

CITY OF FREDERICKSBURG, TEXAS

ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2022

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CITY OF FREDERICKSBURG, TEXAS

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, as of September 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

ABIP, PC

San Antonio, Texas
April 18, 2023



CITY OF FREDERICKSBURG, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the year ended September 30, 2022

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, 2022. 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, 2022 by \$65,341,981 (net position). Of this amount, \$8,732,203 (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 increased by \$9,143,192.
- ❖ As of the close of the current fiscal year, the City of Fredericksburg's governmental funds reported combined fund balances of \$19,386,146 of which \$13,729,376 was unassigned and is available for spending at the City's discretion.
- ❖ As of September 30, 2022, unassigned fund balance for the general fund was \$13,729,376 or 59% of the current year's total general fund expenditures of \$23,084,495. 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 \$7,958,252.

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 14-17 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 18 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 22-27 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 35-65 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 69-78 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 \$65,341,981 as of September 30, 2022, compared to \$56,330,950 as of September 30, 2021.

NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Assets:						
Current and other assets	\$ 22,272,721	\$ 18,301,496	\$ 24,156,047	\$ 24,095,136	\$ 46,428,768	\$ 42,396,632
Capital assets	24,281,008	22,599,086	53,248,488	50,136,351	77,529,496	72,735,437
Total assets	46,553,729	40,900,582	77,404,535	74,231,487	123,958,264	115,132,069
Deferred outflows of resources	1,856,985	1,445,163	1,343,172	1,162,920	3,200,157	2,608,083
Liabilities:						
Current liabilities	3,978,569	3,651,475	7,814,426	6,449,907	11,792,995	10,101,382
Net pension liability	7,406,372	8,606,088	5,549,146	6,982,766	12,955,518	15,588,854
OPEB liability	480,720	435,900	371,556	356,086	852,276	791,986
Noncurrent liabilities	6,699,139	6,366,076	26,198,050	27,111,627	32,897,189	33,477,703
Total liabilities	18,564,800	19,059,539	39,933,178	40,900,386	58,497,978	59,959,925
Deferred inflows of resources	1,872,249	825,786	1,446,213	623,491	3,318,462	1,449,277
Net position:						
Net investment in capital assets	17,217,681	16,014,677	29,302,911	29,429,805	46,520,592	45,444,482
Restricted for long-term debt	106,606	201,049	3,863,520	5,944,320	3,970,126	6,145,369
Restricted for capital projects	-	-	571,396	317,082	571,396	317,082
Restricted for other	5,547,664	1,635,616	-	-	5,547,664	1,635,616
Unrestricted	5,101,714	4,609,078	3,630,489	(1,820,677)	8,732,203	2,788,401
Total net position	\$ 27,973,665	\$ 22,460,420	\$ 37,368,316	\$ 33,870,530	\$ 65,341,981	\$ 56,330,950

By far, the largest portion of the City's net position (71%) 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 \$8,732,203 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, 2022. Governmental activities increased the City's net position by \$5,623,674. Business-type activities increased the City's net position by \$3,519,518.

STATEMENT OF ACTIVITIES

	Governmental Activities		Business-Type Activities		Totals	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program revenues:						
Charges for services	\$ 2,721,927	\$ 2,486,189	\$ 30,585,723	\$ 27,684,491	\$ 33,307,650	\$ 30,170,680
Operating grants and contributions	1,868,805	441,352	-	-	1,868,805	441,352
General revenues:						
Property taxes	5,070,285	5,003,918	-	-	5,070,285	5,003,918
Sales taxes	8,680,999	7,962,705	-	-	8,680,999	7,962,705
Hotel occupancy taxes	5,805,870	5,468,043	-	-	5,805,870	5,468,043
Other taxes	940,952	867,358	-	-	940,952	867,358
Miscellaneous	380,844	151,236	-	-	380,844	151,236
Investment earnings	99,053	19,106	86,204	35,455	185,257	54,561
Total revenues	25,568,735	22,399,907	30,671,927	27,719,946	56,240,662	50,119,853
Expenses:						
Administration	1,970,325	2,221,899	-	-	1,970,325	2,221,899
Police	5,857,868	6,399,284	-	-	5,857,868	6,399,284
Fire	1,532,367	1,624,594	-	-	1,532,367	1,624,594
Streets	2,447,345	2,926,645	-	-	2,447,345	2,926,645
Parks and recreation	2,731,924	2,806,609	-	-	2,731,924	2,806,609
Tourism	4,724,991	3,375,372	-	-	4,724,991	3,375,372
Health	233,742	295,649	-	-	233,742	295,649
Food and wine festival	167,089	52,264	-	-	167,089	52,264
Emergency management	204,847	201,503	-	-	204,847	201,503
Development services	895,219	976,703	-	-	895,219	976,703
Municipal court	283,279	238,596	-	-	283,279	238,596
Engineering	201,447	276,170	-	-	201,447	276,170
Interest	178,490	-	-	-	178,490	-
Electric	-	-	12,329,544	12,282,851	12,329,544	12,282,851
Water and sewer	-	-	6,240,957	7,071,071	6,240,957	7,071,071
Golf	-	-	110,063	280,601	110,063	280,601
Landfill	-	-	3,153,769	3,316,622	3,153,769	3,316,622
EMS	-	-	3,450,338	3,617,695	3,450,338	3,617,695
Drainage utilities	-	-	468,471	776,418	468,471	776,418
Total expenses	21,428,933	21,395,288	25,753,142	27,345,258	47,182,075	48,740,546
Increase (decrease) in net position before transfers	4,139,802	1,004,619	4,918,785	374,688	9,058,587	1,379,307
Gain on retirement of assets	42,900	107,010	41,705	158,522	84,605	265,532
Transfers	1,440,972	1,457,572	(1,440,972)	(1,457,572)	-	-
Change in net position	5,623,674	2,569,201	3,519,518	(924,362)	9,143,192	1,644,839
Net position:						
Net position - beginning	22,460,420	19,891,219	33,870,530	34,794,892	56,330,950	54,686,111
Prior period adjustment	(110,429)	-	(21,732)	-	(132,161)	-
Net position - ending	\$ 27,973,665	\$ 22,460,420	\$ 37,368,316	\$ 33,870,530	\$ 65,341,981	\$ 56,330,950

As a whole, the government's net position increased by \$9,143,192 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 \$19,386,146. Refer to page 18 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 \$19,277,040 of which \$13,729,376 is unassigned. Unassigned fund balance is the amount available for any purpose.

The fund balance of the City's general fund increased by \$3,717,698 during the current fiscal year. The budget estimated a net change in fund balance of \$(820,373), but incurred a positive variance of \$4,538,071.

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 \$3,630,489. Net position of the City's enterprise funds increased by \$3,519,518 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, 2022, amounts to \$77,529,496 (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 machinery and equipment	\$ 25,106
Administration department land, improvements, and machinery	192,702
Police vehicles and equipment	281,383
Fire department pumper	550,000
Street department machinery and equipment	564,390
Tourism projects	149,557
Emergency management equipment	32,136
Park improvements	889,570
Generators	66,554
Drainage department machine and equipment	460,334
Electric system improvements	307,722
Water department machinery / equipment	413,325
Water / wastewater system improvements	4,280,950
Solid waste department machinery / equipment	152,915
EMS department machinery / equipment	14,017
Totals	<u>\$ 8,380,661</u>

Additional information on the City's capital assets can be found on pages 45-47 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total outstanding bonded debt of \$26,200,000. The entire amount of debt is backed in full faith and credit of the City.

The City carries bond ratings from Standard 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 50-52 of this report.

PROPERTY TAXES

General Fund Property Tax Rate

In the budget for fiscal year end September 30, 2022, the adopted property tax rate decreased to \$0.1958 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
2022	0.1958	0.1680	0.0278	\$ 5,040,338	93.87%	99.32%
2021	0.2208	0.1846	0.0362	4,969,206	93.94%	99.24%
2020	0.2273	0.1898	0.0375	4,913,299	93.32%	99.67%
2019	0.2256	0.1880	0.0376	4,422,710	92.29%	99.76%
2018	0.2256	0.1627	0.0629	4,255,938	93.94%	99.86%
2017	0.2400	0.2025	0.0375	3,893,409	92.87%	99.90%
2016	0.2313	0.1761	0.0552	3,545,858	92.65%	99.90%
2015	0.2482	0.1992	0.0490	3,495,943	93.40%	99.92%
2014	0.2600	0.1879	0.0721	3,439,885	92.52%	99.90%
2013	0.2647	0.1940	0.0707	3,420,570	92.03%	99.90%

