

CITY OF FREDERICKSBURG, TEXAS

ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2020



CLIENT **FOCUSED.** RELATIONSHIP **DRIVEN.**



CITY OF FREDERICKSBURG, TEXAS

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CITY OF FREDERICKSBURG, TEXAS

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Fredericksburg, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Fredericksburg, 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

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, each major fund and the aggregate remaining fund information of the City of Fredericksburg, Texas, as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, schedule of changes in other postemployment benefits (OPEB) liability and related ratios, related schedules of contributions for net pensions and OPEB liabilities, schedule of TESRS net pension liability and related ratios, and schedule of contributions for the TESRS liability. 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.

ABIP, PC

San Antonio, Texas
April 19, 2021

CITY OF FREDERICKSBURG, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the year ended September 30, 2020

As management of the City of Fredericksburg, Texas, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2020. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ❖ The assets and deferred outflows of resources of the City of Fredericksburg exceeded its liabilities and deferred inflows of resources as of September 30, 2020 by \$54,686,111 (net position). Of this amount, \$1,749,024 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- ❖ The City's total net position decreased by \$1,676,735.
- ❖ As of the close of the current fiscal year, the City of Fredericksburg's governmental funds reported combined fund balances of \$10,951,519 of which \$9,123,839 was unassigned and is available for spending at the City's discretion.
- ❖ As of September 30, 2020, unassigned fund balance for the general fund was \$9,123,839 or 52% of the current year's total general fund expenditures of \$17,451,701. The City's fund balance policy is to carry a 25% reserve of the general fund's expenditures. At the end of the fiscal year the City exceeded this policy by \$4,760,914.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to statements of a private-sector business.

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

The **statement of activities** presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned and unused compensation absences).

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government administration, public safety, streets, parks and recreation, and health services. The business-type activities of the City include electric, water, wastewater, storm water drainage, solid waste, emergency medical services (EMS), and golf operations. The government-wide financial statements can be found on pages 12-15 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Fredericksburg, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories – governmental funds and proprietary funds.

The **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 current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government'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 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 decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Beginning on page 16 of this report, information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be the major fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the annual appropriated budget.

The **proprietary funds** provide the same type of information as the government-wide financial statements only in more detail. The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in government-wide financial statements. The City uses the enterprise funds to account for electric, water, wastewater, storm water drainage, solid waste, emergency medical services, and golf operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the employee health insurance program. The internal service function has been included within governmental activities in the government-wide financial statements. The internal service fund is reported in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 20-29 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33-62 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the budgetary comparison schedule for the general fund, schedule of changes in net pension liability and related ratios for TMRS and TESRS, schedule of contributions for TMRS and TESRS, changes in other postemployment benefit (OPEB) liability and related ratios, and schedule of contributions for OPEB. Required supplementary information can be found on pages 65-74 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of the City of Fredericksburg, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$54,686,111 as of September 30, 2020, compared to \$56,655,714 as of September 30, 2019.

NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Assets:						
Current and other assets	\$ 12,722,581	\$ 9,876,641	\$ 29,165,102	\$ 32,819,383	\$ 41,887,683	\$ 42,696,024
Capital assets	23,401,267	23,527,984	43,996,765	37,001,813	67,398,032	60,529,797
Total assets	36,123,848	33,404,625	73,161,867	69,821,196	109,285,715	103,225,821
Deferred outflows of resources						
	1,105,218	2,056,768	840,164	1,557,527	1,945,382	3,614,295
Liabilities:						
Current liabilities	2,886,226	2,354,345	5,757,058	4,273,998	8,643,284	6,628,343
Net pension liability	5,905,743	4,743,004	4,450,663	3,525,735	10,356,406	8,268,739
OPEB liability	369,197	296,949	285,361	229,517	654,558	526,466
Noncurrent liabilities	7,301,581	7,339,087	28,043,291	27,157,077	35,344,872	34,496,164
Total liabilities	16,462,747	14,733,385	38,536,373	35,186,327	54,999,120	49,919,712
Deferred inflows of resources						
	875,100	149,392	670,766	115,298	1,545,866	264,690
Net position:						
Net investment in capital assets	16,022,784	16,091,082	17,570,990	12,352,544	33,593,774	28,443,626
Restricted for long-term debt	26,420	25,329	4,872,284	1,476,362	4,898,704	1,501,691
Restricted for capital projects	-	-	12,808,993	20,706,526	12,808,993	20,706,526
Restricted for other	1,635,616	1,069,643	-	-	1,635,616	1,069,643
Unrestricted	2,206,399	3,392,562	(457,375)	1,541,666	1,749,024	4,934,228
Total net position	\$ 19,891,219	\$ 20,578,616	\$ 34,794,892	\$ 36,077,098	\$ 54,686,111	\$ 56,655,714

By far, the largest portion of the City's net position (61%) reflects its investments in capital assets (land, buildings, equipment, and infrastructure), less any outstanding debt used to acquire those assets. 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 capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net position \$1,749,024 may be used to meet the government's ongoing obligation to citizens and creditors.

Analysis of the City's Operations

The following table provides a summary of the City's operations for the year ended September 30, 2020. Governmental activities decreased the City's net position by \$570,250. Business-type activities decreased the City's net position by \$1,106,485.

STATEMENT OF ACTIVITIES

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 1,200,681	\$ 1,372,469	\$ 24,724,629	\$ 24,257,203	\$ 25,925,310	\$ 25,629,672
Operating grants and contributions	2,073,990	1,297,735	-	-	2,073,990	1,297,735
General revenues:						
Property taxes	4,949,935	4,411,137	-	-	4,949,935	4,411,137
Sales taxes	6,344,922	6,235,189	-	-	6,344,922	6,235,189
Hotel occupancy taxes	3,378,715	3,480,389	-	-	3,378,715	3,480,389
Other taxes	746,642	806,556	-	-	746,642	806,556
Miscellaneous	338,419	275,574	-	63,315	338,419	338,889
Investment earnings	42,387	303,597	181,669	746,757	224,056	1,050,354
Total revenues	<u>19,075,691</u>	<u>18,182,646</u>	<u>24,906,298</u>	<u>25,067,275</u>	<u>43,981,989</u>	<u>43,249,921</u>
Expenses:						
Administration	2,413,625	1,736,145	-	-	2,413,625	1,736,145
Police	6,333,764	5,660,186	-	-	6,333,764	5,660,186
Fire	1,633,396	1,485,324	-	-	1,633,396	1,485,324
Streets	2,510,689	2,722,943	-	-	2,510,689	2,722,943
Parks and recreation	2,589,366	2,327,768	-	-	2,589,366	2,327,768
Tourism	2,860,967	3,291,447	-	-	2,860,967	3,291,447
Health	295,094	241,116	-	-	295,094	241,116
Food and wine festival	141,246	170,779	-	-	141,246	170,779
Emergency management	168,605	173,865	-	-	168,605	173,865
Development services	1,119,510	843,027	-	-	1,119,510	843,027
Municipal court	218,780	239,086	-	-	218,780	239,086
Engineering	303,232	278,908	-	-	303,232	278,908
Electric	-	-	10,537,984	11,228,216	10,537,984	11,228,216
Water and sewer	-	-	6,977,517	6,356,726	6,977,517	6,356,726
Golf	-	-	211,335	203,143	211,335	203,143
Landfill	-	-	3,182,171	2,880,336	3,182,171	2,880,336
EMS	-	-	3,247,338	2,826,973	3,247,338	2,826,973
Drainage utilities	-	-	567,324	393,858	567,324	393,858
Total expenses	<u>20,588,274</u>	<u>19,170,594</u>	<u>24,723,669</u>	<u>23,889,252</u>	<u>45,311,943</u>	<u>43,059,846</u>
Increase (decrease) in net position before transfers	(1,512,583)	(987,948)	182,629	1,178,023	(1,329,954)	190,075
Gain on retirement of assets	20,460	17,013	(367,241)	257,683	(346,781)	274,696
Transfers	<u>921,873</u>	<u>804,377</u>	<u>(921,873)</u>	<u>(804,377)</u>	<u>-</u>	<u>-</u>
Change in net position	(570,250)	(166,558)	(1,106,485)	631,329	(1,676,735)	464,771
Net position:						
Net position - beginning	20,578,616	20,745,174	36,077,098	35,445,769	56,655,714	56,190,943
Prior period adjustment	<u>(117,147)</u>	<u>-</u>	<u>(175,721)</u>	<u>-</u>	<u>(292,868)</u>	<u>-</u>
Net position - ending	<u>\$ 19,891,219</u>	<u>\$ 20,578,616</u>	<u>\$ 34,794,892</u>	<u>\$ 36,077,098</u>	<u>\$ 54,686,111</u>	<u>\$ 56,655,714</u>

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

As a whole, the government's net position decreased by \$1,676,735 during the current fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT FUNDS

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

Governmental Funds

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,951,519. Refer to page 16 of this report for a more detailed presentation of governmental fund balances.

The general fund is the primary operating fund of the City. The total fund balance of the general fund was \$10,759,455 of which \$9,123,839 is unassigned. Unassigned fund balance is the amount available for any purpose.

The fund balance of the City's general fund increased by \$2,777,193 during the current fiscal year. The budget estimated a net change in fund balance of \$(48,248), a positive variance of \$2,825,441.

Proprietary Funds

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

Unrestricted net position of the City's enterprise funds at the end of the year amounted to \$(457,375). Net position of the City's enterprise funds decreased by \$1,106,485 in the current year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business type activities as of September 30, 2020, amounts to \$67,398,032 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and infrastructure.

Major capital asset acquisitions occurring during the current fiscal year included the following:

Fire department machine and equipment	\$	828,447
Computer network switches		71,777
Police vehicles		196,608
Animal shelter construction		25,218
Street department equipment		186,405
Street improvements / sidewalks		84,654
Tourism projects		51,710
Park improvements		244,467
Drainage department machine and equipment		362,290
Electric machine and equipment		35,000
Electric system improvements		2,028,484
Water department machinery/ equipment		379,685
Water / wastewater system improvements		6,439,893
Solid waste department design and airspace survey		867,633
Solid waste department machinery /equipment		247,855
EMS department machinery / equipment		351,270
Totals	\$	<u>12,401,396</u>

Additional information on the City's capital assets can be found on pages 43-45 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total outstanding bonded debt of \$29,765,000. The entire amount of debt is backed in full faith and credit of the City.

The City carries bond ratings from Standards and Poor's of AA and from Moody's Investors Service of Aa3.

Additional information on the City's long-term liabilities can be found on pages 48-50 of this report.

PROPERTY TAXES

General Fund Property Tax Rate

In the budget for fiscal year-end September 30, 2020, the adopted property tax rate increased to \$.2273 from the prior year per \$100 of assessed valuation.

