance	(45,543)
Beginning Fund Balance	61,179
Ending Fund Balance	\$ 15,636

See Notes to Financial Statements.

City of Lexington, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2020

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

Net changes in fund balances - total governmental funds	\$ (45,543)
---	-------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	194,299
Depreciation expense	(130,298)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	4,061
--	-------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(3,735)
Accrued interest	(16)
Pension expense	(8,040)

The issuance of long-term debt (e.g., bonds, notes, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of note payable	(22,735)
Principal payments	68,772

Change in Net Position of Governmental Activities	\$ 56,765
--	------------------

See Notes to Financial Statements.

City of Lexington, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2020

	<u>Utility Fund</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 973,076
Receivables, net	326,753
Notes receivable due within one year	1,103
Restricted cash	606,030
Total Current Assets	<u>1,906,962</u>
<u>Noncurrent Assets</u>	
Notes receivable due in more than one year	11,745
Capital assets:	
Non-depreciable	235,727
Net depreciable capital assets	4,638,231
Total Noncurrent Assets	<u>4,885,703</u>
Total Assets	<u>6,792,665</u>
<u>Deferred Outflows of Resources</u>	
Pension contributions	11,718
Pension difference in experience	3,185
Pension assumption changes	1,965
Total Deferred Outflows of Resources	<u>16,868</u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued expenses	214,421
Customer deposits	203,141
Accrued interest	4,239
Compensated absences, current	4,136
Long-term debt due within one year	220,000
Total Current Liabilities	<u>645,937</u>
<u>Noncurrent Liabilities</u>	
Long-term debt due in more than one year	730,000
Compensated absences, noncurrent	460
Net pension liability	55,437
Total Noncurrent Liabilities	<u>785,897</u>
Total Liabilities	<u>1,431,834</u>
<u>Deferred Inflows of Resources</u>	
Pension investment returns	19,966
Total Deferred Inflows of Resources	<u>19,966</u>
<u>Net Position</u>	
Net investment in capital assets	3,865,049
Unrestricted	1,492,684
Total Net Position	<u>\$ 5,357,733</u>

See Notes to Financial Statements.

City of Lexington, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2020

	<u>Utility Fund</u>
<u>Operating Revenues</u>	
Charges for water services	\$ 391,769
Charges for sewer services	153,473
Charges for garbage services	282,547
Charges for electrical services	1,205,622
Licenses and permits	8,464
Other revenue	4,032
Total Operating Revenues	<u>2,045,907</u>
<u>Operating Expenses</u>	
Salaries and wages	185,347
Employee benefits	72,049
Purchase professional and technical services	935,695
Purchased property services	184,923
Other operating expenses	113,557
Supplies	118,765
Depreciation	251,237
Total Operating Expenses	<u>1,861,573</u>
Operating Income (Loss)	<u>184,334</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	10,042
Interest expense	(33,217)
Total Nonoperating Revenues (Expense)	<u>(23,175)</u>
Income Before Transfers	161,159
<u>Other Financing Sources (Uses)</u>	
Capital contributions	11,250
Transfers (out)	(86,779)
Other Financing Sources (Uses)	<u>(75,529)</u>
Change in Net Position	85,630
Beginning net position	<u>5,272,103</u>
Ending Net Position	<u><u>\$ 5,357,733</u></u>

See Notes to Financial Statements.

City of Lexington, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2) For the Year Ended September 30, 2020

	<u>Utility Fund</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,033,862
Payments to employees	(252,873)
Payments to suppliers and contractors	(1,240,568)
Net Cash Provided by Operating Activities	<u>540,421</u>
<u>Cash Flows from Non-Capital Financing Activities</u>	
Transfers to other funds	(86,779)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(86,779)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(162,392)
Principal paid on debt	(215,000)
Interest paid on debt	(33,217)
Capital grants	11,250
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(399,359)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	10,042
Net Cash Provided by Investing Activities	<u>10,042</u>
Net Increase (Decrease) in Cash and Cash Equivalents	64,325
Beginning cash and cash equivalents	<u>1,514,781</u>
Ending Cash and Cash Equivalents	<u><u>\$ 1,579,106</u></u>

City of Lexington, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2) For the Year Ended September 30, 2020

	<u>Utility Fund</u>
<u>Reconciliation of Operating Income (Loss)</u>	
<u>to Net Cash Provided (Used) by Operating Activities</u>	
Operating Income (Loss)	\$ 184,334
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	251,237
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	17,066
Notes receivable	1,300
Deferred outflows of resources:	
Pension contributions	(2,319)
Pension difference in experience	(421)
Pension changes in assumption	(1,965)
Increase (Decrease) in:	
Accounts payable	112,372
Customer deposits	(30,411)
Deferred inflows of resources:	
Pension investment returns	52,320
Net pension liability	(43,092)
Net Cash Provided (Used) by Operating Activities	\$ 540,421

See Notes to Financial Statements.