CITY OF FREDERICKSBURG, TEXAS

BUDGET COMPARISON

For the years ended 2022 and 2021

	Budget Year		Increase (Decrease)	Increase (Decrease)
	2022-2023	2021-2022		
Revenues:				
General fund	\$ 28,340,492	\$ 27,529,354	\$ 811,138	2.95%
Electric	14,477,927	13,094,971	1,382,956	10.56%
Water and sewer	10,608,311	10,064,611	543,700	5.40%
Golf	147,188	141,089	6,099	4.32%
Landfill	3,001,400	3,175,932	(174,532)	-5.50%
EMS	4,727,786	3,966,954	760,832	19.18%
Drainage	649,280	638,000	11,280	1.77%
Emergency management	297,273	252,598	44,675	17.69%
Debt service	785,522	728,822	56,700	7.78%
Internal service fund	<u>2,499,707</u>	<u>2,904,970</u>	<u>(405,263)</u>	<u>-13.95%</u>
Total revenues	<u>65,534,886</u>	<u>62,497,301</u>	<u>3,037,585</u>	<u>4.86%</u>
Expenditures:				
General fund:				
Administrative	11,313,793	8,837,711	2,476,082	28.02%
Police	7,756,065	6,414,193	1,341,872	20.92%
Fire	2,462,341	2,024,963	437,378	21.60%
Street	3,690,290	2,392,762	1,297,528	54.23%
Park	3,220,908	3,308,510	(87,602)	-2.65%
Development services	1,596,311	1,017,765	578,546	56.84%
Health	349,454	260,212	89,242	34.30%
Municipal court	749,148	320,611	428,537	133.66%
Engineering	254,324	259,700	(5,376)	-2.07%
Food and wine festival	<u>282,700</u>	<u>177,198</u>	<u>105,502</u>	<u>59.54%</u>
Total general fund expenditures	<u>31,675,334</u>	<u>25,013,625</u>	<u>6,661,709</u>	<u>26.63%</u>
Electric	14,286,710	13,425,939	860,771	6.41%
Water and sewer	16,923,261	12,654,905	4,268,356	33.73%
Golf	148,004	141,089	6,915	4.90%
Landfill	4,337,170	2,976,925	1,360,245	45.69%
EMS	4,727,786	3,966,954	760,832	19.18%
Drainage	1,008,081	757,384	250,697	33.10%
Emergency management	297,273	252,598	44,675	17.69%
Debt service	814,781	814,251	530	0.07%
Internal service fund	<u>2,496,564</u>	<u>2,218,579</u>	<u>277,985</u>	<u>12.53%</u>
Total expenditures	<u>76,714,964</u>	<u>62,222,249</u>	<u>14,492,715</u>	<u>23.29%</u>
Budgeted revenues in excess (deficiency) of expenditures	<u>\$ (11,180,078)</u>	<u>\$ 275,052</u>	<u>\$ (11,455,130)</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, 2022

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Fredericksburg Convention and Visitor Bureau
Assets:				
Cash and cash equivalents	\$ 18,189,477	\$ 19,477,114	\$ 37,666,591	\$ 2,125,608
Investments - current	500,000	650,000	1,150,000	-
Tax receivables (net of allowances for uncollectibles):	1,457,068	-	1,457,068	-
Internal balances	494,276	(494,276)	-	-
Intergovernmental receivable	1,631,900	55,085	1,686,985	-
Due from others	-	3,088,625	3,088,625	-
Inventories	-	1,379,499	1,379,499	-
Prepaid expenses	-	-	-	181,742
Property and equipment (net of depreciation):				
Land	7,583,156	1,126,948	8,710,104	-
Buildings	4,638,915	3,327,739	7,966,654	-
Improvements	9,198,135	9,199,314	18,397,449	-
Machinery and equipment	2,377,709	39,292,741	41,670,450	35,653
Right to use assets - equipment	483,093	301,746	784,839	-
Total assets	46,553,729	77,404,535	123,958,264	2,343,003
Deferred outflows of resources:				
Deferred outflow related to TMRS pension	1,639,441	1,267,154	2,906,595	-
Deferred outflow related to TESRS pension	119,193	-	119,193	-
Deferred outflow related to TMRS OPEB	98,351	76,018	174,369	-
Total deferred outflows of resources	1,856,985	1,343,172	3,200,157	-
Total assets and deferred outflows of resources	\$ 48,410,714	\$ 78,747,707	\$ 127,158,421	\$ 2,343,003

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

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF NET POSITION

September 30, 2022

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Fredericksburg Convention and Visitor Bureau
Liabilities and net position:				
Liabilities:				
Accounts payable	\$ 1,089,755	\$ 3,293,356	\$ 4,383,111	\$ 75,490
Accrued payroll	103,764	114,523	218,287	16,318
Intergovernmental payable	204,010	293,440	497,450	-
Accrued interest payable	19,030	118,428	137,458	-
Unearned revenues	1,226,965	-	1,226,965	-
Other current liabilities	-	1,464,435	1,464,435	-
Net pension liability - TMRS	7,179,476	5,549,146	12,728,622	-
Net pension liability - TESRS	226,896	-	226,896	-
OPEB liability - TMRS	480,720	371,556	852,276	-
Noncurrent liabilities:				
Due within one year	1,335,045	2,530,244	3,865,289	-
Due in more than one year	<u>6,699,139</u>	<u>26,198,050</u>	<u>32,897,189</u>	<u>-</u>
Total liabilities	<u>18,564,800</u>	<u>39,933,178</u>	<u>58,497,978</u>	<u>91,808</u>
Deferred inflows of resources:				
Deferred inflow related to TMRS pension	1,851,317	1,430,916	3,282,233	-
Deferred inflow related to TESRS	1,141	-	1,141	-
Deferred inflow related to TMRS OPEB	<u>19,791</u>	<u>15,297</u>	<u>35,088</u>	<u>-</u>
Total deferred inflows of resources	<u>1,872,249</u>	<u>1,446,213</u>	<u>3,318,462</u>	<u>-</u>
Net position:				
Net investment in capital assets	17,217,681	29,302,911	46,520,592	-
Restricted for:				
Long-term debt	106,606	3,863,520	3,970,126	-
Capital projects	-	571,396	571,396	-
Tourism	5,532,689	-	5,532,689	-
Court technology	14,975	-	14,975	-
Unrestricted	<u>5,101,714</u>	<u>3,630,489</u>	<u>8,732,203</u>	<u>2,251,195</u>
Total net position	<u>27,973,665</u>	<u>37,368,316</u>	<u>65,341,981</u>	<u>2,251,195</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 48,410,714</u>	<u>\$ 78,747,707</u>	<u>\$ 127,158,421</u>	<u>\$ 2,343,003</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, 2022

Functions / Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
Municipal court	\$ 283,279	\$ 151,086	\$ -
Administration	1,970,325	13,203	1,684,390
Tourism	4,724,991	55,247	36,339
Engineering	201,447	-	-
Police	5,857,868	829,084	35,623
Fire	1,532,367	-	-
Emergency management	204,847	-	9,302
Streets	2,447,345	-	103,151
Parks	2,731,924	1,301,134	-
Health	233,742	37,351	-
Food and wine festival	167,089	-	-
Development services	895,219	334,822	-
Interest and other fees	178,490	-	-
Total government activities	<u>21,428,933</u>	<u>2,721,927</u>	<u>1,868,805</u>
Business-type activities:			
Electric	12,329,544	13,173,934	-
Water	6,240,957	10,454,144	-
Golf	110,063	-	-
Landfill	3,153,769	3,561,565	-
EMS	3,450,338	2,756,961	-
Drainage	468,471	639,119	-
Total business-type activities	<u>25,753,142</u>	<u>30,585,723</u>	<u>-</u>
Total primary government	<u>\$ 47,182,075</u>	<u>\$ 33,307,650</u>	<u>\$ 1,868,805</u>
Component unit:			
Fredericksburg Convention and Visitor Bureau	<u>\$ 3,458,002</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	
\$ (132,193)	\$ -	\$ (132,193)	
(272,732)	-	(272,732)	
(4,633,405)	-	(4,633,405)	
(201,447)	-	(201,447)	
(4,993,161)	-	(4,993,161)	
(1,532,367)	-	(1,532,367)	
(195,545)	-	(195,545)	
(2,344,194)	-	(2,344,194)	
(1,430,790)	-	(1,430,790)	
(196,391)	-	(196,391)	
(167,089)	-	(167,089)	
(560,397)	-	(560,397)	
(178,490)	-	(178,490)	
<u>(16,838,201)</u>	<u>-</u>	<u>(16,838,201)</u>	
-	844,390	844,390	
-	4,213,187	4,213,187	
-	(110,063)	(110,063)	
-	407,796	407,796	
-	(693,377)	(693,377)	
-	170,648	170,648	
<u>-</u>	<u>4,832,581</u>	<u>4,832,581</u>	
<u>(16,838,201)</u>	<u>4,832,581</u>	<u>(12,005,620)</u>	
			<u>\$ (3,458,002)</u>
5,070,285	-	5,070,285	-
8,680,999	-	8,680,999	-
5,805,870	-	5,805,870	-
940,952	-	940,952	-
380,844	-	380,844	4,246,557
99,053	86,204	185,257	-
1,440,972	(1,440,972)	-	-
<u>42,900</u>	<u>41,705</u>	<u>84,605</u>	<u>-</u>
<u>22,461,875</u>	<u>(1,313,063)</u>	<u>20,498,106</u>	<u>4,246,557</u>
5,623,674	3,519,518	9,143,192	788,555
22,460,420	33,870,530	56,330,950	1,462,640
<u>(110,429)</u>	<u>(21,732)</u>	<u>(132,161)</u>	<u>-</u>
<u>22,349,991</u>	<u>33,848,798</u>	<u>56,198,789</u>	<u>1,065,010</u>
<u>\$ 27,973,665</u>	<u>\$ 37,368,316</u>	<u>\$ 65,341,981</u>	<u>\$ 2,251,195</u>