Tax Rate, Levy and Collection History

Fiscal Year Ended September 30,	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	Percentage of Current Collections	Percentage of Collections
2020	0.2273	0.1898	0.0375	\$ 4,913,299	93.32%	98.99%
2019	0.2256	0.1880	0.0376	4,422,710	92.29%	99.36%
2018	0.2256	0.1627	0.0629	4,255,938	93.94%	99.20%
2017	0.2400	0.2025	0.0375	3,893,409	92.87%	99.71%
2016	0.2313	0.1761	0.0552	3,545,858	92.65%	99.79%
2015	0.2482	0.1992	0.0490	3,495,943	93.40%	99.85%
2014	0.2600	0.1879	0.0721	3,439,885	92.52%	99.87%
2013	0.2647	0.1940	0.0707	3,420,570	92.03%	99.87%
2012	0.2444	0.1917	0.0527	3,172,700	92.20%	99.85%
2011	0.2365	0.1794	0.0571	3,059,441	91.92%	99.87%
2010	0.2319	0.1413	0.0906	3,040,062	90.48%	99.87%

CITY OF FREDERICKSBURG, TEXAS

BUDGET COMPARISON

For the years ended 2020 and 2019

	Budget Year		Increase (Decrease)	Increase (Decrease)
	2020-2021	2019-2020		
Revenues:				
General fund	\$ 18,551,681	\$ 19,248,693	\$ (697,012)	-3.62%
Electric	11,251,711	12,077,700	(825,989)	-6.84%
Water and sewer	8,389,541	7,842,760	546,781	6.97%
Golf	139,614	133,334	6,280	4.71%
Landfill	2,753,521	2,725,700	27,821	1.02%
EMS	2,906,717	2,986,926	(80,209)	-2.69%
Drainage	619,900	612,000	7,900	1.29%
Emergency management	209,438	209,438	-	0.00%
Debt service	819,215	818,000	1,215	0.15%
Internal service fund	<u>2,014,297</u>	<u>1,962,965</u>	<u>51,332</u>	2.62%
Total revenues	<u>47,655,635</u>	<u>48,617,516</u>	<u>(961,881)</u>	-1.98%
Expenditures:				
General fund:				
Administrative	6,232,668	6,325,118	(92,450)	-1.46%
Police	5,640,275	5,409,724	230,551	4.26%
Fire	1,626,821	1,650,538	(23,717)	-1.44%
Street	2,196,755	2,395,469	(198,714)	-8.30%
Park	2,233,508	2,547,377	(313,869)	-12.32%
Development services	888,804	809,405	79,399	9.81%
Health	231,189	229,079	2,110	0.92%
Municipal court	191,145	191,298	(153)	-0.08%
Engineering	252,830	265,796	(12,966)	-4.88%
Food and wine festival	<u>76,360</u>	<u>169,400</u>	<u>(93,040)</u>	-54.92%
Total general fund expenditures	<u>19,570,355</u>	<u>19,993,204</u>	<u>(422,849)</u>	-2.11%
Electric	12,300,153	12,563,123	(262,970)	-2.09%
Water and sewer	22,226,507	27,404,273	(5,177,766)	-18.89%
Golf	139,614	133,334	6,280	4.71%
Landfill	2,818,462	3,790,261	(971,799)	-25.64%
EMS	2,906,717	2,986,926	(80,209)	-2.69%
Drainage	642,359	534,981	107,378	20.07%
Emergency management	209,438	209,438	-	0.00%
Debt service	812,841	810,800	2,041	0.25%
Internal service fund	<u>1,975,200</u>	<u>1,927,712</u>	<u>47,488</u>	2.46%
Total expenditures	<u>63,601,646</u>	<u>70,354,052</u>	<u>(6,752,406)</u>	-9.60%
Budgeted revenues in excess (deficiency) of expenditures	<u>\$ (15,946,011)</u>	<u>\$ (21,736,536)</u>	<u>\$ 5,790,525</u>	

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Laura Hollenbeak, Director of Finance, 126 West Main, Fredericksburg, Texas 78264 or call (830) 997-7521.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the Government Accounting Standards Board (GASB).

The sets of statements include:

- Government–Wide Financial Statements
- Fund Financial Statements:
 - Governmental Funds
 - Proprietary Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF NET POSITION

September 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Busines-Type Activities	Total	Fredericksburg Convention and Visitor Bureau
Assets:				
Cash and cash equivalents	\$ 8,722,759	\$ 25,297,748	\$ 34,020,507	\$ 1,016,789
Investments - current	700,000	650,000	1,350,000	-
Tax receivables (net of allowances for uncollectibles):	1,252,999	-	1,252,999	-
Internal balances	221,149	(221,149)	-	-
Intergovernmental receivable	1,825,674	48,951	1,874,625	-
Due from others	-	2,410,942	2,410,942	-
Inventories	-	978,610	978,610	-
Prepaid expenses	-	-	-	1,606
Property and equipment (net of depreciation):				
Land	7,583,656	1,126,948	8,710,604	-
Buildings	4,225,762	3,293,228	7,518,990	-
Improvements	9,422,870	9,647,119	19,069,989	4,793
Machinery and equipment	2,168,979	29,929,470	32,098,449	74,042
 Total assets	 36,123,848	 73,161,867	 109,285,715	 1,097,230
Deferred outflows of resources:				
Deferred outflow related to TMRS pension	1,014,207	783,900	1,798,107	-
Deferred outflow related to TESRS pension	18,220	-	18,220	-
Deferred outflow related to TMRS OPEB	72,791	56,264	129,055	-
 Total deferred outflows of resources	 1,105,218	 840,164	 1,945,382	 -
 Total assets and deferred outflows of resources	 \$ 37,229,066	 \$ 74,002,031	 \$ 111,231,097	 \$ 1,097,230

The accompanying notes are an integral part of these financial statements.

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF NET POSITION

September 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Busines-Type Activities	Total	Fredericksburg Convention and Visitor Bureau
Liabilities and net position:				
Liabilities:				
Accounts payable	\$ 905,637	\$ 2,104,859	\$ 3,010,496	\$ 27,964
Accrued payroll	351,749	320,987	672,736	39,564
Intergovernmental payable	138,356	64,213	202,569	-
Accrued interest payable	37,276	143,742	181,018	-
Unearned revenues	297,175	-	297,175	-
Other current liabilities	-	730,104	730,104	-
Net pension liability - TMRS	5,758,259	4,450,663	10,208,922	-
Net pension liability - TESRS	147,484	-	147,484	-
OPEB liability - TMRS	369,197	285,361	654,558	-
Noncurrent liabilities:				
Due within one year	1,156,033	2,393,153	3,549,186	-
Due in more than one year	<u>7,301,581</u>	<u>28,043,291</u>	<u>35,344,872</u>	<u>-</u>
Total liabilities	<u>16,462,747</u>	<u>38,536,373</u>	<u>54,999,120</u>	<u>67,528</u>
Deferred inflows of resources:				
Deferred inflow related to TMRS pension	841,245	650,215	1,491,460	-
Deferred inflow related to TESRS	7,265	-	7,265	-
Deferred inflow related to TMRS OPEB	<u>26,590</u>	<u>20,551</u>	<u>47,141</u>	<u>-</u>
Total deferred inflows of resources	<u>875,100</u>	<u>670,766</u>	<u>1,545,866</u>	<u>-</u>
Net position:				
Net investment in capital assets	16,022,784	17,570,990	33,593,774	-
Restricted for:				
Long-term debt	26,420	4,872,284	4,898,704	-
Capital projects	-	12,808,993	12,808,993	-
Tourism	1,618,673	-	1,618,673	-
Court technology	16,943	-	16,943	-
Unrestricted	<u>2,206,399</u>	<u>(457,375)</u>	<u>1,749,024</u>	<u>1,029,702</u>
Total net position	<u>19,891,219</u>	<u>34,794,892</u>	<u>54,686,111</u>	<u>1,029,702</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 37,229,066</u>	<u>\$ 74,002,031</u>	<u>\$ 111,231,097</u>	<u>\$ 1,097,230</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF ACTIVITIES

For the year ended September 30, 2020

Functions / Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
Municipal court	\$ 218,780	\$ -	\$ -
Administration	2,413,625	13,031	-
Tourism	2,860,967	-	27,450
Engineering	303,232	-	-
Police	6,333,764	97,731	722,584
Fire	1,633,396	-	622,884
Emergency management	168,605	-	137,646
Streets	2,510,689	-	-
Parks	2,589,366	625,094	501,996
Health	295,094	107,897	55,130
Food and wine festival	141,246	124,764	6,300
Development services	1,119,510	232,164	-
Total government activities	<u>20,588,274</u>	<u>1,200,681</u>	<u>2,073,990</u>
Business-type activities:			
Electric	10,537,984	10,693,368	-
Water	6,977,517	8,662,424	-
Golf	211,335	523	-
Landfill	3,182,171	2,790,874	-
EMS	3,247,338	1,963,681	-
Drainage	<u>567,324</u>	<u>613,759</u>	<u>-</u>
Total business-type activities	<u>24,723,669</u>	<u>24,724,629</u>	<u>-</u>
Total primary government	<u>\$ 45,311,943</u>	<u>\$ 25,925,310</u>	<u>\$ 2,073,990</u>
Component unit:			
Fredericksburg Convention and Visitor Bureau	<u>\$ 2,532,847</u>		

General revenues:

Taxes:

- Property taxes
- Sales tax
- Hotel occupancy tax
- Other taxes

Miscellaneous revenue

Investment earnings

Transfers in (out)

Gain on retirement of capital assets

Total general revenues

Change in net position

Net position - beginning of year

Prior period adjustment

Net position - beginning, as restated

Net position - end of year

The accompanying notes are an integral part of these financial statements.

Changes in Net Position			Component Unit Fredericksburg Convention and Visitor Bureau
Primary Government			
Governmental Activities	Business-Type Activities	Total	
\$ (218,780)	\$ -	\$ (218,780)	
(2,400,594)	-	(2,400,594)	
(2,833,517)	-	(2,833,517)	
(303,232)	-	(303,232)	
(5,513,449)	-	(5,513,449)	
(1,010,512)	-	(1,010,512)	
(30,959)	-	(30,959)	
(2,510,689)	-	(2,510,689)	
(1,462,276)	-	(1,462,276)	
(132,067)	-	(132,067)	
(10,182)	-	(10,182)	
(887,346)	-	(887,346)	
<u>(17,313,603)</u>	<u>-</u>	<u>(17,313,603)</u>	
-	155,384	155,384	
-	1,684,907	1,684,907	
-	(210,812)	(210,812)	
-	(391,297)	(391,297)	
-	(1,283,657)	(1,283,657)	
-	46,435	46,435	
-	<u>960</u>	<u>960</u>	
<u>(17,313,603)</u>	<u>960</u>	<u>(17,312,643)</u>	
			<u>\$ (2,532,847)</u>
4,949,935	-	4,949,935	-
6,344,922	-	6,344,922	-
3,378,715	-	3,378,715	-
746,642	-	746,642	-
338,419	-	338,419	2,497,539
42,387	181,669	224,056	-
921,873	(921,873)	-	-
<u>20,460</u>	<u>(367,241)</u>	<u>(346,781)</u>	<u>-</u>
<u>16,743,353</u>	<u>(1,107,445)</u>	<u>15,420,214</u>	<u>2,497,539</u>
(570,250)	(1,106,485)	(1,676,735)	(35,308)
<u>20,578,616</u>	<u>36,077,098</u>	<u>56,655,714</u>	<u>1,065,010</u>
<u>(117,147)</u>	<u>(175,721)</u>	<u>(292,868)</u>	<u>-</u>
<u>20,461,469</u>	<u>35,901,377</u>	<u>56,362,846</u>	<u>1,065,010</u>
<u>\$ 19,891,219</u>	<u>\$ 34,794,892</u>	<u>\$ 54,686,111</u>	<u>\$ 1,029,702</u>