(This page intentionally left blank.)

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

The City of Lexington, Texas (the "City") was incorporated in May of 1917 and operates under a Mayor form of government. The City provides: police; code enforcement; public works; street repair and maintenance; health and social services; parks; general administrative services; electricity; water; wastewater; and sanitation.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Lexington Economic Development Corporation, although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

Discretely Presented Component Unit

Lexington Economic Development Corporation

The Lexington Economic Development Corporation ("LEDC") is governed by a board appointed by the City Council of the City of Lexington and any of whom can be removed from office by the City Council at its will. The LEDC was incorporated in the state of Texas as a non-profit industrial development corporation under Section 4A of the Development Corporation Act of 1979, for the purpose of the promotion and development of new and expanded business enterprises and to provide and encourage employment in the furtherance of the public welfare. The LEDC is discretely presented as it does not have the same governing body, and does not provide services entirely, or almost entirely to the city.

C. Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of presentation – fund financial statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category—governmental, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental, each displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor funds. Major individual governmental are reported as separate columns in the fund financial statements.

The government reports the following as a major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, sanitation, parks and recreation and public works.

The government reports the following major enterprise fund:

The *municipal utility enterprise fund* accounts for the operation of the City's electricity, water and sewer system for which various fees are charged to residential and commercial customers for goods and services. The activity is financed with debt secured by a pledge of the net revenues and has the requirement that the cost of providing services, including capital costs, be recovered by user fees and charges.

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2020

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2020

are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. Budgetary information

1. Budgetary basis of accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between departments require the approval of the city council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year. While all appropriations lapse at year end, surpluses may be re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

G. Assets, liabilities, deferred inflows/outflows, and net position/fund balance

1. Cash and cash equivalents

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

2. Investments

Investments for the government are reported at fair value (generally based on quoted market prices.) Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexStar, are reported using the pools' share price.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

The Local Government Code of Texas authorizes the City to invest in:

- (1) obligations of the United States or its agencies and instrumentalities;
- (2) direct obligations of the State of Texas or its agencies and instrumentalities;
- (3) collateral mortgage obligations although significantly limited;
- (4) other obligations, the principal and interest on which are unconditionally guaranteed or insured or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities;
- (5) obligations of state, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent;
- (6) certificates of deposit issued by state and national banks or savings and loan domiciled in Texas which are:
 - (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor;
or
 - (b) secured by obligations of paragraphs (1) to (5) above and that have a market value of not less than the principal amount of the certificates but excluding certain mortgage-backed securities;
 - (c) fully collateralized repurchase agreements, bankers' acceptances, commercial paper, mutual funds, guaranteed investment contracts, and investment pools all of which are required to meet certain restrictive criteria.

3. *Inventory*

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets, except for infrastructure

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

assets, are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives.

Asset Description	Estimated Useful Lives
Infrastructure	40-50
Buildings & improvements	20-40
Machinery & equipment	5-10

5. *Deferred outflows/inflows of resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

6. *Net position flow assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. *Fund balance flow assumptions*

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

8. *Fund balance policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The city council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2020

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

The “not in spendable form” criterion includes resources that cannot ever be spent because of their form (e.g., inventories and prepaid insurance) or cannot currently be spent because of their form.

The city did not have any nonspendable amounts due to legal or contractual requirements at year end.

The restricted fund balance classification represents amounts that are legally restricted for specific future use.

9. *Long-Term obligations*

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. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed as incurred.

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2020

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

10. *Pensions*

For purposes of measuring the net pension liability (asset), 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 that 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.

11. *Fair Value*

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

H. Revenues and expenditures/expenses

1. *Program revenues*

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. *Property taxes*

Property taxes attach as an enforceable lien on real property and are levied as of October 1st. 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 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

Uncollected amounts at year end are reported as deferred revenue. Delinquent property taxes collected within 60 days subsequent to year end were not considered material.

3. *Compensated absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in government-wide financial statements.