CITY OF FREDERICKSBURG, TEXAS

BALANCE SHEET – GOVERNMENTAL FUNDS

September 30, 2022

	Major Funds	Nonmajor Funds		Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
Assets:				
Cash and cash equivalents	\$ 17,730,731	\$ -	\$ 129,079	\$ 17,859,810
Investments	500,000	-	-	500,000
Taxes receivable (net of allowances for uncollectibles)	1,370,635	-	-	1,370,635
Receivable (net of allowances)	86,433	-	-	86,433
Intergovernmental receivables	1,631,081	-	-	1,631,081
Due from other funds	521,056	2,500	6,548	530,104
Total assets	\$ 21,839,936	\$ 2,500	\$ 135,627	\$ 21,978,063
Liabilities:				
Accounts payable	\$ 904,782	\$ -	\$ -	\$ 904,782
Wages and salaries payable	103,764	-	-	103,764
Compensated absences	10,770	-	-	10,770
Intergovernmental payable	204,010	-	-	204,010
Due to other funds	6,807	-	29,021	35,828
Deferred revenues	1,226,965	-	-	1,226,965
Total liabilities	2,457,098	-	29,021	2,486,119
Deferred inflows of resources:				
Unearned revenue - property taxes	105,798	-	-	105,798
Fund balances:				
Reserved for:				
Debt service	-	-	106,606	106,606
Capital improvements	-	2,500	-	2,500
Court technology	14,975	-	-	14,975
Tourism	5,532,689	-	-	5,532,689
Unassigned	13,729,376	-	-	13,729,376
Total fund balances	19,277,040	2,500	106,606	19,386,146
Total liabilities, deferred inflows of resources and fund balances	\$ 21,839,936	\$ 2,500	\$ 135,627	\$ 21,978,063

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, 2022

TOTAL FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 19,386,146

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. 145,513

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 24,281,008

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 105,798

Accrued vacation leave payable is not due and payable in the current period and, therefore, not reported in the funds. (957,087)

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. (7,066,327)

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. (7,902,356)

Accrued interest payable on general obligation bonds are not due and payable in the current period and, therefore, not reported in the funds. (19,030)

NET POSITION OF GOVERNMENTAL ACTIVITIES -
STATEMENT OF NET POSITION \$ 27,973,665

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, 2022

	<u>Major Funds</u>	<u>Nonmajor Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	
Revenues:				
General property taxes	\$ 4,340,505	\$ -	\$ 719,572	\$ 5,060,077
General sales and use taxes	8,680,999	-	-	8,680,999
Hotel occupancy taxes	5,805,870	-	-	5,805,870
Other taxes	592,609	-	-	592,609
Franchise fees	348,343	-	-	348,343
License and permits	334,822	-	-	334,822
Fines	106,115	-	-	106,115
Pavilion and camping fees	922,516	-	-	922,516
Rentals	289,990	-	-	289,990
Intergovernmental revenue	813,859	-	-	813,859
Grants	1,577,832	-	-	1,577,832
Investment earnings	96,108	-	236	96,344
Other revenues	<u>926,442</u>	<u>-</u>	<u>-</u>	<u>926,442</u>
Total revenues	<u>24,836,010</u>	<u>-</u>	<u>719,808</u>	<u>25,555,818</u>
Expenditures:				
Current:				
Municipal court	288,463	-	-	288,463
Administration	1,799,402	-	-	1,799,402
Tourism	4,703,852	-	-	4,703,852
Police	5,744,400	-	-	5,744,400
Fire	1,546,109	-	-	1,546,109
Emergency management	196,885	-	-	196,885
Streets	1,758,118	-	-	1,758,118
Parks and recreation	2,223,589	-	-	2,223,589
Health	243,469	-	-	243,469
Food and wine festival	167,089	-	-	167,089
Development services	920,930	-	-	920,930
Engineering	202,960	-	-	202,960
Debt service:				
Principal	498,788	-	655,000	1,153,788
Interest	39,042	-	159,251	198,293
Capital outlay	<u>2,751,399</u>	<u>-</u>	<u>-</u>	<u>2,751,399</u>
Total expenditures	<u>23,084,495</u>	<u>-</u>	<u>814,251</u>	<u>23,898,746</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,751,515</u>	<u>-</u>	<u>(94,443)</u>	<u>1,657,072</u>
Other financing sources (uses):				
Sale of real and personal property	48,400	-	-	48,400
Transfers in	2,617,100	-	-	2,617,100
Transfers out	(1,576,128)	-	-	(1,576,128)
Capital leases	<u>876,811</u>	<u>-</u>	<u>-</u>	<u>876,811</u>
Total other financing sources (uses)	<u>1,966,183</u>	<u>-</u>	<u>-</u>	<u>1,966,183</u>
Net change in fund balances	3,717,698	-	(94,443)	3,623,255
Fund balances at beginning of year	<u>15,559,342</u>	<u>2,500</u>	<u>201,049</u>	<u>15,762,891</u>
Fund balances at end of year	<u>\$ 19,277,040</u>	<u>\$ 2,500</u>	<u>\$ 106,606</u>	<u>\$ 19,386,146</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, 2022

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 3,623,255

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. 256,561

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 \$1,547,070 did not exceed capital outlay (\$2,751,399) and gain on disposal of \$5,500. 1,198,829

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 10,208

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. 133,475

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. 520,255

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. (126,782)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 5,623,674

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

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

September 30, 2022

	Business-Type Activities - Enterprise Funds		
	Electric	Water	Golf
Current assets:			
Cash and cash equivalents	\$ 1,257,968	13,788,764	\$ 127,867
Investments	-	400,000	-
Due from other funds	585,538	-	-
Intergovernmental receivable	5,309	6,388	357
Accounts receivable (net of allowance)	1,164,878	858,325	3,493
Inventory	<u>935,850</u>	<u>443,649</u>	<u>-</u>
Total current assets	<u>3,949,543</u>	<u>15,497,126</u>	<u>131,717</u>
Noncurrent assets:			
Property and equipment:			
Land	89,475	522,525	305,399
Buildings	4,285,526	2,795,738	1,771,506
Improvements	-	-	3,207,056
Machinery and equipment	10,912,683	60,649,331	539,851
Less accumulated depreciation	<u>(10,539,294)</u>	<u>(21,322,048)</u>	<u>(3,219,411)</u>
Total noncurrent assets	<u>4,748,390</u>	<u>42,645,546</u>	<u>2,604,401</u>
Deferred outflow of resources:			
Deferred outflow - TMRS pension	276,957	389,059	4,229
Deferred outflow - OPEB	<u>16,615</u>	<u>23,339</u>	<u>254</u>
Total deferred outflow of resources	<u>293,572</u>	<u>412,398</u>	<u>4,483</u>
 Total assets and deferred outflow of resources	 <u>\$ 8,991,505</u>	 <u>\$ 58,555,070</u>	 <u>\$ 2,740,601</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
\$ 3,239,116	\$ 486,840	\$ 576,559	\$ 19,477,114	\$ 329,667
250,000	-	-	650,000	-
585,538	-	259	1,171,335	-
100	42,707	224	55,085	819
296,303	710,793	54,833	3,088,625	-
-	-	-	1,379,499	-
<u>4,371,057</u>	<u>1,240,340</u>	<u>631,875</u>	<u>25,821,658</u>	<u>330,486</u>
209,549	-	-	1,126,948	-
107,770	368,666	-	9,329,206	-
6,164,572	32,759	5,187,959	14,592,346	-
4,528,665	1,646,380	1,013,558	79,290,468	-
(9,573,877)	(1,642,504)	(4,793,346)	(51,090,480)	-
<u>1,436,679</u>	<u>405,301</u>	<u>1,408,171</u>	<u>53,248,488</u>	<u>-</u>
276,894	314,146	5,869	1,267,154	-
16,612	18,846	352	76,018	-
<u>293,506</u>	<u>332,992</u>	<u>6,221</u>	<u>1,343,172</u>	<u>-</u>
<u>\$ 6,101,242</u>	<u>\$ 1,978,633</u>	<u>\$ 2,046,267</u>	<u>\$ 80,413,318</u>	<u>\$ 330,486</u>