CITY OF FREDERICKSBURG, TEXAS

BALANCE SHEET – GOVERNMENTAL FUNDS

September 30, 2020

	Major Funds	Nonmajor Funds		Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
Assets:				
Cash and cash equivalents	\$ 8,291,951	\$ 163,144	\$ 51,167	\$ 8,506,262
Investments	700,000	-	-	700,000
Taxes receivable (net of allowances for uncollectibles)	1,162,743	-	-	1,162,743
Receivable (net of allowances)	90,256	-	-	90,256
Intergovernmental receivables	1,820,929	-	-	1,820,929
Due from other funds	247,929	2,500	4,274	254,703
Total assets	\$ 12,313,808	\$ 165,644	\$ 55,441	\$ 12,534,893
Liabilities:				
Accounts payable	\$ 636,387	\$ -	\$ -	\$ 636,387
Wages and salaries payable	351,749	-	-	351,749
Compensated absences	11,323	-	-	11,323
Intergovernmental payable	138,356	-	-	138,356
Due to other funds	4,533	-	29,021	33,554
Deferred revenues	297,175	-	-	297,175
Total liabilities	1,439,523	-	29,021	1,468,544
Deferred inflows of resources:				
Unearned revenue - property taxes	114,830	-	-	114,830
Fund balances:				
Reserved for:				
Debt service	-	-	26,420	26,420
Capital improvements	-	165,644	-	165,644
Court technology	16,943	-	-	16,943
Tourism	1,618,673	-	-	1,618,673
Unassigned	9,123,839	-	-	9,123,839
Total fund balances	10,759,455	165,644	26,420	10,951,519
Total liabilities, deferred inflows of resources and fund balances	\$ 12,313,808	\$ 165,644	\$ 55,441	\$ 12,534,893

The accompanying notes are an integral part of these financial statements.

CITY OF FREDERICKSBURG, TEXAS

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

September 30, 2020

TOTAL FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 10,951,519

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

The City uses an internal service fund for health self insurance.
The assets and liabilities are included in the governmental activities. (48,008)

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 23,401,267

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 114,830

Accrued vacation leave payable is not due and payable in the current period and, therefore not reported in the funds. (902,134)

Long-term liabilities, which includes certificates of obligation bonds, general obligation bonds, premiums and capital lease payable, are not due and payable in the current period and, therefore, not reported in the funds. (7,544,127)

Net pension liability, other postemployment benefit liability, and related deferred inflows and outflows of resources are not due and payable in the current period and, therefore, not reported in the funds. (6,044,852)

Accrued interest payable on general obligation bonds are not due and payable in the current period and, therefore, not reported in the funds. (37,276)

NET POSITION OF GOVERNMENTAL ACTIVITIES -
STATEMENT OF NET POSITION \$ 19,891,219

The accompanying notes are an integral part of these financial statements.

CITY OF FREDERICKSBURG, TEXAS

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

For the year ended September 30, 2020

	Major Funds	Nonmajor Funds		Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
Revenues:				
General property taxes	\$ 4,122,016	\$ -	\$ 811,614	\$ 4,933,630
General sales and use taxes	6,344,922	-	-	6,344,922
Hotel occupancy taxes	3,378,715	-	-	3,378,715
Other taxes	410,154	-	-	410,154
Franchise fees	336,488	-	-	336,488
License and permits	232,164	-	-	232,164
Fines	97,731	-	-	97,731
Pavilion and camping fees	450,377	-	-	450,377
Rentals	107,611	-	-	107,611
Intergovernmental revenue	678,014	-	-	678,014
Grants	722,584	-	-	722,584
Investment earnings	39,080	136	121	39,337
Other revenues	1,324,609	-	-	1,324,609
Total revenues	18,244,465	136	811,735	19,056,336
Expenditures:				
Current:				
Municipal court	172,712	-	-	172,712
Administration	1,527,773	-	-	1,527,773
Tourism	2,812,742	-	-	2,812,742
Police	4,711,516	-	-	4,711,516
Fire	1,251,287	-	-	1,251,287
Emergency management	166,360	-	-	166,360
Streets	1,357,427	-	-	1,357,427
Parks and recreation	1,839,639	-	-	1,839,639
Health	219,175	-	-	219,175
Food and wine festival	141,246	-	-	141,246
Development services	895,963	-	-	895,963
Engineering	219,232	-	-	219,232
Debt service:				
Principal	467,506	-	625,000	1,092,506
Interest	7,824	-	185,644	193,468
Capital outlay	1,661,299	-	-	1,661,299
Total expenditures	17,451,701	-	810,644	18,262,345
Excess (deficiency) of revenues over (under) expenditures	<u>792,764</u>	<u>136</u>	<u>1,091</u>	<u>793,991</u>
Other financing sources (uses):				
Sale of real and personal property	20,460	-	-	20,460
Transfers in	1,829,700	-	-	1,829,700
Transfers out	(907,827)	-	-	(907,827)
Capital leases	1,042,096	-	-	1,042,096
Total other financing sources (uses)	1,984,429	-	-	1,984,429
Net change in fund balances	2,777,193	136	1,091	2,778,420
Fund balances at beginning of year	8,099,409	165,508	25,329	8,290,246
Prior period adjustment	(117,147)	-	-	(117,147)
Fund balance- beginning, as restated	7,982,262	-	-	8,173,099
Fund balances at end of year	<u>\$ 10,759,455</u>	<u>\$ 165,644</u>	<u>\$ 26,420</u>	<u>\$ 10,951,519</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FREDERICKSBURG, 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

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 2,778,420

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

The City uses an internal service fund to charge the cost of health insurance. The net income (loss) of this fund is consolidated into governmental activities. (366,980)

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. This is the amount by which depreciation expense (\$1,788,016) exceeded capital outlay (\$1,661,299). (126,717)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 16,305

The repayment and issuance of the principal of long-term debt consumes the current financial resources of governmental funds but has no effect on net position. 87,397

The amortization of bond premium and losses on refunding do not require the use of current financial resources, and therefore, are not reported in the funds. 7,873

Change in net pension liability, other postemployment benefits liability, and related deferred inflows and outflows do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (2,912,245)

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. (54,303)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (570,250)

The accompanying notes are an integral part of these financial statements.

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

September 30, 2020

	Business-Type Activities - Enterprise Funds		
	Electric	Water	Golf
Current assets:			
Cash and cash equivalents	\$ 3,153,469	\$ 19,519,082	\$ 119,950
Investments	-	400,000	-
Due from other funds	680,676	-	-
Intergovernmental receivable	3,753	3,753	163
Accounts receivable (net of allowance)	992,171	760,018	4,412
Inventory	<u>699,328</u>	<u>279,282</u>	<u>-</u>
Total current assets	<u>5,529,397</u>	<u>20,962,135</u>	<u>124,525</u>
Noncurrent assets:			
Property and equipment:			
Land	89,475	522,525	305,399
Buildings	3,984,794	2,795,738	1,753,473
Improvements	-	-	3,206,010
Machinery and equipment	9,644,026	47,607,944	525,909
Less: accumulated depreciation	<u>(9,864,619)</u>	<u>(17,764,832)</u>	<u>(3,047,319)</u>
Total noncurrent assets	<u>3,853,676</u>	<u>33,161,375</u>	<u>2,743,472</u>
Deferred outflow of resources:			
Deferred outflow - TMRS pension	171,334	240,684	2,616
Deferred outflow - OPEB	<u>12,297</u>	<u>17,275</u>	<u>188</u>
Total deferred outflow of resources	<u>183,631</u>	<u>257,959</u>	<u>2,804</u>
Total assets and deferred outflow of resources	<u>\$ 9,566,704</u>	<u>\$ 54,381,469</u>	<u>\$ 2,870,801</u>

The accompanying notes are an integral part of these financial statements.

Business-Type Activities - Enterprise Funds				Governmental
Landfill	EMS	Drainage	Enterprise Fund Total	Internal Service Fund
\$ 1,912,804	\$ 83,990	\$ 508,453	\$ 25,297,748	\$ 216,497
250,000	-	-	650,000	-
680,676	-	259	1,361,611	-
-	41,282	-	48,951	4,745
234,345	367,455	52,541	2,410,942	-
-	-	-	978,610	-
<u>3,077,825</u>	<u>492,727</u>	<u>561,253</u>	<u>30,747,862</u>	<u>221,242</u>
209,549	-	-	1,126,948	-
107,770	368,666	-	9,010,441	-
6,164,572	32,759	5,187,959	14,591,300	-
4,005,496	1,593,372	492,287	63,869,034	-
(8,433,959)	(1,286,496)	(4,203,734)	(44,600,959)	-
<u>2,053,428</u>	<u>708,301</u>	<u>1,476,512</u>	<u>43,996,764</u>	<u>-</u>
171,295	194,340	3,631	783,900	-
12,295	13,949	260	56,264	-
<u>183,590</u>	<u>208,289</u>	<u>3,891</u>	<u>840,164</u>	<u>-</u>
<u>\$ 5,314,843</u>	<u>\$ 1,409,317</u>	<u>\$ 2,041,656</u>	<u>\$ 75,584,790</u>	<u>\$ 221,242</u>

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

September 30, 2020

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Electric</u>	<u>Water</u>	<u>Golf</u>
Liabilities:			
Current liabilities:			
Accounts payable	\$ 1,010,736	\$ 1,051,443	\$ 137
Accrued payroll	71,017	97,959	850
Intergovernmental payable	32,785	-	-
Accrued interest payable	4,600	128,802	-
Due to other funds	73,400	63,300	1,361,352
Other current liabilities	457,379	252,625	-
Capital leases payable	7,531	647,952	-
Bonds payable - current maturity:			
Revenue bonds	<u>265,000</u>	<u>850,000</u>	<u>-</u>
Total current liabilities	<u>1,922,448</u>	<u>3,092,081</u>	<u>1,362,339</u>
Noncurrent liabilities:			
Bonds payable:			
Revenue bonds	1,755,000	20,440,000	-
Capital leases payable	2,868	958,836	-
Net pension liability - TMRS	972,765	1,366,503	14,853
OPEB liability	62,371	87,615	952
Unamortized premiums on bonds	-	826,359	-
Compensated absences	175,362	220,740	3,967
Closure and post-closure liability	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>2,968,366</u>	<u>23,900,053</u>	<u>19,772</u>
Total liabilities	<u>4,890,814</u>	<u>26,992,134</u>	<u>1,382,111</u>
Deferred inflows of resources:			
Deferred inflow - TMRS pension	142,115	199,637	2,170
Deferred inflow - OPEB	<u>4,492</u>	<u>6,310</u>	<u>68</u>
Total deferred inflow of resources	<u>146,607</u>	<u>205,947</u>	<u>2,238</u>
Net position:			
Net investment in capital assets	1,823,277	9,438,228	2,743,472
Restricted for long-term debt	153,974	4,718,310	-
Restricted for capital projects	622,331	12,123,617	-
Unrestricted	<u>1,929,701</u>	<u>903,233</u>	<u>(1,257,020)</u>
Total net position	<u>4,529,283</u>	<u>27,183,388</u>	<u>1,486,452</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 9,566,704</u>	<u>\$ 54,381,469</u>	<u>\$ 2,870,801</u>

The accompanying notes are an integral part of these financial statements.