4. *Proprietary funds operating and nonoperating revenues and expenses*

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds. Reconciling items have been presented on the balance sheet of governmental funds in the basic financial statements.

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.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." A reconciliation has been presented in the basic financial statements.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is the department level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year.

A. Expenditures Over Appropriations

For the year ended September 30, 2020, expenditures exceeded appropriations at the legal level of control for the following departments and amounts:

<u>General Fund</u>	
Fire services	\$ 3,380
Public works	7,876
Debt service - principal	6,355
Capital outlay	90,234

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2020, the discretely presented component unit had the following investments:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 45,160	0.46
Total fair value	<u>\$ 45,160</u>	
Portfolio weighted average maturity		0.46

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

B. Receivables

The following comprise receivable balances of the primary government at year end:

	General	Utility	Total
Taxes			
Property taxes	\$ 26,588	\$ -	\$ 26,588
Sales taxes	32,569	-	32,569
Fines	86,024	-	86,024
Sanitation	-	37,760	37,760
Accounts	5,701	288,993	294,694
Allowance	(86,024)	-	(86,024)
Total	\$ 64,858	\$ 326,753	\$ 391,611

The following comprise receivable balances of the component unit at year end:

	EDC
Taxes	
Sales taxes	\$ 16,284
Total	\$ 16,284

On September 29, 2017, the City issued a \$16,548 note receivable to a local citizen as part of the citizen's purchase of 3.918 acres of land off of FM 1624. The note is due September 5, 2032. The note does not bear interest. As of September 30, 2020, the unpaid note receivable balance was \$12,848.

The note receivable will be repaid to the City in accordance with the following payment schedule:

Year ending September 30,	Note Receivable	
	Principal	Interest
2021	1,103	-
2022	1,103	-
2023	1,103	-
2024	1,103	-
2025	1,103	-
After Preceding 5 Years	7,333	-
Total	\$ 12,848	\$ -

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 347,092	\$ -	\$ -	\$ 347,092
Total capital assets not being depreciated	<u>347,092</u>	<u>-</u>	<u>-</u>	<u>347,092</u>
Capital assets, being depreciated:				
Buildings	798,422	-	-	798,422
Machinery and equipment	1,005,839	91,809	(15,035)	1,082,613
Furniture and fixtures	12,733	-	-	12,733
Street and improvements	432,919	102,490	-	535,409
Total capital assets being depreciated	<u>2,249,913</u>	<u>194,299</u>	<u>(15,035)</u>	<u>2,429,177</u>
Less accumulated depreciation				
Buildings	395,214	28,602	-	423,816
Machinery and equipment	696,950	89,910	(15,035)	771,825
Furniture and fixtures	12,732	-	-	12,732
Street and improvements	156,164	11,786	-	167,950
Total accumulated depreciation	<u>1,261,060</u>	<u>130,298</u>	<u>(15,035)</u>	<u>1,376,323</u>
Net capital assets being depreciated	988,853	64,001	-	1,052,854
Total Capital Assets	<u>\$ 1,335,945</u>	<u>\$ 64,001</u>	<u>\$ -</u>	<u>\$ 1,399,946</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 20,496
Public works	23,038
Police	73,044
Fire	2,101
Parks	11,131
Welfare	488
Total Governmental Activities Depreciation Expense	<u>\$ 130,298</u>

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

A summary of changes in business-type activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 176,818	\$ -	\$ -	\$ 176,818
Construction in progress	35,138	135,160	(111,389)	58,909
Total capital assets not being depreciated	<u>211,956</u>	<u>135,160</u>	<u>(111,389)</u>	<u>235,727</u>
Capital assets, being depreciated:				
Machinery and equipment	253,546	-	-	253,546
Utility plants	8,110,579	27,232	111,389	8,249,200
Total capital assets being depreciated	<u>8,364,125</u>	<u>27,232</u>	<u>111,389</u>	<u>8,502,746</u>
Less accumulated depreciation				
Machinery and equipment	251,279	1,031	-	252,310
Utility plants	3,361,999	250,206	-	3,612,205
Total accumulated depreciation	<u>3,613,278</u>	<u>251,237</u>	<u>-</u>	<u>3,864,515</u>
Net capital assets being depreciated	4,750,847	(224,005)	111,389	4,638,231
Total Capital Assets	<u>\$ 4,962,803</u>	<u>\$ (88,845)</u>	<u>\$ -</u>	<u>\$ 4,873,958</u>