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

September 30, 2022

	Business-Type Activities - Enterprise Funds		
	Electric	Water	Golf
Liabilities:			
Current liabilities:			
Accounts payable	\$ 1,307,061	\$ 1,877,226	\$ 138
Accrued payroll	23,882	29,541	221
Intergovernmental payable	40,824	-	-
Accrued interest payable	8,941	100,169	-
Due to other funds	91,600	83,000	1,171,076
Other current liabilities	533,500	906,935	-
Capital leases payable	221,916	467,870	-
Bonds payable - current maturity:			
Revenue bonds	<u>360,000</u>	<u>915,000</u>	<u>-</u>
Total current liabilities	<u>2,587,724</u>	<u>4,379,741</u>	<u>1,171,435</u>
Noncurrent liabilities:			
Bonds payable:			
Revenue bonds	1,125,000	18,640,000	-
Capital leases payable	457,180	155,381	-
Net pension liability - TMRS	1,212,857	1,703,774	18,518
OPEB liability	81,209	114,081	1,240
Unamortized premiums on bonds	-	730,179	-
Compensated absences	192,652	204,655	2,740
Closure and post-closure liability	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>3,068,898</u>	<u>21,548,070</u>	<u>22,498</u>
Total liabilities	<u>5,656,622</u>	<u>25,927,811</u>	<u>1,193,933</u>
Deferred inflows of resources:			
Deferred inflow - TMRS pension	312,750	439,339	4,775
Deferred inflow - OPEB	<u>3,343</u>	<u>4,697</u>	<u>51</u>
Total deferred inflow of resources	<u>316,093</u>	<u>444,036</u>	<u>4,826</u>
Net position:			
Net investment in capital assets	2,584,294	21,737,116	2,604,401
Restricted for long-term debt	187,932	3,675,588	-
Restricted for capital projects	-	-	-
Unrestricted	<u>246,564</u>	<u>6,770,519</u>	<u>(1,062,559)</u>
Total net position	<u>3,018,790</u>	<u>32,183,223</u>	<u>1,541,842</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 8,991,505</u>	<u>\$ 58,555,070</u>	<u>\$ 2,740,601</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
\$ 64,788	\$ 22,719	\$ 21,424	\$ 3,293,356	\$ 184,973
24,830	33,170	2,879	114,523	-
7,124	245,492	-	293,440	-
3,283	3,096	2,939	118,428	-
28,000	286,935	5,000	1,665,611	-
24,000	-	-	1,464,435	-
128,982	106,563	130,512	1,055,843	-
-	-	-	1,275,000	-
<u>281,007</u>	<u>697,975</u>	<u>162,754</u>	<u>9,280,636</u>	<u>184,973</u>
-	-	-	19,765,000	-
270,569	133,145	103,280	1,119,555	-
1,212,581	1,375,714	25,702	5,549,146	-
81,191	92,114	1,721	371,556	-
-	-	-	730,179	-
138,003	184,503	16,327	738,880	-
4,043,837	-	-	4,043,837	-
<u>5,746,181</u>	<u>1,785,476</u>	<u>147,030</u>	<u>32,318,153</u>	<u>-</u>
<u>6,027,188</u>	<u>2,483,451</u>	<u>309,784</u>	<u>41,598,789</u>	<u>184,973</u>
312,679	354,745	6,628	1,430,916	-
3,343	3,792	71	15,297	-
<u>316,022</u>	<u>358,537</u>	<u>6,699</u>	<u>1,446,213</u>	<u>-</u>
1,037,128	165,593	1,174,379	29,302,911	-
-	-	-	3,863,520	-
571,396	-	-	571,396	-
<u>(1,850,492)</u>	<u>(1,028,948)</u>	<u>555,405</u>	<u>3,630,489</u>	<u>145,513</u>
<u>(241,968)</u>	<u>(863,355)</u>	<u>1,729,784</u>	<u>37,368,316</u>	<u>145,513</u>
<u>\$ 6,101,242</u>	<u>\$ 1,978,633</u>	<u>\$ 2,046,267</u>	<u>\$ 80,413,318</u>	<u>\$ 330,486</u>

CITY OF FREDERICKSBURG, TEXAS

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

For the year ended September 30, 2022

	Business-Type Activities - Enterprise Funds		
	Electric	Water	Golf
Operating revenues:			
Electric sales	\$ 12,818,988	\$ -	\$ -
Water sales	-	5,265,546	-
Sewer sales	-	3,888,104	-
Garbage collection and tipping fees	-	-	-
EMS fees	-	-	-
Drainage utilities	-	-	-
Licenses and permits	28,251	38,440	-
Property taxes	-	-	-
Rents and royalties	57,142	1,461	-
Other revenue	<u>269,553</u>	<u>1,224,322</u>	<u>-</u>
Total operating revenues	<u>13,173,934</u>	<u>10,417,873</u>	<u>-</u>
Operating expenses:			
Salaries and wages	1,199,532	1,462,049	14,365
Employee benefits	255,489	491,247	3,749
Contracted services	80,013	34,548	-
Other operating expenses	10,460,755	1,829,490	11,665
Depreciation	<u>295,032</u>	<u>1,678,247</u>	<u>68,055</u>
Total operating expenses	<u>12,290,821</u>	<u>5,495,581</u>	<u>97,834</u>
Operating income (loss)	<u>883,113</u>	<u>4,922,292</u>	<u>(97,834)</u>
Nonoperating revenues (expenses):			
Investment income	19,682	39,993	9
Interest expense	(38,723)	(745,376)	(12,229)
Amortization of bond premium	-	36,271	-
Bond issuance cost	-	-	-
Transfers to other funds	(1,191,500)	(940,500)	-
Transfers from other funds	-	-	148,714
Contributed capital	-	-	-
Gain (loss) on sale of fixed assets	<u>-</u>	<u>41,705</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(1,210,541)</u>	<u>(1,567,907)</u>	<u>136,494</u>
Changes in net position	(327,428)	3,354,385	38,660
Total net position - beginning	3,345,459	28,828,212	1,503,182
Prior period adjustment	<u>759</u>	<u>626</u>	<u>-</u>
Total net position - beginning restated	<u>3,346,218</u>	<u>28,828,838</u>	<u>1,503,182</u>
Total net position - ending	<u>\$ 3,018,790</u>	<u>\$ 32,183,223</u>	<u>\$ 1,541,842</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
\$ -	\$ -	\$ -	\$ 12,818,988	\$ -
-	-	-	5,265,546	-
-	-	-	3,888,104	-
3,551,378	-	-	3,551,378	-
-	1,934,024	-	1,934,024	-
-	-	638,277	638,277	-
-	-	-	66,691	-
-	-	-	-	-
-	-	-	58,603	-
10,187	822,937	842	2,327,841	2,204,207
<u>3,561,565</u>	<u>2,756,961</u>	<u>639,119</u>	<u>30,549,452</u>	<u>2,204,207</u>
1,077,027	1,756,327	107,706	5,617,006	-
496,306	515,304	-	1,762,095	-
27,161	53,839	5,119	200,680	-
1,058,271	957,241	108,646	14,426,068	2,350,355
486,250	162,765	242,081	2,932,430	-
<u>3,145,015</u>	<u>3,445,476</u>	<u>463,552</u>	<u>24,938,279</u>	<u>2,350,355</u>
<u>416,550</u>	<u>(688,515)</u>	<u>175,567</u>	<u>5,611,173</u>	<u>(146,148)</u>
20,995	1,486	4,039	86,204	2,709
(8,754)	(4,862)	(4,919)	(814,863)	-
-	-	-	36,271	-
-	-	-	-	-
(327,200)	-	(57,900)	(2,517,100)	(100,000)
-	927,414	-	1,076,128	500,000
-	-	-	-	-
-	-	-	41,705	-
<u>(314,959)</u>	<u>924,038</u>	<u>(58,780)</u>	<u>(2,091,655)</u>	<u>402,709</u>
101,591	235,523	116,787	3,519,518	256,561
(319,070)	(1,101,243)	1,613,990	33,870,530	(111,048)
(24,489)	2,365	(993)	(21,732)	-
<u>(343,559)</u>	<u>(1,098,878)</u>	<u>1,612,997</u>	<u>33,848,798</u>	<u>-</u>
<u>\$ (241,968)</u>	<u>\$ (863,355)</u>	<u>\$ 1,729,784</u>	<u>\$ 37,368,316</u>	<u>\$ 145,513</u>

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the year ended September 30, 2022

	Business-Type Activities - Enterprise Funds		
	Electric	Water	Golf
Cash flows from operating activities:			
Cash received from customers	\$ 13,125,355	\$ 10,445,523	\$ -
Cash payments to employees for services	(1,747,853)	(2,182,364)	(21,909)
Cash payments for suppliers	<u>(10,294,772)</u>	<u>(866,825)</u>	<u>(107,271)</u>
Net cash provided (used) by operating activities	<u>1,082,730</u>	<u>7,396,334</u>	<u>(129,180)</u>
Cash flows from noncapital financing activities:			
Operating transfers out	(1,191,500)	(940,500)	-
Operating transfers in	<u>-</u>	<u>-</u>	<u>148,714</u>
Net cash provided (used) by noncapital financing activities	<u>(1,191,500)</u>	<u>(940,500)</u>	<u>148,714</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(288,308)	(4,973,064)	-
Capital lease proceeds	3,915	51,650	-
Debt issuance proceeds	-	-	-
Principal paid on capital debt	(482,902)	(1,220,583)	-
Interest paid on capital debt	(41,222)	(771,502)	(12,229)
Proceeds from the sale of capital assets	<u>-</u>	<u>41,705</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(808,517)</u>	<u>(6,871,794)</u>	<u>(12,229)</u>
Cash flows from investing activities			
Interest received on investments	19,682	39,993	9
Net increase (decrease) in cash and cash equivalents	(897,605)	(375,967)	7,314
Cash and cash equivalents, beginning	<u>2,155,573</u>	<u>14,164,731</u>	<u>120,553</u>
Cash and cash equivalents, ending	<u>\$ 1,257,968</u>	<u>\$ 13,788,764</u>	<u>\$ 127,867</u>