Business-Type Activities - Enterprise Funds				Governmental Activities
Landfill	EMS	Drainage	Enterprise Fund Total	Internal Service Fund
\$ 13,637	\$ 27,495	\$ 1,411	\$ 2,104,859	\$ 269,250
64,757	79,993	6,411	320,987	-
6,580	24,848	-	64,213	-
5,462	2,522	2,356	143,742	-
18,600	66,108	-	1,582,760	-
20,100	-	-	730,104	-
216,969	96,961	89,522	1,058,935	-
-	-	-	1,115,000	-
<u>346,105</u>	<u>297,927</u>	<u>99,700</u>	<u>7,120,600</u>	<u>269,250</u>
-	-	-	22,195,000	-
81,497	96,423	90,856	1,230,480	-
972,544	1,103,384	20,614	4,450,663	-
62,356	70,745	1,322	285,361	-
-	-	-	826,359	-
132,961	153,966	6,241	693,237	-
<u>3,317,432</u>	<u>-</u>	<u>-</u>	<u>3,317,432</u>	<u>-</u>
<u>4,566,790</u>	<u>1,424,518</u>	<u>119,033</u>	<u>32,998,532</u>	<u>-</u>
<u>4,912,895</u>	<u>1,722,445</u>	<u>218,733</u>	<u>40,119,132</u>	<u>269,250</u>
142,083	161,198	3,012	650,215	-
<u>4,491</u>	<u>5,095</u>	<u>95</u>	<u>20,551</u>	<u>-</u>
<u>146,574</u>	<u>166,293</u>	<u>3,107</u>	<u>670,766</u>	<u>-</u>
1,754,962	514,917	1,296,134	17,570,990	-
-	-	-	4,872,284	-
63,045	-	-	12,808,993	-
<u>(1,562,633)</u>	<u>(994,338)</u>	<u>523,682</u>	<u>(457,375)</u>	<u>(48,008)</u>
<u>255,374</u>	<u>(479,421)</u>	<u>1,819,816</u>	<u>34,794,892</u>	<u>(48,008)</u>
<u>\$ 5,314,843</u>	<u>\$ 1,409,317</u>	<u>\$ 2,041,656</u>	<u>\$ 75,584,790</u>	<u>\$ 221,242</u>

CITY OF FREDERICKSBURG, TEXAS

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

For the year ended September 30, 2020

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Electric</u>	<u>Water</u>	<u>Golf</u>
Operating revenues:			
Electric sales	\$ 10,477,108	\$ -	\$ -
Water sales	-	4,534,519	-
Sewer sales	-	3,366,458	-
Garbage collection and tipping fees	-	-	-
EMS fees	-	-	-
Drainage utilities	-	-	-
Licenses and permits	20,082	25,607	-
Rents and royalties	29,537	1,460	-
Other revenue	166,641	734,380	523
Total operating revenues	<u>10,693,368</u>	<u>8,662,424</u>	<u>523</u>
Operating expenses:			
Salaries and wages	1,085,948	1,398,995	15,320
Employee benefits	889,564	1,270,140	12,561
Contracted services	84,058	47,092	-
Other operating expenses	8,077,011	1,652,524	7,055
Depreciation	331,901	1,658,401	162,277
Total operating expenses	<u>10,468,482</u>	<u>6,027,152</u>	<u>197,213</u>
Operating income (loss)	<u>224,886</u>	<u>2,635,272</u>	<u>(196,690)</u>
Nonoperating revenues (expenses):			
Investment income	14,108	148,962	5
Interest expense	(24,672)	(872,805)	(14,122)
Amortization of bond premium	-	(657)	-
Bond issuance cost	(44,830)	(76,903)	-
Transfers to other funds	(863,800)	(737,000)	-
Transfers from other funds	-	-	133,334
Gain (loss) on sale of fixed assets	-	(367,241)	-
Total nonoperating revenues (expenses)	<u>(919,194)</u>	<u>(1,905,644)</u>	<u>119,217</u>
Changes in net position	(694,308)	729,628	(77,473)
Total net position - beginning	<u>5,282,165</u>	<u>26,570,907</u>	<u>1,563,925</u>
Prior period adjustment	(58,574)	(117,147)	-
Total net position - beginning restated	<u>5,223,591</u>	<u>26,453,760</u>	<u>1,563,925</u>
Total net position - ending	<u>\$ 4,529,283</u>	<u>\$ 27,183,388</u>	<u>\$ 1,486,452</u>

The accompanying notes are an integral part of these financial statements.

Business-Type Activities - Enterprise Funds				Governmental
Landfill	EMS	Drainage	Enterprise Fund Total	Internal Service Fund
\$ -	\$ -	\$ -	\$ 10,477,108	\$ -
-	-	-	4,534,519	-
-	-	-	3,366,458	-
2,787,853	-	-	2,787,853	-
-	1,268,889	-	1,268,889	-
-	-	613,759	613,759	-
-	-	-	45,689	-
-	-	-	30,997	-
3,021	694,792	-	1,599,357	2,013,040
<u>2,790,874</u>	<u>1,963,681</u>	<u>613,759</u>	<u>24,724,629</u>	<u>2,013,040</u>
933,380	1,265,780	100,819	4,800,242	-
881,113	1,004,231	52,863	4,110,472	-
23,879	8,932	-	163,961	-
723,638	765,680	99,179	11,325,087	2,383,070
613,773	200,026	312,107	3,278,485	-
<u>3,175,783</u>	<u>3,244,649</u>	<u>564,968</u>	<u>23,678,247</u>	<u>2,383,070</u>
			-	
<u>(384,909)</u>	<u>(1,280,968)</u>	<u>48,791</u>	<u>1,046,382</u>	<u>(370,030)</u>
15,426	49	3,119	181,669	3,050
(6,388)	(2,689)	(2,356)	(923,032)	-
-	-	-	(657)	-
-	-	-	(121,733)	-
(228,900)	-	-	(1,829,700)	-
-	774,493	-	907,827	-
-	-	-	(367,241)	-
<u>(219,862)</u>	<u>771,853</u>	<u>763</u>	<u>(2,152,867)</u>	<u>3,050</u>
(604,771)	(509,115)	49,554	(1,106,485)	(366,980)
860,145	29,694	1,770,262	36,077,098	318,972
-	-	-	(175,721)	-
860,145	29,694	1,770,262	35,901,377	-
<u>\$ 255,374</u>	<u>\$ (479,421)</u>	<u>\$ 1,819,816</u>	<u>\$ 34,794,892</u>	<u>\$ (48,008)</u>

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the year ended September 30, 2020

	Business-Type Activities - Enterprise Funds		
	Electric	Water	Golf
Cash flows from operating activities:			
Cash received from customers	\$ 10,951,313	\$ 8,668,283	\$ 2,243
Cash payments to employees for services	(1,442,082)	(1,949,676)	(19,772)
Cash payments for suppliers	<u>(7,877,204)</u>	<u>(1,059,906)</u>	<u>(100,827)</u>
Net cash provided (used) by operating activities	<u>1,632,027</u>	<u>5,658,701</u>	<u>(118,356)</u>
Cash flows from noncapital financing activities:			
Operating transfers out	(863,800)	(737,000)	-
Operating transfers in	<u>-</u>	<u>-</u>	<u>133,334</u>
Net cash provided (used) by noncapital financing activities	<u>(863,800)</u>	<u>(737,000)</u>	<u>133,334</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(2,072,097)	(6,831,060)	-
Capital lease proceeds	8,612	219,535	-
Debt issuance proceeds	2,255,170	5,120,000	-
Principal paid on capital debt	(287,813)	(6,459,207)	-
Interest paid on capital debt	(20,072)	(893,967)	(14,122)
Proceeds from the sale of capital assets	<u>-</u>	<u>22,518</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(116,200)</u>	<u>(8,822,181)</u>	<u>(14,122)</u>
Cash flows from investing activities			
Interest received on investments	14,108	148,962	5
Net increase (decrease) in cash and cash equivalents	666,135	(3,751,518)	861
Cash and cash equivalents, beginning	<u>2,487,334</u>	<u>23,270,600</u>	<u>119,089</u>
Cash and cash equivalents, ending	<u>\$ 3,153,469</u>	<u>\$ 19,519,082</u>	<u>\$ 119,950</u>

SCHEDULE OF NONCASH ACTIVITIES

Actuarially determined change in net pension liability	\$ 202,158	\$ 283,984	\$ 3,088
Actuarially determined change in OPEB liability	12,207	17,146	186

The accompanying notes are an integral part of these financial statements.

Business-Type Activities - Enterprise Funds				Governmental
Landfill	EMS	Drainage	Enterprise Fund Total	Internal Service Fund
\$ 2,760,902	\$ 1,985,309	\$ 612,621	\$ 24,980,671	\$ 2,012,132
(1,291,292)	(1,663,981)	(138,597)	(6,505,400)	-
(479,166)	(809,409)	(142,390)	(10,468,902)	(2,154,264)
<u>990,444</u>	<u>(488,081)</u>	<u>331,634</u>	<u>8,006,369</u>	<u>(142,132)</u>
(228,900)	-	-	(1,829,700)	-
<u>-</u>	<u>774,493</u>	<u>-</u>	<u>907,827</u>	<u>-</u>
(228,900)	774,493	-	(921,873)	-
(1,119,075)	(355,576)	(362,291)	(10,740,099)	-
244,513	289,296	272,587	1,034,543	-
-	-	-	7,375,170	-
(219,372)	(179,905)	(92,209)	(7,238,506)	-
(7,507)	(1,352)	-	(937,020)	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>22,518</u>	<u>-</u>
(1,101,441)	(247,537)	(181,913)	(10,483,394)	-
15,426	49	3,119	181,669	3,050
(324,471)	38,924	152,840	(3,217,229)	(139,082)
<u>2,237,275</u>	<u>45,066</u>	<u>355,613</u>	<u>28,514,977</u>	<u>355,579</u>
<u>\$ 1,912,804</u>	<u>\$ 83,990</u>	<u>\$ 508,453</u>	<u>\$ 25,297,748</u>	<u>\$ 216,497</u>
\$ 202,112	\$ 229,302	\$ 4,284	\$ 924,928	\$ -
12,202	13,844	259	55,844	-

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the year ended September 30, 2020

	Business-Type Activities - Enterprise Funds		
	Electric	Water	Golf
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 224,886	\$ 2,635,272	\$ (196,690)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	331,901	1,658,401	162,277
(Increase) decrease in operating assets:			
Accounts receivable	259,713	7,627	1,792
Interfund receivables	(1,768)	-	-
Due from other governments	46,860	(1,768)	(72)
Inventories	25,315	1,867	-
Increase (decrease) in operating liabilities:			
Accounts payable	186,591	616,363	(52)
Wages payable	17,583	(15,317)	218
Interest payable	-	-	-
Due to other funds	(6,700)	(400)	(93,720)
Due to other governments	(3,386)	-	-
Compensated absences payable	23,283	42,845	370
Net pension/OPEB liability	492,564	691,931	7,521
Landfill closure liability	-	-	-
Other current liabilities	35,185	21,880	-
Net cash provided by operating activities	\$ 1,632,027	\$ 5,658,701	\$ (118,356)

The accompanying notes are an integral part of these financial statements.

