

**CITY OF LIBERTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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FINANCIAL SECTION

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SWAIM, BRENTS & ASSOCIATES, P.C.
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Liberty, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison and pension plan information on pages 3 through 11 and 48 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and the supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, and the supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 14, 2020, on our consideration of the City of Liberty, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Swaim, Brents & Associates, P.C.

Swaim, Brents & Associates, P.C.

Liberty, Texas

February 14, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of the City of Liberty, Texas (the City) presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2019. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

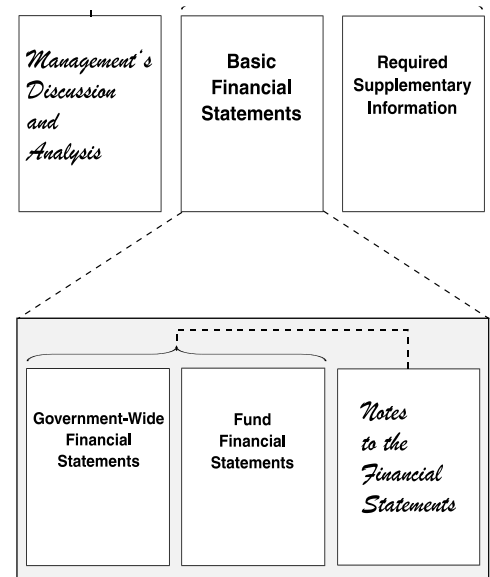
- The City's total combined net position was \$70.9 million at September 30, 2019, compared to \$61.3 million at September 30, 2018.
- Revenues for 2019 were \$33.0 million compared to \$31.9 million in 2018. Charges for electrical services decreased \$0.5 million, while water and wastewater and garbage revenues remained consistent with prior year. Additionally, property tax revenues increased \$0.2 million (5.3%) over 2018 and the City also received \$0.5 million in payments in lieu of taxes in 2019. Revenues include \$1.2 million in grants compared to \$0.8 million in grants in 2018. The grant proceeds in 2019 include an amount from FEMA for \$0.7 million stemming from the 2016 flood disaster. Other revenues include \$0.6 million for recovery of costs related to the library construction and repairs.
- During the year ended September 30, 2019, the City's total expenses were \$30.4 million compared to \$30.7 million in 2018. Governmental expenses in 2018 had included \$0.3 million for disaster recovery expenses associated with Hurricane Harvey. For 2019, the electrical fund expenses decreased \$0.6 million; however, this was offset by an increase in Water and Wastewater expenses of \$0.5 million.
- The general fund reported a fund balance of \$3.9 million at September 30, 2019, compared to \$2.7 million in prior year. A large part of this increase was the \$0.6 million received for recovery of library costs.
- During 2019, the City continued with various construction projects, including sewer system and wastewater treatment plant improvements, electrical improvements and levee rehabilitation.
- As of September 30, 2019, the City has \$4.0 million in restricted cash for debt service and \$4.4 million in restricted cash remaining from the debt issuances to fund capital projects.
- During 2019, the City received \$7.0 million from SRMPA for Cambridge Project net profits, compared to \$2.7 million in 2018. This is presented as a special item in the electric fund.
- During 2019, Liberty Community Development Corporation (LCDC) funded a sewer line extension north of the City of \$0.4 million, municipal golf course improvements of \$0.4 million, and various smaller capital expenditures of the City.

OVERVIEW OF THE FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements. Additionally, the City implemented GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The statement amends the net asset reporting requirements of GASB Statement No. 34 by incorporating deferred inflows and outflows of resources into the required components of the residual measure and renaming that measure as net position. The basic financial statements of the City include (a) Management's Discussion and Analysis, (b) Government-wide Financial Statements, (c) Fund Financial Statements, (d) Notes to Financial Statements; and (e) Required Supplementary Information. The basis of presentation and the basis of accounting for the government-wide and fund financial statements is discussed below:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.

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



- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activities in the government that operates *like businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

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

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

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

Type of Statements	Government-wide Entire City's government (except fiduciary funds) and the City's component units	Governmental Funds The activities of the City that are not proprietary or fiduciary	Fund Statements Proprietary Funds Activities the City operates similar to private businesses & self insurance	Fiduciary Funds Instances in which the City is the trustee or agent for someone else's resources
Scope				
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

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

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

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

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, public safety, streets, sanitation, economic development, culture and recreation, and interest on long-term debt. Property taxes and other taxes finance most of these activities.

The government-wide financial statements of the City also include the *Business-type activities* such as electric services, water and wastewater services, and solid waste services. These services are financed through user charges.

Fund Financial Statements

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

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

The City has the following kinds of funds:

- *Governmental Funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information to the right of the governmental funds statement, that explain the relationship (or differences) between them.
- *Proprietary Funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position was \$70.9 million at September 30, 2019, compared to \$61.3 million at September 30, 2018. (See Table A-1).