SCHEDULE OF NONCASH ACTIVITIES

Actuarially determined change in net pension/OPEB liability	\$ 406,931	\$ 340,787	\$ 2,855
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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
\$ 3,535,139	\$ 2,551,257	\$ 640,767	\$ 30,298,041	\$ 2,204,207
(1,625,813)	(2,505,231)	(260,157)	(8,343,327)	-
<u>(661,103)</u>	<u>(1,059,771)</u>	<u>(121,403)</u>	<u>(13,111,145)</u>	<u>(2,370,742)</u>
<u>1,248,223</u>	<u>(1,013,745)</u>	<u>259,207</u>	<u>8,843,569</u>	<u>(166,535)</u>
(327,200)	-	(57,900)	(2,517,100)	-
<u>-</u>	<u>927,414</u>	<u>-</u>	<u>1,076,128</u>	<u>400,000</u>
<u>(327,200)</u>	<u>927,414</u>	<u>(57,900)</u>	<u>(1,440,972)</u>	<u>400,000</u>
(308,613)	(48,553)	(500,488)	(6,119,026)	-
386,817	322,817	309,850	1,075,049	-
-	-	-	-	-
(68,763)	(179,532)	(166,914)	(2,118,694)	-
(6,545)	(3,037)	(3,167)	(837,702)	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>41,705</u>	<u>-</u>
<u>2,896</u>	<u>91,695</u>	<u>(360,719)</u>	<u>(7,958,668)</u>	<u>-</u>
20,995	1,486	4,039	86,204	2,709
944,914	6,850	(155,373)	(469,867)	236,174
<u>2,294,202</u>	<u>479,990</u>	<u>731,932</u>	<u>19,946,981</u>	<u>93,493</u>
<u>\$ 3,239,116</u>	<u>\$ 486,840</u>	<u>\$ 576,559</u>	<u>\$ 19,477,114</u>	<u>\$ 329,667</u>

\$ 122,962 \$ 384,122 \$ 170,493 \$ 1,428,150 \$ -

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the year ended September 30, 2022

	Business-Type Activities - Enterprise Funds		
	Electric	Water	Golf
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 883,113	\$ 4,922,292	\$ (97,834)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	295,032	1,678,247	68,055
(Increase) decrease in operating assets:			
Accounts receivable	(69,258)	(7,571)	(1,287)
Interfund receivables	47,807	-	-
Due from other governments	21,381	35,220	(93)
Inventories	(139,120)	(118,282)	-
Increase (decrease) in operating liabilities:			
Accounts payable	281,804	1,111,920	6
Wages payable	(57,468)	(81,191)	(752)
Interest payable	-	-	-
Due to other funds	(200)	3,300	(95,612)
Due to other governments	3,366	-	-
Compensated absences payable	14,751	2,607	(813)
Net pension/OPEB liability	(250,817)	(150,483)	(850)
Landfill closure liability	-	-	-
Other current liabilities	<u>52,339</u>	<u>275</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 1,082,730</u>	<u>\$ 7,396,334</u>	<u>\$ (129,180)</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
\$ 416,550	\$ (688,515)	\$ 175,567	\$ 5,611,173	\$ (146,148)
486,250	162,765	242,081	2,932,430	-
(27,711)	(239,678)	(1,221)	(346,726)	(819)
47,807	-	-	95,614	-
1,285	33,974	2,869	94,636	-
-	-	-	(257,402)	-
40,314	(12,658)	(12,638)	1,408,748	(19,568)
(51,109)	(51,945)	(7,445)	(249,910)	-
-	-	-	-	-
3,200	(26,886)	5,000	(111,198)	-
251	(9,147)	-	(5,530)	-
(5,058)	40,798	10,461	62,746	-
3,687	(222,453)	(155,467)	(776,383)	-
331,957	-	-	331,957	-
800	-	-	53,414	-
<u>\$ 1,248,223</u>	<u>\$ (1,013,745)</u>	<u>\$ 259,207</u>	<u>\$ 8,843,569</u>	<u>\$ (166,535)</u>



NOTES TO BASIC FINANCIAL STATEMENTS



CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(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.

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, 2022

(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, 2022

(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, 2022

(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, 2022

(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, 2022. 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, 2022

(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, 2022

(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.

New accounting policy

As of October 1, 2021, the City implemented GASB Statement No. 87 *Leases*. The objectives of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(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, 2022

(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, 2022, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Investments recorded as cash equivalents		
TexPool - valued at amortized cost	\$ 479,649	34
Total investments recorded as cash equivalents	479,649	
Cash at bank	37,181,712	
Cash on-hand	5,230	
Total cash and cash equivalents	\$ 37,666,591	
Investments		
Certificates of deposits - valued at amortized cost	\$ 1,150,000	280
Portfolio weighted average maturity		212

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, 2022

(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, 2022, the City had cash deposits at the bank of \$37,299,158. The total fair market value of pledged securities held as collateral amounted to \$39,006,685. 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, 2022, were rated as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>
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, 2022

(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	\$ 2,829,153	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,829,153
Due from other governments	189,587	5,309	6,388	357	100	42,707	224	244,672
Customer accounts	84,755	1,193,603	867,968	3,493	356,881	832,222	55,393	3,394,315
Interest	1,678	-	432	-	26	-	-	2,136
Gross receivables	3,105,173	1,198,912	874,788	3,850	357,007	874,929	55,617	6,470,276
Less allowance for uncollectibles	17,024	28,725	10,075	-	60,604	121,429	560	238,417
Net total receivables	<u>\$ 3,088,149</u>	<u>\$ 1,170,187</u>	<u>\$ 864,713</u>	<u>\$ 3,850</u>	<u>\$ 296,403</u>	<u>\$ 753,500</u>	<u>\$ 55,057</u>	<u>\$ 6,231,859</u>

(5) Capital assets

Capital asset activity for the year ended September 30, 2022, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,583,656	\$ 5,000	\$ (5,500)	\$ 7,583,156
Total capital assets, not being depreciated	<u>7,583,656</u>	<u>5,000</u>	<u>(5,500)</u>	<u>7,583,156</u>
Capital assets, being depreciated:				
Buildings	10,027,905	262,294	-	10,290,199
Improvements other than buildings	21,491,133	1,219,166	-	22,710,299
Equipment	8,406,992	1,264,939	(304,666)	9,367,265
Right to use assets - equipment	993,781	-	-	993,781
Total capital assets, being depreciated	<u>40,919,811</u>	<u>2,746,399</u>	<u>(304,666)</u>	<u>43,361,544</u>
Less accumulated depreciation:				
Buildings	(5,812,896)	(143,054)	304,666	(5,651,284)
Improvements other than buildings	(12,614,900)	(897,264)	-	(13,512,164)
Equipment	(6,482,804)	(506,752)	-	(6,989,556)
Right to use assets - equipment	(339,936)	(170,752)	-	(510,688)
Total accumulated depreciation	<u>(25,250,536)</u>	<u>(1,717,822)</u>	<u>304,666</u>	<u>(26,663,692)</u>
Total capital assets being depreciated, net	<u>15,669,275</u>	<u>1,028,577</u>	<u>-</u>	<u>16,697,852</u>
Governmental activities capital assets, net	<u>\$ 23,252,931</u>	<u>\$ 1,033,577</u>	<u>\$ (5,500)</u>	<u>\$ 24,281,008</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(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	9,329,206	-	-	9,329,206
Improvements other than buildings	14,592,346	-	-	14,592,346
Equipment	73,002,330	5,629,262	(57,784)	78,573,808
Right to use assets - equipment	716,660	-	-	716,660
Total capital assets, being depreciated	97,640,542	5,629,262	(57,784)	103,212,020
Less accumulated depreciation:				
Buildings and improvements	(5,936,193)	(65,274)	-	(6,001,467)
Improvements other than buildings	(5,239,932)	(153,100)	-	(5,393,032)
Equipment	(36,738,354)	(2,600,497)	57,784	(39,281,067)
Right to use assets - equipment	(301,355)	(113,559)	-	(414,914)
Total accumulated depreciation	(48,215,834)	(2,932,430)	57,784	(51,090,480)
Total capital assets being depreciated, net	49,424,708	2,696,832	-	52,121,540
Business-type capital assets, net	\$ 50,551,656	\$ 2,696,832	\$ -	\$ 53,248,488

Depreciation expense was charged to the governmental functions as follows:

Governmental activities:	
Administration	\$ 24,083
Police	317,929
Fire	30,857
Streets	741,672
Parks	560,520
Health	1,374
Engineering	14,204
Emergency management	7,962
Tourism	19,221
Total depreciation expense - governmental activities	\$ 1,717,822

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(5) Capital assets (continued)

Business-type activities		
Electric	\$	295,032
Water and sewer		1,678,247
Golf		68,055
Landfill		486,250
EMS		162,765
Drainage utilities		<u>242,081</u>
Total depreciation expense - business-type activities	\$	<u><u>2,932,430</u></u>

(6) Interfund receivables, payables and transfers

	Due To	Due From
General fund:		
Electric - in lieu of taxes	\$ -	\$ 91,600
Water - in lieu of taxes	-	83,000
Landfill - in lieu of taxes	-	28,000
Drainage - in lieu of taxes	-	5,000
EMS	-	286,935
Drainage	259	-
Emergency management	-	-
Debt service	6,548	26,521
Electric fund:		
General fund - in lieu of taxes	91,600	-
Golf	-	585,538
Water and sewer fund:		
General fund - in lieu of taxes	83,000	-
Golf fund:		
Electric	585,538	-
Landfill	585,538	-
Landfill:		
General fund - in lieu of taxes	28,000	-
Golf	-	585,538
EMS:		
General fund	286,935	-
Drainage fund:		
General fund	-	259
General fund - in lieu of taxes	5,000	-
Debt service:		
General fund	26,521	6,548
Capital projects	2,500	-
Capital projects:		
Debt service	<u>-</u>	<u>2,500</u>
Total due to / due from	<u>\$ 1,701,439</u>	<u>\$ 1,701,439</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

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

The balances of \$585,538 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.