Business-Type Activities - Enterprise Funds				Governmental
Landfill	EMS	Drainage	Enterprise Fund Total	Internal Service Fund
\$ (384,909)	\$ (1,280,968)	\$ 48,791	\$ 1,046,382	\$ (370,030)
613,773	200,026	312,107	3,278,485	-
(29,972)	41,070	(1,138)	279,092	(908)
46,860	-	-	45,092	-
-	(19,442)	(1)	25,577	-
-	-	-	27,182	-
(16,478)	12,205	(43,210)	755,419	228,806
13,870	19,476	1,526	37,356	-
-	-	-	-	-
(1,000)	(13,791)	-	(115,611)	-
221	(33,211)	-	(36,376)	-
16,881	27,856	3,120	114,355	-
492,450	558,698	10,439	2,253,603	-
232,048	-	-	232,048	-
6,700	-	-	63,765	-
<u>\$ 990,444</u>	<u>\$ (488,081)</u>	<u>\$ 331,634</u>	<u>\$ 8,006,369</u>	<u>\$ (142,132)</u>



NOTES TO BASIC FINANCIAL STATEMENTS



CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(1) Summary of significant accounting policies

The City of Fredericksburg, Texas, (the City), is a municipal corporation incorporated under Article XI, Section 4 of the Constitution of the State of Texas. The City operates under a Council-Manager form of government and provides such services as are authorized by its code of ordinances and its inhabitants. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable.

Reporting entity

Component unit

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations; thus, data from these units, if any existed, would be combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government.

The City of Fredericksburg has one component unit displayed as a discretely presented component unit. The Fredericksburg Convention and Visitor Bureau (the "Bureau") is governed by a Board of Directors comprised of 11 members. Each member is appointed by the City Council of the City of Fredericksburg. The Bureau also provides the City with financial information, as required by City Council. In addition, the annual budget for the Bureau must be approved by City Council. These facts distinguish the Bureau as a discretely presented component unit of the City.

The Bureau's mission is to create a positive business environment, take a leadership role in community affairs, be an information resource for its members, help in providing a better quality of life for its citizens and increase growth of the overnight tourism and meeting industry in Fredericksburg.

Complete financial statements for the component unit may be obtained at the Fredericksburg Convention and Visitor Bureau's administrative office, which is located at 302 E. Austin Street, Fredericksburg, Texas 78624.

Government-wide and fund financial statements

The government-wide financial statements include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City and its component unit. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. The primary government is reported separately from the component unit within the government-wide statements.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(1) Summary of significant accounting policies (continued)

Government-wide and fund financial statements (continued)

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

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement focus is also used for the proprietary fund financial statements. 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if 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.

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(1) Summary of significant accounting policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

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

The City reports the following major governmental fund:

The general fund is the general operating fund of the City and is always classified as a major fund. The general fund is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance.

The City reports the following major proprietary funds:

The electric fund is used to account for electrical operations that are intended to be self-supporting.

The water and sewer fund is used to account for operations that are intended to be self-supporting water and sewer services through user charges.

The golf course fund is used to account for the golf course operations that are intended to be self-supporting through user charges.

The solid waste fund is used to account for the sanitary landfill operations that are intended to be self-supporting.

The emergency medical service (EMS) fund is used to account for the joint EMS services with the County of Gillespie. The operations are intended to be self-supporting.

The drainage fund is used to account for the drainage services that are intended to be self-supporting.

Additionally, the City reports an internal service fund to account for health insurance services provided to the departments of the government on a cost reimbursement basis.

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

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(1) Summary of significant accounting policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

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 City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

Cash and investments

Cash and temporary investments consist of demand deposits, and balances in public funds investment pools. Short-term investments are stated at cost.

For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement Number 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

Investments are stated at fair value and categorized by using the fair value hierarchy established by generally accepted accounting principles. The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(1) Summary of significant accounting policies (continued)

Cash and investments (continued)

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable values or reflective of future fair values. Furthermore, while the City believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Accounts receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of the interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). There were no balances that were considered "advanced to/from other funds" at September 30, 2020. All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is based on historical collection rates.

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Gillespie Central Appraisal District ("GCAD") establishes appraised values. Taxes are levied by the City Council based on the appraised values received from the GCAD. The Gillespie Central Appraisal District Tax Assessor performs billings and collection of tax levies.

Inventories and prepaid items

The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories in the proprietary funds are valued at cost (first-in, first-out method).

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(1) Summary of significant accounting policies (continued)

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 or business-type activities columns in the government-wide financial statements. Capital assets such as equipment are defined as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	10 – 50 years
Improvements other than buildings	10 – 50 years
Equipment	5 – 15 years
Infrastructure	30 years

Compensated absences

It is the City’s policy to permit employees to accumulate earned but unused personal time off (PTO). Vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Employees may only carry 480 hours of PTO over into the next calendar year. Expenditures are reported for these amounts.

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, business-type activities, or proprietary fund type statement of net position. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the year of issuance of the related debt.

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

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(1) Summary of significant accounting policies (continued)

Fund balance

The City implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose, positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. Assigned fund balance is delegated by the City Council to the City Manager.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City’s council or its designated official has provided otherwise in its commitments or assignment actions.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(1) Summary of significant accounting policies (continued)

Net position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Use of estimates

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and Texas Emergency Services Retirement System (TESRS) and additions to/deductions from TMRS's and TESRS's fiduciary net position have been determined on the same basis as they are reported by TMRS and TESRS. 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.

Other postemployment benefits (OPEB)

The OPEB liability has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to the OPEB and OPEB expense.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation. The reclassifications did not change total assets and deferred outflows of resources, total liabilities and deferred inflows of resources, total fund equity, total revenue of funds and total expense/expenditures.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(2) Stewardship, compliance and accountability

Budgetary information

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

- At least 30 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The proposed budget includes estimated revenue and proposed expenditures for the general fund.
- Public hearings are conducted to obtain taxpayer comments.
- The budget is legally adopted on a fund basis by the City Council.
- The City Council can adjust the budget during its formal City Council meetings.
- Actual expenditures cannot exceed the legally-adopted budget.
- Appropriations lapse at the end of the year.
- Budgets are adopted on a basis consistent with generally accepted accounting principles.

(3) Deposits and investments

As of September 30, 2020, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Investments recorded as cash equivalents		
TexPool - valued at amortized cost	\$ 476,061	38
Total investments recorded as cash equivalents	476,061	
Cash at bank	33,532,316	
Cash on-hand	12,130	
Total cash and cash equivalents	<u>\$ 34,020,507</u>	
Investments		
Certificates of deposits - valued at amortized cost	<u>\$ 1,350,000</u>	249
Portfolio weighted average maturity		70

The City’s investment pools are 2a7-like pools. A 2a7 like pool is one which is not registered with the Securities and Exchange Commission (“SEC”) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(3) Deposits and investments (continued)

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair market values by maintaining a weighted average days to maturity for the operating fund portfolio of less than 360 days. The maximum allowable maturity for any investment is 3 years.

Custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2020, the City had cash deposits at the bank of \$34,179,771. The total fair market value of pledged securities held as collateral amounted to \$39,529,440. In addition, \$250,000 of the deposits are covered by FDIC coverage.

Credit risk. It is the City's policy to limit its investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City's investments as of September 30, 2020, were rated as follows:

Investment Type	Rating	Rating Agency
TexPool	AAAm	Standard and Poor's

Under provisions of state and local statutes, the City's investment policies, and provisions of the City's depository contracts with an area financial institution, the City is authorized to place available deposits and investments in the following:

- Obligations of the U.S., its agencies and instrumentalities;
- Certificates of deposit issued by state and national banks or savings or loan associations domiciled in this state that are guaranteed or insured by the Federal Deposit Insurance Corporation or collateralized in accordance with Section 2256.010, the Texas Government Code, in face amount not to exceed \$250,000;
- No load money market mutual funds; and
- TexPool, Lone Star Investment Pool and MBIA Class.

The City Council has adopted a written investment policy regarding the investments of its funds as defined by the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the Council's investment policies. The City did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments were complied with during the year. Investments at year end are representative of the types of investments maintained by the City during the year.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(4) Receivables

Receivables as of year end for the government's individual major funds, nonmajor funds and enterprise funds, including the applicable allowances for uncollectible accounts, are as follows:

	Government Funds		Enterprises Funds				Totals	
	General	Electric	Water	Golf	Landfill	EMS		Drainage
Taxes	\$ 1,179,454	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,179,454
Due from other governments	1,820,929	3,753	3,753	163	-	41,282	-	1,869,880
Customer accounts	81,733	1,032,242	777,273	4,412	297,007	436,474	53,644	2,682,785
Interest	8,523	-	6	-	23	-	-	8,552
Gross receivables	3,090,639	1,035,995	781,032	4,575	297,030	477,756	53,644	5,740,671
Less: allowance for uncollectibles	16,711	40,071	17,261	-	62,685	69,019	1,103	206,850
Net total receivables	<u>\$ 3,073,928</u>	<u>\$ 995,924</u>	<u>\$ 763,771</u>	<u>\$ 4,575</u>	<u>\$ 234,345</u>	<u>\$ 408,737</u>	<u>\$ 52,541</u>	<u>\$ 5,533,821</u>

(5) Capital assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,583,656	\$ -	\$ -	\$ 7,583,656
Total capital assets, not being depreciated	<u>7,583,656</u>	<u>-</u>	<u>-</u>	<u>7,583,656</u>
Capital assets, being depreciated:				
Buildings	9,741,333	-	-	9,741,333
Improvements other than buildings	20,782,946	406,049	-	21,188,995
Equipment	7,298,844	1,255,250	(172,282)	8,381,812
Total capital assets, being depreciated	<u>37,823,123</u>	<u>1,661,299</u>	<u>(172,282)</u>	<u>39,312,140</u>
Less accumulated depreciation:				
Buildings	(5,204,378)	(311,193)	-	(5,515,571)
Improvements other than buildings	(10,870,632)	(895,493)	-	(11,766,125)
Equipment	(5,803,785)	(581,330)	172,282	(6,212,833)
Total accumulated depreciation	<u>(21,878,795)</u>	<u>(1,788,016)</u>	<u>172,282</u>	<u>(23,494,529)</u>
Total capital assets being depreciated, net	<u>15,944,328</u>	<u>(126,717)</u>	<u>-</u>	<u>15,817,611</u>
Governmental activities capital assets, net	<u>\$ 23,527,984</u>	<u>\$ (126,717)</u>	<u>\$ -</u>	<u>\$ 23,401,267</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(5) Capital assets (continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,126,948	\$ -	\$ -	\$ 1,126,948
Total capital assets, not being depreciated	1,126,948	-	-	1,126,948
Capital assets, being depreciated:				
Buildings and improvements	7,061,164	1,949,277	-	9,010,441
Improvements other than buildings	13,701,771	889,529	-	14,591,300
Equipment	57,285,731	7,901,291	(1,317,988)	63,869,034
Total capital assets, being depreciated	78,048,666	10,740,097	(1,317,988)	87,470,775
Less accumulated depreciation:				
Buildings and improvements	(5,436,265)	(280,948)	-	(5,717,213)
Improvements other than buildings	(4,625,644)	(318,537)	-	(4,944,181)
Equipment	(32,111,890)	(2,679,000)	851,326	(33,939,564)
Total accumulated depreciation	(42,173,799)	(3,278,485)	851,326	(44,600,958)
Total capital assets being depreciated, net	35,874,867	7,461,612	(466,662)	42,869,817
Business-type capital assets, net	\$ 37,001,815	\$ 7,461,612	\$ (466,662)	\$ 43,996,765