Depreciation was charged to business-type functions as follows:

Electric	\$ 44,223
Water	68,298
Sewer	138,716
Total Business-Type Activities Depreciation Expense	<u>\$ 251,237</u>

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

D. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. The City uses the general fund to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Notes payable	\$ 225,414	\$ 22,735	\$ (68,772)	\$ 179,377	\$ 69,537
Total Governmental Activities	<u>\$ 225,414</u>	<u>\$ 22,735</u>	<u>\$ (68,772)</u>	<u>\$ 179,377</u>	<u>\$ 69,537</u>
Long-term liabilities due in more than one year				<u>\$ 109,840</u>	
Business-Type Activities:					
Certificates of obligation	\$ 1,165,000	\$ -	\$ (215,000)	\$ 950,000	\$ 220,000
Total Business-Type Activities	<u>\$ 1,165,000</u>	<u>\$ -</u>	<u>\$ (215,000)</u>	<u>\$ 950,000</u>	<u>\$ 220,000</u>
Long-term liabilities due in more than one year				<u>\$ 730,000</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Long-term bonds at year end were comprised of the following debt issues:

<u>Description</u>	<u>Interest Rates</u>	<u>Original Balance</u>	<u>Current Balance</u>
Business-type Activities:			
Certificate of Obligation, series 2008	4.09%	\$ 1,500,000	\$ 175,000
Certificate of Obligation, series 2012	2.96%	1,500,000	775,000
Total Business-Type Activities		<u>\$ 3,000,000</u>	<u>\$ 950,000</u>

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

The annual requirements to amortize business-type activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Certificates of Obligation	
	Principal	Interest
2021	\$ 220,000	\$ 26,674
2022	160,000	20,045
2023	110,000	15,218
2024	110,000	11,968
2025	115,000	8643
After Preceding 5 Years	235,000	7,018
Total	\$ 950,000	\$ 89,566

The annual requirements to amortize governmental activities notes payable outstanding at year ending were as follows:

Year ending September 30,	Notes Payable	
	Principal	Interest
2021	\$ 69,537	\$ 8,000
2022	72,715	4,823
2023	33,030	1,485
2024	4,095	-
Total	\$ 179,377	\$ 14,308

In 2018 the City purchased five police vehicles through lease financing with Ford Motor Company in the amount of \$196,652 and interest of 4.70%. The City's annual principal and interest payments are \$43,023. As of September 30, 2020, the net book value of the asset is \$93,410.

In 2018 the City purchased law enforcement radio hardware through a lease agreement with Government Capital Corporation in the amount of \$89,040 and interest of 4.05%. The City's annual principal and interest payments are \$20,029. As of September 30, 2020, the net book value of the asset is \$41,552.

In 2018 the City purchased new police citation software through a note payable with Kansas State Bank in the amount of \$42,283 and interest of 7.28%. The City's annual principal and interest payments are \$10,390. As of September 30, 2020, the net book value of the asset is \$19,732.

In 2020 the City purchased new police body cameras and tasers through a note payable with Axon Enterprise, Inc. in the amount of \$22,735 and interest of 0%. The City's annual principal payments are \$4,095. As of September 30, 2020, the net book value of the asset is \$20,462.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

E. Other Long-term Liabilities

The following is a summary of changes in the City's other long-term liabilities for the year ended. The City uses the general fund and utility fund to liquidate compensated absences.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated Absences	\$ 11,823	\$ 15,025	\$ (11,290)	\$ 15,558	\$ 14,002
Total Governmental Activities	<u>\$ 11,823</u>	<u>\$ 15,025</u>	<u>\$ (11,290)</u>	<u>\$ 15,558</u>	<u>\$ 14,002</u>
Other Long-term Liabilities Due in More than One Year				<u>\$ 1,556</u>	
Business-Type Activities:					
Compensated Absences	\$ 4,596	\$ 8,865	\$ (8,865)	\$ 4,596	\$ 4,136
Total Business-Type Activities	<u>\$ 4,596</u>	<u>\$ 8,865</u>	<u>\$ (8,865)</u>	<u>\$ 4,596</u>	<u>\$ 4,136</u>
Other Long-term Liabilities Due in More than One Year				<u>\$ 460</u>	

F. Interfund Transactions

Transfers between the primary government funds during the 2020 year were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amounts</u>
General Fund	Utility Fund	86,779
	Totals	<u>\$ 86,779</u>

Amounts transferred between funds relate to amounts collected by the water & sewer fund for various capital expenditures and transfers between funds for incurred or planned expenses.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
 September 30, 2020

G. Restricted Net Position / Fund Balance

The City records fund balance restrictions on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of restricted net position / fund balance of the City:

		<u>Governmental Activities</u>
Restricted for:		
* Municipal court	\$	49,225
	Total	<u>\$ 49,225</u>

*Restricted by enabling legislation

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2020

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

D. Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Lexington, Texas participates as one of 888 plans in 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.tmrs.com.