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund:		
Electric	\$ 1,191,500	\$ -
Water and sewer	940,500	-
Landfill	327,200	-
Drainage	57,900	-
EMS	-	927,414
Golf	-	148,714
Internal service fund	100,000	500,000
Debt service fund:		
Capital projects fund	-	-
Capital projects fund:		
Debt service fund	-	-
Electric fund:		
General fund	-	1,191,500
Water and sewer fund:		
General fund	-	940,500
Landfill:		
General fund	-	327,200
Drainage fund:		
General fund	-	57,900
EMS:		
General fund	927,414	-
Golf:		
General fund	148,714	-
Internal service fund:		
General fund	500,000	100,000
Total transfers	<u>\$ 4,193,228</u>	<u>\$ 4,193,228</u>

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, 2022

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

In the year ended September 30, 2022, 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	\$	1,191,500
Water and sewer		940,500
Landfill		327,200
Drainage		<u>57,900</u>
 Total	 \$	 <u>2,517,100</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, 2022 were as follows:

Year Ending September 30,	Governmental Activities	Business-Type Activities
2023	\$ 291,894	\$ 1,055,171
2024	291,894	591,844
2025	181,898	227,376
2026	181,899	-
2027	181,899	-
Thereafter	<u>145,103</u>	<u>-</u>
Total minimum lease payments	1,274,587	1,874,391
Less amount representing interest	<u>67,750</u>	<u>37,875</u>
Present value of minimum lease payments	<u>\$ 1,206,837</u>	<u>\$ 1,836,516</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(8) Long-term liabilities

The long-term liability activity for the year ended September 30, 2022, was as follows:

	Outstanding October 1, 2021	Increases	Decreases	Balance September 30, 2022	Amounts Due in One Year
Governmental activities:					
General obligation bonds	\$ 1,985,000	\$ -	\$ (155,000)	\$ 1,830,000	\$ 160,000
Unlimited tax notes	3,830,000	-	(500,000)	3,330,000	510,000
Add unamortized premiums	<u>86,597</u>	<u>-</u>	<u>(7,873)</u>	<u>78,724</u>	<u>7,873</u>
Total bonds payable	<u>5,901,597</u>	<u>-</u>	<u>(662,873)</u>	<u>5,238,724</u>	<u>677,873</u>
Capitalized leases	685,312	876,811	(355,286)	1,206,837	271,068
Leases - right to use assets	764,274	-	(143,508)	620,766	144,140
Compensated absences	<u>852,095</u>	<u>353,078</u>	<u>(237,316)</u>	<u>967,857</u>	<u>241,964</u>
Total governmental activities	<u>8,203,278</u>	<u>1,229,889</u>	<u>(1,398,983)</u>	<u>8,034,184</u>	<u>1,335,045</u>
Business-type activities:					
Revenue bonds and notes:					
Revenue bonds	20,440,000	-	(885,000)	19,555,000	915,000
Revenue tax notes	1,755,000	-	(270,000)	1,485,000	360,000
Add unamortized premium	<u>780,450</u>	<u>-</u>	<u>(50,271)</u>	<u>730,179</u>	<u>45,909</u>
Total revenue bonds and notes	<u>22,975,450</u>	<u>-</u>	<u>(1,205,271)</u>	<u>21,770,179</u>	<u>1,320,909</u>
Capitalized leases	2,117,473	1,082,879	(1,363,836)	1,836,516	1,024,615
Leases - right to use assets	437,036	-	(98,154)	338,882	105,885
Compensated absences	<u>676,134</u>	<u>160,902</u>	<u>(98,156)</u>	<u>738,880</u>	<u>184,720</u>
Total business-type activities	<u>25,769,057</u>	<u>1,243,781</u>	<u>(2,667,263)</u>	<u>24,684,457</u>	<u>2,530,244</u>
Total long-term liabilities	<u>\$ 33,972,335</u>	<u>\$ 2,473,670</u>	<u>\$ (4,066,246)</u>	<u>\$ 32,718,641</u>	<u>\$ 3,865,289</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(8) Long-term liabilities (continued)

Governmental activities long-term liabilities at September 30, 2022, consisted of the following:

Series	Governmental Activities		
	Original Issue	Interest Rate	Debt Outstanding
2012 general obligation bonds - privately placed	\$ 3,200,000	2.88%	\$ 1,830,000
2016 limited tax notes - privately placed	1,530,000	1.39%	350,000
2017 tax and limited pledge rev CO's	<u>3,530,000</u>	3.00%	<u>2,980,000</u>
Totals	<u>\$ 11,864,164</u>		<u>\$ 5,160,000</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, 2022, consisted of the following:

Series	Business-Type Activities		
	Original Issue	Interest Rate	Debt Outstanding
2018 revenue bonds	\$ 17,305,000	2.07-3.87%	\$ 15,145,000
2020 revenue refunding bonds - privately placed	5,120,000	1.850%	4,410,000
2020 revenue notes - privately placed	<u>2,300,000</u>	1.775%	<u>1,485,000</u>
Totals	<u>\$ 35,175,836</u>		<u>\$ 21,040,000</u>

The annual debt service requirements to be paid on governmental activities long-term debt outstanding at September 30, 2022, are as follows:

Fiscal Year	Governmental Activities								
	Bonds Payable			Privately Placed Debt			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
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	175,000	76,599	251,599	175,000	35,892	210,892	350,000	112,491	462,491
2027	180,000	71,274	251,274	180,000	30,785	210,785	360,000	102,059	462,059
2028-2032	980,000	271,170	1,251,170	980,000	72,214	1,052,214	1,960,000	343,384	2,303,384
2033-2037	1,150,000	102,883	1,252,883	-	-	-	1,150,000	102,883	1,252,883
Totals	<u>\$ 2,980,000</u>	<u>\$ 782,176</u>	<u>\$ 3,762,176</u>	<u>\$ 2,180,000</u>	<u>\$ 278,525</u>	<u>\$ 2,458,525</u>	<u>\$ 5,160,000</u>	<u>\$ 1,060,701</u>	<u>\$ 6,220,701</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(8) Long-term liabilities (continued)

The annual debt service requirements to be paid on business-type activities long-term debt outstanding at September 30, 2022, are as follows:

Fiscal Year	Business-Type Activities								
	Bonds Payable			Privately Placed Debt			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
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	620,000	556,000	1,176,000	765,000	64,234	829,234	1,385,000	620,234	2,005,234
2027	655,000	524,125	1,179,125	395,000	50,274	445,274	1,050,000	574,399	1,624,399
2028-2032	3,800,000	2,097,325	5,897,325	2,080,000	138,195	2,218,195	5,880,000	2,235,520	8,115,520
2033-2037	6,730,000	1,057,400	7,787,400	440,000	4,070	444,070	7,170,000	1,061,470	8,231,470
2038	1,620,000	32,400	1,652,400	-	-	-	1,620,000	32,400	1,652,400
Totals	\$ 15,145,000	\$ 6,096,300	\$ 21,241,300	\$ 5,895,000	\$ 530,640	\$ 6,425,640	\$ 21,040,000	\$ 6,626,940	\$ 27,666,940

Right to use lease obligations

At September 30, 2022, the City was obligated under the right to use lease obligations for various equipment at a fixed interest rate of 1.6%. The leases are not renewable and the City will not acquire the equipment at the end of the terms. Future minimum lease payments on these leases are as follows:

Year Ending September 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 144,140	\$ 24,272	\$ 168,412	\$ 105,885	\$ 18,408	\$ 124,293
2024	124,455	20,276	144,731	74,769	12,453	87,222
2025	76,622	12,363	88,985	42,252	7,165	49,417
2026	35,120	6,128	41,248	19,421	3,746	23,167
2027	13,066	2,768	15,834	10,729	2,406	13,135
Thereafter	227,363	3,637	231,000	85,826	1,373	87,199
	\$ 620,766	\$ 69,444	\$ 690,210	\$ 338,882	\$ 45,551	\$ 384,433

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(9) Defined benefit pension plan

Plan description

The City participates as one of 901 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor appointed Board of Trustees; however, TMRS does not receive any federal funding from the State of Texas. TMRS issues a publicly available annual comprehensive financial report that can be obtained at www.tmr.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 member's benefit is calculated based on the sum of the member's contributions, with interest, and the City-financed monetary credits with interest, and their age at retirement and other actuarial factors. The retiring member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total member contribution and interest.

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 7%, and the City matching percent is currently 2 to 1.