Depreciation expense was charged to the governmental functions as follows:

Governmental activities:	
Administration	\$ 132,246
Police	326,085
Fire	55,311
Streets	829,928
Parks	412,801
Health	1,159
Engineering	17,245
Emergency management	2,245
Tourism	10,996
Total depreciation expense - governmental activities	\$ 1,788,016

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(5) Capital assets (continued)

Business-type activities		
Electric	\$	331,901
Water and sewer		1,658,401
Golf		162,277
Landfill		613,773
EMS		200,026
Drainage utilities		<u>312,107</u>
Total depreciation expense - business-type activities	\$	<u><u>3,278,485</u></u>

(6) Interfund receivables, payables and transfers

	<u>Due To</u>	<u>Due From</u>
General fund:		
Electric - in lieu of taxes	\$ -	\$ 73,400
Water - in lieu of taxes	-	63,300
Landfill - in lieu of taxes	-	18,600
EMS	-	66,108
Drainage	259	-
Emergency management		-
Debt service	4,274	26,521
Electric fund:		
General fund - in lieu of taxes	73,400	-
Golf	-	680,676
Water and sewer fund:		
General fund - in lieu of taxes	63,300	-
Golf fund:		
Electric	680,676	-
Landfill	680,676	-
Landfill:		
General fund - in lieu of taxes	18,600	-
Golf	-	680,676
EMS:		
General fund	66,108	-
Drainage fund:		
General fund	-	259
Debt service:		
General fund	26,521	4,274
Capital projects	2,500	-
Capital projects:		
Debt service	<u>-</u>	<u>2,500</u>
Total due to / due from	<u>\$ 1,616,314</u>	<u>\$ 1,616,314</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(6) Interfund receivables, payables and transfers (continued)

The balances of \$680,676 due to the electric fund and the solid waste fund represent amounts that were lent to the golf course to fund 2011-12 renovations to the golf course. The note's terms include a 1% annual interest rate and a twenty year amortization period with a 10/1/2034 maturity date.

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and payments between funds are made.

	Transfers In	Transfers Out
General fund:		
Electric	\$ 863,800	\$ -
Water and sewer	737,000	-
Landfill	228,900	-
EMS	-	774,493
Emergency management	-	-
Golf	-	133,334
 Electric fund:		
General fund	-	863,800
 Water and sewer fund:		
General fund	-	737,000
 Landfill:		
General fund	-	228,900
 EMS:		
General fund	774,493	-
 Golf:		
General fund	133,334	-
Total transfers	\$ 2,737,527	\$ 2,737,527

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as the debt service payments become due, (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(6) Interfund receivables, payables and transfers (continued)

In the year ended September 30, 2020, the City made payments from various funds to the general fund in lieu of taxes. GASB 34 requires that these payments be treated as transfers. Transfers were made from the following funds:

Electric	\$ 863,800
Water and sewer	737,000
Landfill	<u>228,900</u>
 Total	 <u>\$ 1,829,700</u>

(7) Capital leases – direct borrowing

The government has acquired certain capital assets for governmental and business-type activities through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2020 were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2021	\$ 332,032	\$ 1,112,845
2022	187,720	813,609
2023	109,347	463,328
2024	109,347	-
2025	109,347	-
Thereafter	<u>218,694</u>	<u>-</u>
 Total minimum lease payments	 1,066,487	 2,389,782
Less: amount representing interest	<u>71,830</u>	<u>100,366</u>
 Present value of minimum lease payments	 <u>\$ 994,657</u>	 <u>\$ 2,289,416</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(8) Long-term liabilities

The long-term liability activity for the year ended September 30, 2020, was as follows:

	Outstanding October 1, 2019	Increases	Decreases	Balance September 30, 2020	Amounts Due in One Year
Governmental activities:					
General obligation bonds	\$ 2,280,000	\$ -	\$ (145,000)	\$ 2,135,000	\$ 150,000
Unlimited tax notes	4,800,000	-	(480,000)	4,320,000	490,000
Add: unamortized premiums	<u>102,343</u>	<u>-</u>	<u>(7,873)</u>	<u>94,470</u>	<u>7,873</u>
Total bonds payable	<u>7,182,343</u>	<u>-</u>	<u>(632,873)</u>	<u>6,549,470</u>	<u>647,873</u>
Capitalized leases	420,067	1,042,096	(467,506)	994,657	279,788
Compensated absences	<u>865,784</u>	<u>264,149</u>	<u>(216,446)</u>	<u>913,487</u>	<u>228,372</u>
Total governmental activities	<u>8,468,194</u>	<u>1,306,245</u>	<u>(1,316,825)</u>	<u>8,457,614</u>	<u>1,156,033</u>
Business-type activities:					
Revenue bonds and notes:					
Revenue bonds	21,995,000	5,120,000	(5,825,000)	21,290,000	850,000
Revenue tax notes	-	2,300,000	(280,000)	2,020,000	265,000
Less: unamortized premium	<u>825,702</u>	<u>-</u>	<u>657</u>	<u>826,359</u>	<u>45,909</u>
Total revenue bonds and notes	<u>22,820,702</u>	<u>7,420,000</u>	<u>(6,104,343)</u>	<u>24,136,359</u>	<u>1,160,909</u>
Capitalized leases	2,388,378	1,034,542	(1,133,504)	2,289,416	1,058,935
Compensated absences	<u>578,882</u>	<u>259,076</u>	<u>(144,721)</u>	<u>693,237</u>	<u>173,309</u>
Total business-type activities	<u>25,787,962</u>	<u>8,713,618</u>	<u>(7,382,568)</u>	<u>27,119,012</u>	<u>2,393,153</u>
Total long-term liabilities	<u>\$ 34,256,156</u>	<u>\$ 10,019,863</u>	<u>\$ (8,699,393)</u>	<u>\$ 35,576,626</u>	<u>\$ 3,549,186</u>

During the year, the City issued Utility System Revenue Refunding Bonds, Series 2020 in the amount of \$5,120,000 to refund Utility System Revenue Bonds, Series 2013, in the amount of \$5,040,000, by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the escrow cash account for the defeased bonds are not included in the City's financial statements. As a result of the refunding, the City reduced its total debt service requirements by \$396,865 which resulted in an economic gain of \$344,028. Bonds outstanding that are considered defeased as a result of the current year refunding total \$-0-.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(8) Long-term liabilities (continued):

Governmental activities long-term liabilities at September 30, 2020, consisted of the following:

Series	Governmental Activities		
	Original Issue	Interest Rate	Debt Outstanding
2010 general obligation refunding bonds	\$ 3,604,164	1.00 to 3.00%	\$ -
2012 general obligation bonds - privately placed	3,200,000	2.88%	2,135,000
2016 limited tax notes - privately placed	1,530,000	1.39%	1,035,000
2017 tax and limited pledge rev CO's	<u>3,530,000</u>	3.00%	<u>3,285,000</u>
Totals	<u>\$ 11,864,164</u>		<u>\$ 6,455,000</u>

Compensated absences are generally liquidated by the general fund. The funds utilized for the repayment of long-term liabilities for governmental activities are the debt service fund and the general fund.

Business-type activities long-term liabilities at September 30, 2020, consisted of the following:

Series	Business-Type Activities		
	Original Issue	Interest Rate	Debt Outstanding
2010 general obligation refunding bonds	\$ 2,465,836	1.00 to 3.00%	\$ -
2013 revenue bonds - privately placed	6,500,000	3.097%	-
2018 revenue bonds	17,305,000	2.07-3.87%	16,170,000
2020 revenue refunding bonds - privately placed	5,120,000	1.850%	5,120,000
2020 revenue notes - privately placed	<u>2,300,000</u>	1.775%	<u>2,020,000</u>
Totals	<u>\$ 35,175,836</u>		<u>\$ 23,310,000</u>

The annual debt service requirements to be paid on governmental activities long-term debt outstanding at September 30, 2020, are as follows:

Fiscal Year	Governmental Activities								
	Bonds Payable			Privately Placed Debt			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 150,000	\$ 100,975	\$ 250,975	\$ 490,000	\$ 71,864	\$ 561,864	\$ 640,000	\$ 172,839	\$ 812,839
2022	155,000	96,400	251,400	500,000	62,852	562,852	655,000	159,252	814,252
2023	160,000	91,675	251,675	510,000	53,105	563,105	670,000	144,780	814,780
2024	165,000	86,800	251,800	165,000	45,674	210,674	330,000	132,474	462,474
2025	170,000	81,775	251,775	170,000	40,855	210,855	340,000	122,630	462,630
2026-2030	925,000	328,245	1,253,245	925,000	126,951	1,051,951	1,850,000	455,196	2,305,196
2031-2035	1,075,000	176,620	1,251,620	410,000	11,940	421,940	1,485,000	188,560	1,673,560
2036-2037	<u>485,000</u>	<u>17,061</u>	<u>502,061</u>	-	-	-	<u>485,000</u>	<u>17,061</u>	<u>502,061</u>
Totals	<u>\$ 3,285,000</u>	<u>\$ 979,551</u>	<u>\$ 4,264,551</u>	<u>\$ 3,170,000</u>	<u>\$ 413,241</u>	<u>\$ 3,583,241</u>	<u>\$ 6,455,000</u>	<u>\$ 1,392,792</u>	<u>\$ 7,847,792</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(8) Long-term liabilities (continued):

The annual debt service requirements to be paid on business-type activities long-term debt outstanding at September 30, 2020, are as follows:

Fiscal Year	Business-Type Activities								
	Bonds Payable			Privately Placed Debt			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 500,000	\$ 679,450	\$ 1,179,450	\$ 615,000	\$ 127,338	\$ 742,338	\$ 1,115,000	\$ 806,788	\$ 1,921,788
2022	525,000	653,825	1,178,825	630,000	116,066	746,066	1,155,000	769,891	1,924,891
2023	550,000	631,075	1,181,075	725,000	104,568	829,568	1,275,000	735,643	2,010,643
2024	570,000	611,475	1,181,475	740,000	91,379	831,379	1,310,000	702,854	2,012,854
2025	600,000	586,500	1,186,500	750,000	77,920	827,920	1,350,000	664,420	2,014,420
2026-2030	3,450,000	2,443,750	5,893,750	2,390,000	220,605	2,610,605	5,840,000	2,664,355	8,504,355
2031-2035	5,300,000	1,538,200	6,838,200	1,290,000	36,168	1,326,168	6,590,000	1,574,368	8,164,368
2036-2038	4,675,000	285,300	4,960,300	-	-	-	4,675,000	285,300	4,960,300
Totals	<u>\$ 16,170,000</u>	<u>\$ 7,429,575</u>	<u>\$ 23,599,575</u>	<u>\$ 7,140,000</u>	<u>\$ 774,044</u>	<u>\$ 7,914,044</u>	<u>\$ 23,310,000</u>	<u>\$ 8,203,619</u>	<u>\$ 31,513,619</u>

(9) Defined benefit pension plan

Plan description

The City 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 that can be obtained at www.tmrs.com.