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

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the 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

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2020

Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

	<u>Plan Year 2017</u>	<u>Plan Year 2018</u>	<u>Plan Year 2019</u>
Employee deposit rate	6%	6%	6%
Matching ratio (city to employee)	1.5 to 1	1.5 to 1	1.5 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	60/5, 0/25	60/5, 0/25
Updated service credit	100%	100%	100%
Annuity increase (to retirees)	70% of CPI	70% of CPI	70% of CPI

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	22
Active employees	<u>12</u>
Total	<u>44</u>

3. 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 of Lexington, Texas were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Lexington, Texas were 8.55% and 8.82% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$43,556, and were equal to the required contributions.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

4. Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum 16 mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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.

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

City of Lexington, Texas

NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2020

adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	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.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 401,564	\$ 153,992	\$ (48,621)

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/18	\$ 1,899,973	\$ 1,626,281	\$ 273,692
Changes for the year:			
Service cost	53,568	-	53,568
Interest	125,657	-	125,657
Difference between expected and actual experience	5,779	-	5,779
Changes of assumptions	7,996	-	7,996
Contributions – employer	-	37,116	(37,116)
Contributions – employee	-	26,046	(26,046)
Net investment income	-	251,002	(251,002)
Benefit payments, including refunds of emp. contributions	(130,351)	(130,351)	-
Administrative expense	-	(1,421)	1,421
Other changes	-	(43)	43
Net changes	62,649	182,349	(119,700)
Balance at 12/31/19	\$ 1,962,622	\$ 1,808,630	\$ 153,992

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.

City of Lexington, Texas
NOTES TO THE FINANCIAL STATEMENTS, Continued
September 30, 2020

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

For the year ended September 30, 2020, the City recognized pension expense of \$56,119.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between projected and investment earnings	\$ -	\$ (55,461)
Differences between expected and actual economic experience	8,847	-
Changes in actuarial assumptions	5,458	-
Contributions subsequent to the measurement date	32,549	-
Total	\$ 46,854	\$ (55,461)

The City reported \$32,549 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31,		
2020	\$	(8,741)
2021		(10,848)
2022		6,678
2023		(28,245)
2024		-
Thereafter		-
Total	\$	(41,156)

E. Subsequent Events

There were no material subsequent events through June 3, 2021, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank.)

City of Lexington, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Year Ended September 30, 2020

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Property tax	\$ 297,752	\$ 287,196	\$ (10,556)
Sales tax	166,667	196,050	29,383
Franchise and local taxes	25,500	32,400	6,900
Intergovernmental	36,000	29,759	(6,241)
Fines and forfeitures	200,000	157,829	(42,171)
Other revenue	4,350	15,403	11,053
Total Revenues	<u>730,269</u>	<u>718,637</u>	<u>(11,632)</u>
<u>Expenditures</u>			
Current:			
General government	180,527	171,539	8,988
Police department	345,506	299,339	46,167
Fire services	34,800	38,180	(3,380) *
Parks and recreation	13,500	7,118	6,382
Public works	70,730	78,606	(7,876) *
Welfare	15,000	10,000	5,000
Debt service:			
Principal	62,417	68,772	(6,355) *
Interest	11,026	11,025	1
Capital outlay	105,781	196,015	(90,234) *
Total Expenditures	<u>839,287</u>	<u>880,594</u>	<u>(41,307)</u>
Revenues Over (Under) Expenditures	<u>(109,018)</u>	<u>(161,957)</u>	<u>(52,939)</u>
<u>Other Financing Sources (Uses)</u>			
Issuance of notes payable	-	22,735	22,735
Sale of capital asset	1,000	6,900	5,900
Transfers in	108,018	86,779	(21,239)
Total Other Financing Sources (Uses)	<u>109,018</u>	<u>116,414</u>	<u>7,396</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>(45,543)</u>	<u>\$ (45,543)</u>
Beginning fund balance		61,179	
Ending Fund Balance		<u>\$ 15,636</u>	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- * 2. Expenditures exceeded appropriations at the legal level of control.