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

	Governmental Activities		Business-type Activities		Total		Total Percentag Change
	2019	2018	2019	2018	2019	2018	2019-2018
Assets:							
Cash and Investments	\$6,374.1	\$4,138.7	\$18,858.7	\$14,457.8	\$25,232.8	\$18,596.5	35.7%
Cash and Investments - Restricted	6,570.8	9,905.9	1,856.7	2,866.1	8,427.6	12,772.0	-34.0%
Accounts Receivable	608.5	3.0	2,251.7	2,254.2	2,860.2	2,257.2	26.7%
Taxes Receivable, Net	553.5	523.0	-	-	553.5	523.0	5.8%
Due from State/Federal Agencies	846.4	822.5	-	-	846.4	822.5	2.9%
Due from Other Governments	6.4	6.4	359.2	419.6	365.7	426.0	-14.2%
Prepaid Assets	140.1	136.1	0.0	-	140.1	136.1	2.9%
Inventory	89.5	124.4	373.8	387.1	463.3	511.5	-9.4%
Internal Balances	119.9	580.2	(119.9)	(580.2)	-	-	-
Capital Assets, Net	34,503.9	29,981.2	27,787.7	26,932.6	62,291.5	56,913.8	9.4%
Total Assets	<u>49,813.1</u>	<u>46,221.4</u>	<u>51,367.9</u>	<u>46,737.2</u>	<u>\$101,181.0</u>	<u>92,958.6</u>	8.8%
Deferred Outflows of Resources	<u>1,385.7</u>	<u>874.8</u>	<u>247.4</u>	<u>155.8</u>	<u>1,633.1</u>	<u>1,030.6</u>	58.5%
Liabilities:							
Accounts Payable	1,052.5	728.6	2,016.9	2,018.5	3,069.4	2,747.1	11.7%
Customer Overpayments	-	-	32.0	35.5	32.0	35.5	-10.0%
Payable from Restricted Assets Due to State/Federal	-	-	0.0	-	-	-	-
Agencies	109.7	20.2	36.2	41.4	145.9	61.6	136.9%
Accrued Interest Payable	38.6	41.3	8.2	9.0	46.8	50.3	-6.9%
Service Deposits	-	-	298.4	295.4	298.4	295.4	1.0%
Long-Term Liabilities:							
Due Within One Year	1,480.7	1,480.5	644.4	629.4	2,125.1	2,109.9	0.7%
Due in More Than One Year	19,800.1	20,507.5	5,706.7	6,227.9	25,506.8	26,735.4	-4.6%
Total Liabilities	<u>22,481.6</u>	<u>22,778.1</u>	<u>8,742.8</u>	<u>9,257.1</u>	<u>31,224.4</u>	<u>32,035.2</u>	-2.5%
Deferred Inflows of Resources	<u>570.5</u>	<u>598.4</u>	<u>91.2</u>	<u>95.9</u>	<u>661.7</u>	<u>694.3</u>	-4.7%
Net Position:							
Net Investment in Capital Assets	21,733.1	20,299.6	27,788.5	21,581.3	49,521.6	41,880.9	18.2%
Restricted for Debt Service	2,636.4	2,563.9	1,252.7	1,247.6	3,889.1	3,811.5	2.0%
Restricted for Building Security and Technology	72.9	67.4	-	-	72.9	67.4	8.1%
Unrestricted	3,704.3	788.8	13,740.1	14,711.1	17,444.4	15,499.9	12.5%
Total Net Position	<u>\$28,146.7</u>	<u>\$23,719.7</u>	<u>\$42,781.3</u>	<u>\$37,540.0</u>	<u>\$70,928.0</u>	<u>\$61,259.7</u>	15.8%

As of September 30, 2019, the City had invested \$49.5 million in capital assets, net of related debt. Approximately \$3.9 million of the City's net position are restricted for debt service. Additionally, approximately \$3.5 million remains restricted for construction projects, but as the related debt is outstanding, there is no effect on net position. The remaining unrestricted net position of \$17.4 million represents resources available to fund the programs of the City next year.

As of September 30, 2018, the City had invested \$41.9 million in capital assets, net of related debt. Approximately \$3.8 million of the City's net position was restricted for debt service. Additionally, approximately \$7.3 million remained restricted for construction projects, but as the related debt was outstanding, there was no effect on net position. The remaining unrestricted net position was \$15.5 million.

Changes in Net Position

The City's total revenues for 2019 were \$33.0 million compared to \$31.9 million in 2018. A significant portion, 71 percent, of the City's revenue comes from charges for services. (See Figure A-3.) Other revenue sources include property taxes (12 percent), sales tax (10 percent), and grants and contributions (4 percent). The total cost of all programs and services was \$30.4 million; 52 percent of these costs are electric services, 9 percent are for water and wastewater services, 2 percent are for library and 3 percent are for streets and general maintenance. Police department expenses and fire department expenses accounted for 9 percent and 8 percent, respectively, of total expenses.

The City's total revenues for 2018 were \$31.9 million compared to \$29.3 million in 2017. A significant portion, 73 percent, of the City's revenue came from charges for services. Other revenue sources include property taxes (12 percent), sales tax (10 percent), and grants and contributions (2 percent). The total cost of all programs and services was \$30.7 million; 53 percent of these costs are electric services, 8 percent are for water and wastewater services, 3 percent are for library and 3 percent are for streets and general maintenance. Police department expenses and fire department expenses accounted for 9 percent and 8 percent, respectively, of total expenses.