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

Benefits provided

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

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

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(9) Defined benefit pension plan (continued)

Benefits provided (continued)

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Members are eligible to retire at age sixty (60) and above with five (5) or more years of service or with twenty (20) years of service regardless of age. A member is vested after five (5) years. The contribution rate for the employees is 6%, and the City matching percent is currently 2 to 1.

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	101
Inactive employees entitled to but not yet receiving benefits	68
Active employees	<u>167</u>
Total	<u>336</u>

Contributions

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

Employees for the City were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.22% and 11.68% for calendar years 2020 and 2019 respectively. The City's contributions to TMRS for the year ended September 30, 2020 and 2019 were \$1,589,343 and \$1,146,021 and were equal to the required contributions in 2020 and 2019, respectively.

Net pension liability

The City's net pension liability (NPL) was measured as of December 31, 2019, and the total pension liability (TPL) used to calculate the net pension liability 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, adjusted down for population declines, if any
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(9) Defined benefit pension plan (continued)

Net pension liability (continued)

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 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 through 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 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) 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 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
Total	100.00%	

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(9) Defined benefit pension plan (continued)

Net pension liability (continued)

Discount rate

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

Changes in the net pension liability

The schedule below presents the changes in the net pension liability (asset) as of December 31, 2019:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at December 31, 2018	\$ 46,831,870	\$ 38,744,543	\$ 8,087,327
Changes for the year:			
Service cost	1,495,978	-	1,495,978
Interest	3,451,697	-	3,451,697
Changes in current period benefits	4,413,316	-	4,413,316
Difference between expected and actual experience	517,459	-	517,459
Changes of assumptions	(63,087)	-	(63,087)
Contributions - employer	-	1,216,750	(1,216,750)
Contributions - employee	-	520,884	(520,884)
Net investment income	-	5,990,998	(5,990,998)
Benefit payments, including refunds of employee contributions	(1,713,855)	(1,713,855)	-
Administrative expense	-	(33,845)	33,845
Other changes	-	(1,019)	1,019
Net changes	<u>8,101,508</u>	<u>5,979,913</u>	<u>2,121,595</u>
Balance at December 31, 2019	<u>\$ 54,933,378</u>	<u>\$ 44,724,456</u>	<u>\$ 10,208,922</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(9) Defined benefit pension plan (continued)

Net pension liability (continued)

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ <u>17,549,171</u>	\$ <u>10,208,922</u>	\$ <u>4,119,213</u>

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the year ended September 30, 2020, the City recognized pension expense of \$6,443,889.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 533,078	\$ 86,341
Changes in actuarial assumptions	13,707	49,916
Difference between projected and actual investment earnings	-	1,355,203
Contributions subsequent to the measurement date	<u>1,251,322</u>	<u>-</u>
Total	<u>\$ 1,798,107</u>	<u>\$ 1,491,460</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(9) Defined benefit pension plan (continued)

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

The City reported \$1,251,322 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date which 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:

<u>Year Ended</u>		
2021	\$	(267,787)
2022		(260,898)
2023		186,463
2024		(602,453)
2025		-
Thereafter		-
Total	<u>\$</u>	<u>(944,675)</u>

(10) Texas Emergency Services Retirement System

Background and reporting entity

The Texas Emergency Services Retirement System (TESRS) is an agency of the State of Texas and its financial records comply with state statutes and regulations. The nine member Board of Trustees, appointed by the Governor, establishes policy for the administration of the Texas Emergency Services Retirement System.

The TESRS was created as a standalone agency by the 83rd Legislature via the passage of HB 220, effective September 1, 2013, to assume the functions of the abolished Office of the Fire Fighter’s Pension Commissioner. While the agency is new, the system has been in existence since 1977. TESRS, which is under the authority of Title 8 Subtitle H, Chapters 861-865 of the Texas Government Code, provides death and disability benefits to active volunteer fire fighters and first responders, and a pension to members with vested services, as well as their survivor/beneficiaries. For financial reporting purposes, the State of Texas is considered the primary reporting government. TESRS’ financial statements are included in the State’s Comprehensive Annual Financial Report. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, which can be obtained at www.tesrs.org. The separately issued actuarial valuation which may be of interest are also available at the same link.

Information that is available in the annual financial report is not repeated in the allocation schedules and related notes.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(10) Texas Emergency Services Retirement System (continued)

Background and reporting entity (continued)

The preparation of the schedules of participating department allocations and collective pension amounts in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reported amounts during the reporting period. Actual results could differ from those estimates.

Schedule of participating department allocations

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate.

Participating department contributions for the fiscal year ended August 31, 2020 were used for purposes of preparing the allocation schedule. Adjustments were made in the following circumstances, with the treatment detailed below:

- For newly participating departments, lump sum contributions were eliminated and contributions were annualized;
- MTES contributions for legacy departments were eliminated;
- Prior service buybacks were eliminated
- Interest on contributions and administrative penalties were eliminated
- 13th checks, which are passed directly through to the participants, were eliminated.

TESRS has prepared the schedule of collective pension amounts. The collective pension expense based on TESRS' fiscal year ended August 31, 2020 is shown in the following table:

Service cost	\$ 10,915
Interest	64,346
Projected earnings on pension plan investments	(51,463)
Amortization of differences between projected and actual earnings on plan investments	695
Amorization of changes of assumptions	(156)
Amortizations of differences between expected and actual experience	(2,798)
Pension plan administrative expense	17,485
Changes in benefit provisions	-
Total pension expense	<u>\$ 39,024</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(10) Texas Emergency Services Retirement System (continued)

Schedule of participating department allocations (continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ -	\$ 7,024
Changes in actuarial assumptions	-	241
Difference between projected and actual investment earnings	800	-
Contributions subsequent to the measurement date	17,420	-
Total	\$ 18,220	\$ 7,265

Amounts reported a deferred outflows of resources related to pensions will be recognized in pension expense in future years as follows:

Fiscal Year Ended August 31,		
2021	\$	(6,275)
2022		(1,289)
2023		5,071
2024		(3,972)
Total	\$	(6,465)

Each participating department will need to calculate two additional types of deferred outflows of resources and deferred inflows of resources, which are participating department specific amounts. These amounts relate to differences between actual contributions made by a participating department and their proportionate share of total contributions calculated based on the allocation percentage.

The participating department's proportionate share of the collective pension expense for its fiscal year ended between September 1, 2020 and August 31, 2021 is equal to the collective pension expense multiplied by the participating department's allocation percentage for TESRS's fiscal year ended August 31, 2020 as shown in the schedule of participating department allocations. The City's allocation percentage is 0.585%. The proportionate share of the City's net pension liability at September 30, 2020 was \$147,484. Contributions at fiscal year September 30, 2020 were \$35,130.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(11) Other postemployment benefit plan

Plan description

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

Benefit payments

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

Contributions

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

The City contribution rate is equal to the cost of providing one-year term life insurance. The contribution rate for the City was 0.23% for calendar years 2020 and 2019. The City's contributions to TMRS were \$24,400 and \$23,429 for the fiscal year ended September 30, 2020 and 2019, respectively, and were equal to the required contributions.

Employees covered by benefit terms

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	75
Inactive employees entitled to but not yet receiving benefits	38
Active employees	<u>167</u>
Total	<u><u>280</u></u>

CITY OF FREDERICKSBURG, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(11) Other postemployment benefit plan (continued)

OPEB liability

The City's OPEB liability of \$654,558 was measured as of December 31, 2019, and was determined by an actuary valuation as of that date.

Actuary assumptions

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

Inflation	2.50%
Salary increases	3.50% to 11.5% including inflation
Discount rate *	2.75%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(11) Other postemployment benefit plan (continued)

OPEB liability (continued)

Changes in the OPEB liability:

Balance at December 31, 2018	\$ 526,467
Changes for the year:	
Service cost	17,710
Interest on the OPEB liability	19,783
Changes of benefit terms	-
Difference between expected and actual experience	(12,748)
Change of assumptions	107,513
Benefit payments	<u>(4,167)</u>
Net changes	<u>128,091</u>
Balance at December 31, 2019	<u><u>\$ 654,558</u></u>

Sensitivity of the OPEB liability to changes in the discount rate:

The following presents the OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

<u>1% Decrease in</u> <u>Discount Rate (1.75%)</u>	<u>Discount Rate (2.75%)</u>	<u>1% Increase in</u> <u>Discount Rate (3.75%)</u>
<u>\$ 794,842</u>	<u>\$ 654,558</u>	<u>\$ 545,784</u>

OPEB expenses, deferred outflows of resources and deferred inflows of resources related to OPEB

For the year ended September 30, 2020, the City recognized OPEB expense of \$52,075.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

(12) 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 in the Texas Municipal League's General Liability Fund. In addition, the City participates in the Texas Municipal League's Workers' Compensation Fund to insure the City for workers' compensation claims. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts in the past three fiscal years.

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 (IBNR). 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. The liability for claims and judgements is only reported in the government-wide financial statements because it is not expected to be liquidated with expendable available financial resources. However, none are reported at September 30, 2020.

(13) Contingent liabilities

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

(14) Closure and post-closure care costs

State and federal laws and regulations require that the City of Fredericksburg place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability must be recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill capacity used to date. Estimated liability for landfill closure and post-closure care costs has a balance of \$3,317,432 at September 30, 2020, which is based on 84.84% usage of current open cells and 46.66% usage of the entire landfill. The landfill is expected to be filled to capacity in 2043. The estimated total current cost of the landfill closure and post-closure care is based on a third party completing the actual work. The amount includes costs for equipment, facilities, and services required to close, monitor, and maintain the landfill as if purchased at September 30, 2020. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

(15) Prior period adjustment

During 2020 it was noted interest income was incorrectly reported in the prior year. This restatement decreased the beginning net position in the governmental activities and the business-type activities by \$117,147 and \$175,721 respectively, decreased the beginning fund balance of the general fund by \$117,147, and decreased the beginning net position in the electric fund and the water fund by \$58,574 and \$117,147 respectively.

(16) Subsequent events

The City has evaluated subsequent events through April 19, 2021, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by GASB but are not considered a part of the basic financial statements.