City of Lexington, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years Ended:

	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Total pension liability			
Service cost	\$ 53,568	\$ 62,245	\$ 53,618
Interest	125,657	122,201	119,224
Differences between expected and actual experience	5,779	11,842	1,661
Changes of assumptions	7,996	-	-
Benefit payments, including refunds of participant contributions	(130,351)	(151,151)	(118,272)
Net change in total pension liability	<u>62,649</u>	<u>45,137</u>	<u>56,231</u>
Total pension liability - beginning	<u>1,899,973</u>	<u>1,854,836</u>	<u>1,798,605</u>
Total pension liability - ending (a)	<u>1,962,622</u>	<u>1,899,973</u>	<u>1,854,836</u>
Plan fiduciary net position			
Contributions - employer	\$ 37,116	\$ 42,284	\$ 37,223
Contributions - members	26,046	30,167	25,819
Net investment income	251,002	(52,621)	220,790
Benefit payments, including refunds of participant contributions	(130,351)	(151,151)	(118,272)
Administrative expenses	(1,421)	(1,018)	(1,145)
Other	(43)	(52)	(58)
Net change in plan fiduciary net position	<u>182,349</u>	<u>(132,391)</u>	<u>164,357</u>
Plan fiduciary net position - beginning	<u>1,626,281</u>	<u>1,758,672</u>	<u>1,594,315</u>
Plan fiduciary net position - ending (b)	<u>\$ 1,808,630</u>	<u>\$ 1,626,281</u>	<u>\$ 1,758,672</u>
Fund's net pension liability (asset) - ending (a) - (b)	<u>\$ 153,992</u>	<u>\$ 273,692</u>	<u>\$ 96,164</u>
Plan fiduciary net position as a percentage of the total pension liability	92.15%	85.59%	94.82%
Covered payroll	\$ 434,103	\$ 502,790	\$ 430,322
Fund's net position as a percentage of covered payroll	35.47%	54.43%	22.35%

Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>	¹
\$ 66,484	\$ 57,510	\$ 40,266	
115,277	114,218	106,668	
(10,893)	(29,913)	26,401	
-	13,761	-	
(93,650)	(74,240)	(73,959)	
<u>77,218</u>	<u>81,336</u>	<u>99,376</u>	
<u>1,721,387</u>	<u>1,640,051</u>	<u>1,540,675</u>	
<u>1,798,605</u>	<u>1,721,387</u>	<u>1,640,051</u>	
\$ 46,686	\$ 40,972	\$ 33,402	
31,912	28,707	23,830	
101,885	2,232	82,787	
(93,650)	(74,240)	(73,959)	
(1,152)	(1,359)	(864)	
(62)	(68)	(71)	
<u>85,619</u>	<u>(3,756)</u>	<u>65,125</u>	
<u>1,508,696</u>	<u>1,512,452</u>	<u>1,447,327</u>	
<u>\$ 1,594,315</u>	<u>\$ 1,508,696</u>	<u>\$ 1,512,452</u>	
<u>\$ 204,290</u>	<u>\$ 212,691</u>	<u>\$ 127,599</u>	
88.64%	87.64%	92.22%	
\$ 531,871	\$ 478,452	\$ 397,161	
38.41%	44.45%	32.13%	

City of Lexington, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Fiscal Years Ended:

	9/30/2020	9/30/2019	9/30/2018
Actuarially determined employer contributions	\$ 43,556	\$ 40,136	\$ 38,232
Contributions in relation to the actuarially determined contribution	\$ 43,556	\$ 40,136	\$ 38,232
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Annual covered payroll	\$ 497,774	\$ 472,161	\$ 451,337
Employer contributions as a percentage of covered payroll	8.75%	8.50%	8.47%

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:	Actuarially determined contribution rates are
Notes	calculated as of December 31 and become effective in January 13 months later.
Methods and Assumptions Used to Determine Contribution Rates:	
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information:	
Notes	There were no benefit changes during the year.

<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u> ¹
\$ 37,223	\$ 46,657	\$ 39,624
<u>\$ 37,223</u>	<u>\$ 46,657</u>	<u>\$ 39,624</u>
\$ -	\$ -	\$ -
\$ 429,294	\$ 533,816	\$ 464,677
8.67%	8.74%	8.53%

(This page intentionally left blank.)