Employees covered by benefit terms

At the December 31, 2021 valuation and measurement dates, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	123
Inactive employees entitled to but not yet receiving benefits	69
Active employees	<u>171</u>
Total	<u><u>363</u></u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(9) Defined benefit pension plan (continued)

Contributions

Member contribution rates in TMRS are either 5%, 6%, or 7% of the member's total compensation, 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 City's contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

Employees for the City were required to contribute 7% of their annual compensation during the fiscal year. The contribution rates for the City were 22.28% and 16.92% for calendar years 2022 and 2021 respectively. The City's contributions to TMRS for the year ended September 30, 2022 and 2021 were \$2,822,429 and \$2,309,826 and were equal to the required contributions in 2022 and 2021, respectively.

Net pension liability

The City's net pension liability (NPL) was measured as of December 31, 2021, 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, 2021 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

* Presented net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB (10) mortality tables with the Public Safety table used for males and the general employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are 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.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(9) Defined benefit pension plan (continued)

Net pension liability (continued)

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.

The target allocation and best estimate of real rates of return for each major asset class in fiscal year 2022 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.00%	7.55%
Core Fixed Income	6.00%	2.00%
Non-Core Fixed Income	20.00%	5.60%
Other public and private markets	12.00%	7.22%
Real Estate	12.00%	6.85%
Hedge funds	5.00%	5.35%
Private Equity	10.00%	10.00%
Total	100.00%	

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(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 member 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 members. 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 net pension liability

The schedule below presents the changes in the net pension liability (asset) as of December 31, 2021:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2020	\$ 64,079,123	\$ 48,548,447	\$ 15,530,676
Changes for the year:			
Service cost	1,963,090	-	1,963,090
Interest	4,310,479	-	4,310,479
Changes in current period benefits	-	-	-
Difference between expected and actual experience	534,109	-	534,109
Changes of assumptions	-	-	-
Contributions - employer	-	2,506,293	(2,506,293)
Contributions - employee	-	802,197	(802,197)
Net investment income	-	6,330,327	(6,330,327)
Benefit payments, including refunds of employee contributions	(2,403,440)	(2,403,440)	-
Administrative expense	-	(29,284)	29,284
Other changes	-	199	(199)
Net changes	<u>4,404,238</u>	<u>7,206,292</u>	<u>(2,802,054)</u>
Balance at December 31, 2021	<u>\$ 68,483,361</u>	<u>\$ 55,754,739</u>	<u>\$ 12,728,622</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(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	\$ 21,867,903	\$ 12,728,622	\$ 5,128,636

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the schedule of changes in fiduciary net position, by participant city. The report may be obtained on the internet at www.tnrs.com.

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

For the year ended September 30, 2022, the City recognized pension expense of \$1,446,610.

At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 775,323	\$ 22,661
Changes in actuarial assumptions	-	23,574
Difference between projected and actual investment earnings	-	3,235,998
Contributions subsequent to the measurement date	2,131,272	-
Total	\$ 2,906,595	\$ 3,282,233

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(9) Defined benefit pension plan (continued)

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

\$2,131,272 reported 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, 2022. 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>	
2023	\$ (329,464)
2024	(1,118,380)
2025	(528,920)
2026	(530,146)
2027	-
Thereafter	-
Total	<u>\$ (2,506,910)</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 Annual Comprehensive 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, 2022

(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, 2022 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, 2021 is shown in the following table:

Service cost	\$	8,607
Interest		63,566
Projected earnings on pension plan investments		(59,295)
Amortization of differences between projected and actual earnings on plan investments		18,258
Amorization of changes of assumptions		(760)
Amortizations of differences between expected and actual experience		2,797
Pension plan administrative expense		1,335
Changes in benefit provisions		13,434
Total pension expense	\$	<u>47,942</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(10) Texas Emergency Services Retirement System (continued)

Schedule of participating department allocations (continued)

At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to TESRS pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 8,637	\$ -
Changes in actuarial assumptions	-	1,141
Difference between projected and actual investment earnings	83,676	-
Contributions subsequent to the measurement date	<u>26,880</u>	<u>-</u>
Total	<u>\$ 119,193</u>	<u>\$ 1,141</u>

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

Fiscal Year Ended		
<u>August 31,</u>		
2023	\$	26,307
2024		16,330
2025		17,051
2026		<u>31,484</u>
Total	\$	<u>91,172</u>

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, 2021 and August 31, 2022 is equal to the collective pension expense multiplied by the participating department's allocation percentage for TESRS's fiscal year ended August 31, 2021 as shown in the schedule of participating department allocations. The City's allocation percentage is 0.543%. The proportionate share of the City's net pension liability at September 30, 2022 was \$226,896. Contributions at fiscal year September 30, 2022 were \$32,880.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(11) Other postemployment benefit plan

Plan description

The City participates in a single-employer defined benefit plan, which operates like a 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 members. 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 provided

The death benefit for active members provides a lump-sum payment approximately equal to the member's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired members are insured for \$7,500; this coverage is an "other postemployment benefit" or OPEB. 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 based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one year delay between the actuarial valuation that serves as the basis for the City's contribution rate and the calendar year when the rate goes into effect. 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 contribution rate for the City was 0.25% and 0.24% for calendar years 2022 and 2021, respectively. The City's contributions to TMRS were \$31,499 and \$26,934 for the SDBF program for the fiscal year ended September 30, 2022 and 2021, respectively, and were equal to the required contributions.

Employees covered by benefit terms

At the December 31, 2021 valuation and measurement dates, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	96
Inactive employees entitled to but not yet receiving benefits	35
Active employees	<u>171</u>
Total	<u>302</u>

CITY OF FREDERICKSBURG, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(11) Other postemployment benefit plan (continued)

OPEB liability

The City's total OPEB liability of \$852,276 was measured as of December 31, 2021, and was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total OPEB liability in the December 31, 2021 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 *	1.84%
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, 2021.

The actuarial assumptions used in the December 31, 2021 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, 2022

(11) Other postemployment benefit plan (continued)

OPEB liability (continued)

Changes in the OPEB liability:

Balance at December 31, 2020		\$ 791,986
Changes for the year:		
Service cost		35,526
Interest on the OPEB liability		16,069
Changes of benefit terms		-
Difference between expected and actual experience		(5,096)
Change of assumptions		26,398
Benefit payments		<u>(12,607)</u>
Net changes		<u>60,290</u>
Balance at December 31, 2021		<u><u>\$ 852,276</u></u>

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 1.84%, as well as what the City’s total OPEB liabilities would be if it were calculated using a discount rate that is 1-percentage-point lower (0.84%) or 1-percentage-point higher (2.84%) than the current rate:

<u>1% Decrease in Discount Rate (0.84%)</u>	<u>Discount Rate (1.84%)</u>	<u>1% Increase in Discount Rate (2.84%)</u>
<u>\$ 1,044,693</u>	<u>\$ 852,276</u>	<u>\$ 704,614</u>

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$76,657.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(11) Other postemployment benefit plan (continued)

OPEB expenses, deferred outflows of resources and deferred inflows of resources related to OPEB (continued)

At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ -	\$ -
Changes in actuarial assumptions	150,454	35,088
Contributions subsequent to the measurement date	23,915	-
Total	\$ 174,369	\$ 35,088

The City reported \$23,915 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of OPEB for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to the OPEB liability will be recognized in OPEB expense as follows:

Year Ended September 30,		
2022	\$	35,186
2023		28,713
2024		32,919
2025		16,060
2026		2,488
Thereafter		-
Total	\$	115,366

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2022

(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, 2022.

(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 \$4,043,837 at September 30, 2022, which is based on 92.58% usage of current open cells and 53.44% 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, 2022. 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) Subsequent events

The City has evaluated subsequent events through April 18, 2023, 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, 2022

	Budget Amounts		GAAP Basis Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
General property taxes	\$ 4,344,520	\$ 4,344,520	\$ 4,340,505	\$ (4,015)
General sales and use taxes	8,500,000	8,500,000	8,680,999	180,999
Hotel occupancy tax	5,841,549	5,841,549	5,805,870	(35,679)
Other taxes	519,965	519,965	592,609	72,644
Franchise fees	352,400	352,400	348,343	(4,057)
License and permits	368,692	368,692	334,822	(33,870)
Fines	125,500	125,500	106,115	(19,385)
Pavilion and camping fees	830,500	830,500	922,516	92,016
Rentals	162,200	162,200	289,990	127,790
Intergovernmental revenue	1,017,869	1,017,869	813,859	(204,010)
Grants	1,460,349	1,460,349	1,577,832	117,483
Investment earnings	8,500	8,500	96,108	87,608
Other revenues	1,039,910	1,039,910	926,442	(113,468)
Total revenues	24,571,954	24,571,954	24,836,010	264,056
Expenditures:				
Municipal court	310,243	310,243	288,463	21,780
Engineering	274,005	274,005	202,960	71,045
Administration	4,936,863	4,936,863	1,799,402	3,137,461
Tourism	5,543,864	5,543,864	4,703,852	840,012
Police	6,640,857	6,640,857	5,744,400	896,457
Fire	2,187,205	2,187,205	1,546,109	641,096
Emergency management	242,605	242,605	196,885	45,720
Streets	2,612,690	2,612,690	1,758,118	854,572
Parks	3,289,338	3,289,338	2,223,589	1,065,749
Health	251,069	251,069	243,469	7,600
Food and wine festival	170,100	170,100	167,089	3,011
Development services	1,249,274	1,249,274	920,930	328,344
Debt service:				
Principal	-	-	498,788	(498,788)
Interest and fiscal charges	-	-	39,042	(39,042)
Capital outlays	-	-	2,751,399	(2,751,399)
Total expenditures	27,708,113	27,708,113	23,084,495	4,623,618