CITY OF FREDERICKSBURG, TEXAS

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

For the year ended September 30, 2020

	Budget Amounts		GAAP Basis Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
General property taxes	\$ 4,131,071	\$ 4,157,869	\$ 4,122,016	\$ (35,853)
General sales and use taxes	6,259,500	5,234,900	6,344,922	1,110,022
Hotel occupancy tax	3,600,000	2,900,000	3,378,715	478,715
Other taxes	411,100	415,600	410,154	(5,446)
Franchise fees	332,333	332,333	336,488	4,155
License and permits	271,600	237,200	232,164	(5,036)
Fines	79,200	79,200	97,731	18,531
Pavilion and camping fees	564,000	365,500	450,377	84,877
Rentals	102,500	78,100	107,611	29,511
Intergovernmental revenue	794,925	794,925	678,014	(116,911)
Grants	85,021	85,021	722,584	637,563
Investment earnings	118,900	118,900	39,080	(79,820)
Other revenues	786,888	1,284,935	1,324,609	39,674
Total revenues	17,537,038	16,084,483	18,244,465	2,159,982
Expenditures:				
Municipal court	189,938	184,738	172,712	12,026
Engineering	262,236	253,012	219,232	33,780
Administration	1,494,007	1,428,510	1,527,773	(99,263)
Tourism	3,475,410	2,928,837	2,812,742	116,095
Police	5,207,422	4,923,525	4,711,516	212,009
Fire	1,442,911	1,374,911	1,251,287	123,624
Emergency management	206,438	206,438	166,360	40,078
Streets	1,845,675	1,353,385	1,357,427	(4,042)
Parks	2,005,423	1,874,802	1,839,639	35,163
Health	227,819	226,269	219,175	7,094
Food and wine festival	169,400	169,400	141,246	28,154
Development services	804,885	970,885	895,963	74,922
Debt service:				
Principal	463,567	463,567	467,506	(3,939)
Interest and fiscal charges	10,497	10,497	7,824	2,673
Capital outlays	1,249,422	693,713	1,661,299	(967,586)
Total expenditures	19,055,050	17,062,489	17,451,701	(389,212)

CITY OF FREDERICKSBURG, TEXAS

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

For the year ended September 30, 2020

	Budget Amounts		GAAP Basis	Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Excess (deficiency) of revenues over (under) expenditures	\$ (1,518,012)	\$ (978,006)	\$ 792,764	\$ 1,770,770
Other financing sources (uses):				
Sale of real and personal property	92,000	92,000	20,460	(71,540)
Transfers in	1,811,693	1,811,693	1,829,700	18,007
Transfers out	(973,935)	(973,935)	(907,827)	66,108
Proceeds from capital leases	<u>-</u>	<u>-</u>	<u>1,042,096</u>	<u>1,042,096</u>
Total other financing sources (uses)	<u>929,758</u>	<u>929,758</u>	<u>1,984,429</u>	<u>1,054,671</u>
Net change in fund balance	<u>(588,254)</u>	<u>(48,248)</u>	<u>2,777,193</u>	<u>2,825,441</u>
Fund balance - beginning of year	<u>8,099,409</u>	<u>8,099,409</u>	<u>8,099,409</u>	<u>-</u>
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(117,147)</u>	<u>(117,147)</u>
Fund balance - beginning as restated	<u>8,099,409</u>	<u>8,099,409</u>	<u>7,982,262</u>	<u>(117,147)</u>
Fund balance - end of year	<u><u>\$ 7,511,155</u></u>	<u><u>\$ 8,051,161</u></u>	<u><u>\$ 10,759,455</u></u>	<u><u>\$ 2,708,294</u></u>

CITY OF FREDERICKSBURG, TEXAS

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

For the measurement year ended December 31,

	Measurement Year			
	2019	2018	2017	2016
Total Pension Liability				
Service cost	\$ 1,495,978	\$ 1,190,542	\$ 1,074,769	\$ 1,004,489
Interest (on the total pension liability)	3,451,697	2,981,765	2,674,435	2,528,093
Changes of benefit terms	4,413,316	1,917,387	-	-
Difference between expected and actual experience	517,459	(104,329)	301,986	(47,068)
Change of assumptions	(63,087)	-	-	-
Benefit payments, including refunds of employee contributions	<u>(1,713,855)</u>	<u>(1,630,273)</u>	<u>(1,316,569)</u>	<u>(1,388,695)</u>
Net change in total pension liability	8,101,508	4,355,092	2,734,621	2,096,819
Total pension liability - beginning	<u>46,831,870</u>	<u>42,476,778</u>	<u>39,742,157</u>	<u>37,645,338</u>
Total pension liability - ending (a)	<u>\$ 54,933,378</u>	<u>\$ 46,831,870</u>	<u>\$ 42,476,778</u>	<u>\$ 39,742,157</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 1,216,750	\$ 961,243	\$ 931,010	\$ 843,151
Contributions - employee	520,884	500,649	488,976	455,757
Net investment income	5,990,998	(1,202,616)	4,877,963	2,235,297
Benefit payments, including refunds of employee contributions	(1,713,855)	(1,630,273)	(1,316,569)	(1,388,695)
Administrative expense	(33,845)	(23,238)	(25,272)	(25,238)
Other	<u>(1,019)</u>	<u>(1,214)</u>	<u>(1,282)</u>	<u>(1,360)</u>
Net change in plan fiduciary net position	5,979,913	(1,395,449)	4,954,826	2,118,912
Plan fiduciary net position - beginning	<u>38,744,543</u>	<u>40,139,992</u>	<u>35,185,166</u>	<u>33,066,254</u>
Plan fiduciary net position - ending (b)	<u>\$ 44,724,456</u>	<u>\$ 38,744,543</u>	<u>\$ 40,139,992</u>	<u>\$ 35,185,166</u>
Net pension liability (a) - (b)	<u>\$ 10,208,922</u>	<u>\$ 8,087,327</u>	<u>\$ 2,336,786</u>	<u>\$ 4,556,991</u>
Plan fiduciary net position as a percentage of total pension liability	81.42%	82.73%	94.50%	88.53%
Covered payroll	<u>\$ 10,417,674</u>	<u>\$ 10,012,971</u>	<u>\$ 9,779,519</u>	<u>\$ 9,115,142</u>
Net pension liability as a percentage of total covered payroll	98.00%	80.77%	23.89%	49.99%

*GASB 68 requires 10 fiscal years of data to be provided in this schedule. The City will develop the schedule prospectively.

CITY OF FREDERICKSBURG, TEXAS

**TMRS NET PENSION LIABILITY
SCHEDULE OF CONTRIBUTIONS***

For the year ended September 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contributions	\$ 1,589,343	\$ 1,146,021	\$ 958,161	\$ 914,856
Contributions in relation to the actuarially determined contributions	<u>1,589,343</u>	<u>1,146,021</u>	<u>958,161</u>	<u>914,856</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 10,608,762</u>	<u>\$ 10,307,595</u>	<u>\$ 10,003,972</u>	<u>\$ 9,685,874</u>
Contributions as a percentage of covered payroll	14.98%	11.12%	9.58%	9.45%

*GASB 68 requires 10 fiscal years of data to be provided in this schedule. The City will develop the schedule prospectively.

CITY OF FREDERICKSBURG, TEXAS

**SCHEDULE OF CHANGES IN TESRS NET PENSION
LIABILITY AND RELATED RATIOS***

For the measurement year ended August 31,

	Measurement Year			
	2019	2018	2017	2016
Total Pension Liability				
City's proportion of the net pension liability	0.585%	0.640%	0.731%	0.716%
City's proportionate share of net pension liability	<u>\$ 147,484</u>	<u>\$ 181,412</u>	<u>\$ 158,265</u>	<u>\$ 171,852</u>
Plan fiduciary net position as a percentage of the total pension liability	83.20%	80.20%	84.26%	81.40%

*GASB 68 requires 10 fiscal years of data to be provided in this schedule. The City will develop the schedule prospectively.

CITY OF FREDERICKSBURG, TEXAS

**TESRS NET PENSION LIABILITY
SCHEDULE OF CONTRIBUTIONS***

For the year ended September 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contributions	\$ 35,130	\$ 37,374	\$ 55,956
Contributions in relation to the actuarially determined contributions	<u>35,130</u>	<u>37,374</u>	<u>55,956</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*GASB 68 requires 10 fiscal years of data to be provided in this schedule. The City will develop the schedule prospectively.

CITY OF FREDERICKSBURG, TEXAS

**SCHEDULE OF CHANGES IN OTHER POSTEMPLOYMENT
BENEFIT PLAN LIABILITY AND RELATED RATIOS***

For the measurement year ended December 31,

	Measurement Year		
	2019	2018	2017
OPEB liability			
Service cost	\$ 17,710	\$ 22,029	\$ 18,581
Interest (on the OPEB liability)	19,783	18,323	17,987
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(12,748)	(14,581)	-
Change of assumptions	107,513	(39,852)	43,885
Benefit payments **	<u>(4,167)</u>	<u>(4,006)</u>	<u>(4,890)</u>
Net change in OPEB liability	128,091	(18,087)	75,563
OPEB liability - beginning	<u>526,466</u>	<u>544,553</u>	<u>468,990</u>
OPEB liability - ending	<u>\$ 654,557</u>	<u>\$ 526,466</u>	<u>\$ 544,553</u>
Covered payroll	<u>\$ 10,417,674</u>	<u>\$ 10,012,971</u>	<u>\$ 9,779,519</u>
OPEB liability as a percentage of total covered payroll	6.28%	5.26%	5.57%

*GASB 75 requires 10 fiscal years of data to be provided in this schedule. This is the third year of implementation of GASB 75. The City will develop the schedule prospectively.

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

CITY OF FREDERICKSBURG, TEXAS

**OTHER POSTEMPLOYMENT BENEFIT PLAN LIABILITY
SCHEDULE OF CONTRIBUTIONS***

For the year ended September 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contributions	\$ 24,400	\$ 23,429	\$ 22,286
Contributions in relation to the actuarially determined contributions	<u>24,400</u>	<u>23,429</u>	<u>22,286</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 10,608,762</u>	<u>\$ 10,307,595</u>	<u>\$ 10,003,972</u>
Contributions as a percentage of covered payroll	0.23%	0.23%	0.22%

*GASB 75 requires 10 fiscal years of data to be provided in this schedule. This is the third year of implementation of GASB 75. The City will develop the schedule prospectively.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2020

(1) Budget information

The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council and as such is a good management control device.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level. The City Manager may transfer budgeted amounts within departments within any fund; however, transfers between departments and funds must be approved by City Council.

(2) Schedule of contributions – net pension liability

Valuation date:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years
Asset valuation method	10 year smoothed market, 12% soft corridor
Inflation	2.50%
Salary increases	3.5% 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:

Increased employee contributions rate from 5% to 6%.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2020

(3) Schedule of contributions – other postemployment benefit liability

Valuation date:

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

Methods and assumptions used to determine Contribution rates:

Inflation	2.50%
Salary increases	3.5% to 11.50% including inflation
Discount rate *	2.75%
Retiree' share of benefit related costs	\$-0-
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

Other information:

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.