(continued)

CITY OF FREDERICKSBURG, TEXAS

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

For the year ended September 30, 2022

	Budget Amounts		GAAP Basis	Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Excess (deficiency) of revenues over (under) expenditures	\$ (3,136,159)	\$ (3,136,159)	\$ 1,751,515	\$ 4,887,674
Other financing sources (uses):				
Sale of real and personal property	52,000	52,000	48,400	(3,600)
Transfers in	2,263,786	2,263,786	2,617,100	353,314
Transfers out	-	-	(1,576,128)	(1,576,128)
Proceeds from capital leases	-	-	876,811	876,811
Total other financing sources (uses)	<u>2,315,786</u>	<u>2,315,786</u>	<u>1,966,183</u>	<u>(349,603)</u>
Net change in fund balance	<u>(820,373)</u>	<u>(820,373)</u>	<u>3,717,698</u>	<u>4,538,071</u>
Fund balance - beginning of year	<u>15,559,342</u>	<u>15,559,342</u>	<u>15,559,342</u>	<u>-</u>
Fund balance - end of year	<u>\$ 14,738,969</u>	<u>\$ 14,738,969</u>	<u>\$ 19,277,040</u>	<u>\$ 4,538,071</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					
	2021	2020	2019	2018	2017	2016
Total Pension Liability						
Service cost	\$ 1,963,090	\$ 1,846,917	\$ 1,495,978	\$ 1,190,542	\$ 1,074,769	\$ 1,004,489
Interest (on the total pension liability)	4,310,479	4,037,770	3,451,697	2,981,765	2,674,435	2,528,093
Changes of benefit terms	-	4,932,372	4,413,316	1,917,387	-	-
Difference between expected and actual experience	534,109	269,471	517,459	(104,329)	301,986	(47,068)
Change of assumptions	-	-	(63,087)	-	-	-
Benefit payments, including refunds of employee contributions	<u>(2,403,440)</u>	<u>(1,940,785)</u>	<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	4,404,238	9,145,745	8,101,508	4,355,092	2,734,621	2,096,819
Total pension liability - beginning	<u>64,079,123</u>	<u>54,933,378</u>	<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>\$ 68,483,361</u>	<u>\$ 64,079,123</u>	<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	\$ 2,506,293	\$ 1,746,763	\$ 1,216,750	\$ 961,243	\$ 931,010	\$ 843,151
Contributions - employee	802,197	646,152	520,884	500,649	488,976	455,757
Net investment income	6,330,327	3,394,685	5,990,998	(1,202,616)	4,877,963	2,235,297
Benefit payments, including refunds of employee contributions	(2,403,440)	(1,940,785)	(1,713,855)	(1,630,273)	(1,316,569)	(1,388,695)
Administrative expense	(29,284)	(21,967)	(33,845)	(23,238)	(25,272)	(25,238)
Other	<u>199</u>	<u>(857)</u>	<u>(1,019)</u>	<u>(1,214)</u>	<u>(1,282)</u>	<u>(1,360)</u>
Net change in plan fiduciary net position	7,206,292	3,823,991	5,979,913	(1,395,449)	4,954,826	2,118,912
Plan fiduciary net position - beginning	<u>48,548,447</u>	<u>44,724,456</u>	<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>\$ 55,754,739</u>	<u>\$ 48,548,447</u>	<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>\$ 12,728,622</u>	<u>\$ 15,530,676</u>	<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	81.41%	75.76%	81.42%	82.73%	94.50%	88.53%
Covered payroll	<u>\$ 11,459,952</u>	<u>\$ 10,608,762</u>	<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	111.07%	146.39%	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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contributions	\$ 2,822,429	\$ 2,309,826	\$ 1,589,343	\$ 1,146,021	\$ 958,161	\$ 914,856
Contributions in relation to the actuarially determined contributions	<u>2,822,429</u>	<u>2,309,826</u>	<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>				
Covered payroll	<u>\$ 12,726,149</u>	<u>\$ 10,769,197</u>	<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	22.18%	21.45%	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					
	2021	2020	2019	2018	2017	2016
Total Pension Liability						
City's proportion of the net pension liability	0.543%	0.543%	0.585%	0.640%	0.731%	0.716%
City's proportionate share of net pension liability	<u>\$ 226,896</u>	<u>\$ 58,178</u>	<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%	83.20%	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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contributions	\$ 32,880	\$ 33,330	\$ 35,130	\$ 37,374	\$ 55,956	\$ 45,710
Contributions in relation to the actuarially determined contributions	<u>32,880</u>	<u>33,330</u>	<u>35,130</u>	<u>37,374</u>	<u>55,956</u>	<u>45,710</u>
Contribution deficiency (excess)	<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				
	2021	2020	2019	2018	2017
OPEB liability					
Service cost	\$ 35,526	\$ 26,924	\$ 17,710	\$ 22,029	\$ 18,581
Interest (on the OPEB liability)	16,069	18,311	19,783	18,323	17,987
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(5,096)	(9,196)	(12,748)	(14,581)	-
Change of assumptions	26,398	105,698	107,513	(39,852)	43,885
Benefit payments **	<u>(12,607)</u>	<u>(4,308)</u>	<u>(4,167)</u>	<u>(4,006)</u>	<u>(4,890)</u>
Net change in OPEB liability	60,290	137,429	128,091	(18,087)	75,563
OPEB liability - beginning	<u>791,986</u>	<u>654,557</u>	<u>526,466</u>	<u>544,553</u>	<u>468,990</u>
OPEB liability - ending	<u>\$ 852,276</u>	<u>\$ 791,986</u>	<u>\$ 654,557</u>	<u>\$ 526,466</u>	<u>\$ 544,553</u>
Covered payroll	<u>\$ 11,459,952</u>	<u>\$ 10,608,762</u>	<u>\$ 10,417,674</u>	<u>\$ 10,012,971</u>	<u>\$ 9,779,519</u>
OPEB liability as a percentage of total covered payroll	7.44%	7.47%	6.28%	5.26%	5.57%

*GASB 75 requires 10 fiscal years of data to be provided in this schedule. This is the fifth 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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contributions	\$ 31,499	\$ 26,934	\$ 24,400	\$ 23,429	\$ 22,286
Contributions in relation to the actuarially determined contributions	<u>31,499</u>	<u>26,934</u>	<u>24,400</u>	<u>23,429</u>	<u>22,286</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Covered payroll	<u>\$ 12,726,149</u>	<u>\$ 10,769,197</u>	<u>\$ 10,608,762</u>	<u>\$ 10,307,595</u>	<u>\$ 10,003,972</u>
Contributions as a percentage of covered payroll	0.25%	0.25%	0.23%	0.23%	0.22%

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

CITY OF FREDERICKSBURG, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2022

(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	26 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:

There were no benefit changes during the year.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2022

(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 *	1.84%
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, 2021.

Other information:

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

COMPLIANCE SECTION



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 18, 2023.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

ABIP, PC

San Antonio, Texas

April 18, 2023

INDEPENDENT ACCOUNTANT’S REPORT ON COMPLIANCE FOR THE U.S. DEPARTMENT OF TREASURY
CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS PROGRAM (CSLFRF) REQUIREMENTS FOR
AN ALTERNATIVE CSLFRF COMPLIANCE EXAMINATION ENGAGEMENT

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

We have examined of the City of Fredericksburg, Texas (the “City”) compliance with the compliance requirements “activities allowed or unallowed” and “allowable cost/cost principles” (the specified requirements) as described in Part IV “Requirements for an Alternative Compliance Examination Engagement for Recipients That Would Otherwise be Required to Undergo a Single Audit or Program-Specific Audit as a Result of Receiving Coronavirus State and Local Fiscal Recovery Funds” of the CSLFRF section of the 2022 OMB Compliance Supplement (referred to herein as “Requirements for an Alternative CSLFRF Compliance Examination Engagement”) during the year ended September 30, 2022. Management of the City is responsible for the City’s compliance with the specified requirements. Our responsibility is to express an opinion on the City’s compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the AICPA; the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in the “Requirements for an Alternative CSLFRF Compliance Examination Engagement.” Those standards and requirements require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Our examination does not provide a legal determination on the City’s compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the specified requirements referenced above during the year ended September 30, 2022.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the City's compliance with the specified requirements and any other instances that warrant the attention of those charged with governance. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on the City's compliance with the specified requirements and not for the purpose of expressing an opinion on the internal control over the specified requirements or on compliance and other matters; accordingly, we express no such opinions. The results of our tests disclosed no matters that are required to be reported under *Government Auditing Standards*.

Intended Purpose

The purpose of this examination report is solely to express an opinion on whether the City of Fredericksburg, Texas complied, in all material respects with the specified requirements referenced above during the year ended September 30, 2022. Accordingly, this report is not suitable for any other purpose.

ABIP, PC

San Antonio, Texas

April 18, 2023