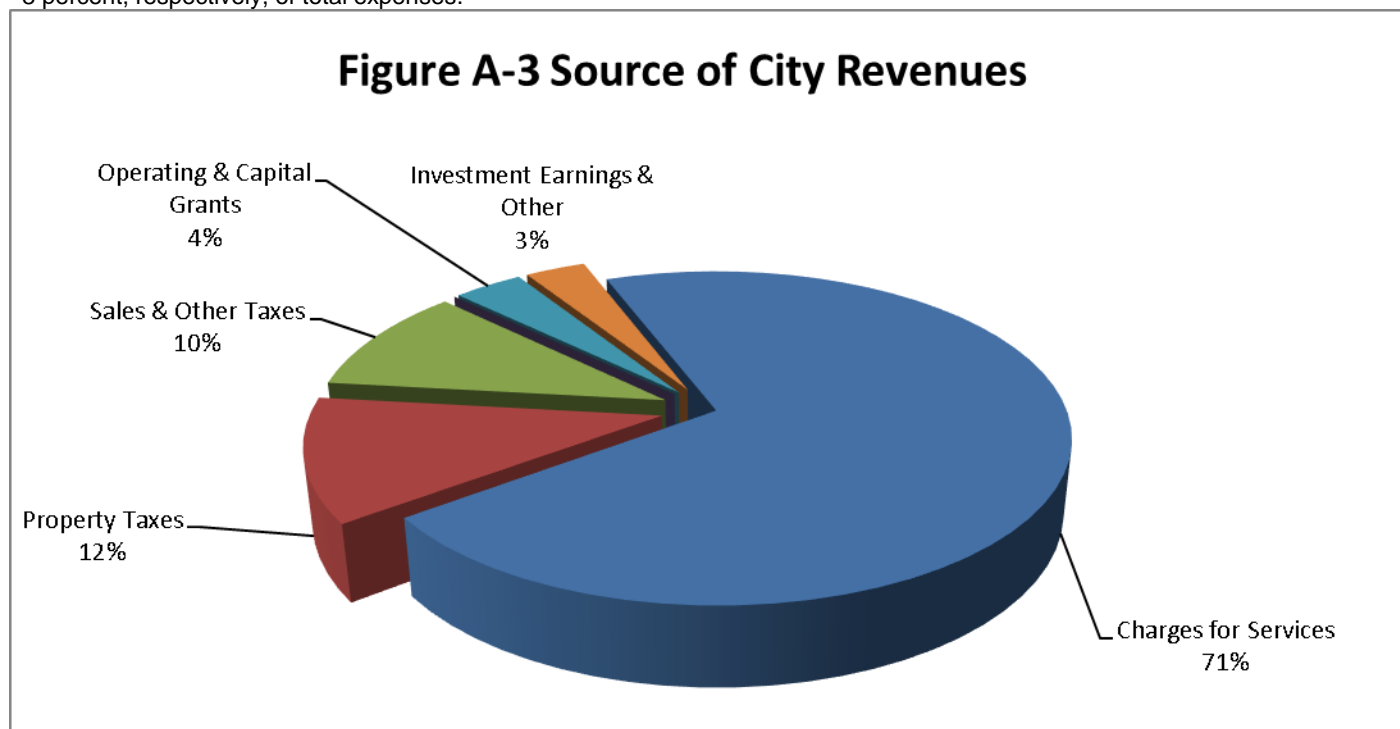


Table A-2
Changes in the City's Net Position
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2019	2018	2019	2018	2019	2018	2019-2018
Program Revenues:							
Charges for Services -							
Governmental Activities	\$1,858.4	\$1,689.3	-	-	\$1,858.4	\$1,689.3	10.0%
Electric	-	-	\$16,704.2	\$17,201.6	16,704.2	17,201.6	-2.9%
Water and Wastewater	-	-	3,671.0	3,766.2	3,671.0	3,766.2	-2.5%
Garbage	-	-	751.5	745.3	751.5	745.3	0.8%
Operating Grants and Contributions	1,100.7	600.5	117.4	166.9	1,218.1	767.4	58.7%
General Revenues:							
Property Taxes	3,877.8	3,683.7	-	-	3,877.8	3,683.7	5.3%
Sales and Other Taxes	3,369.1	3,260.1	-	-	3,369.1	3,260.1	3.3%
Payments in Lieu of Taxes	523.8	-	-	-	523.8	-	100.0%
Gain/(Loss) on Sale of Assets	(8.5)	(9.2)	-	-	(8.5)	(9.2)	-8.6%
Investment Earnings	146.2	87.1	203.8	175.2	350.0	262.3	33.4%
Other	709.6	492.7	5.3	54.6	714.9	547.3	30.6%
Total Revenues	11,577.1	9,804.2	21,453.2	22,109.8	33,030.3	31,914.0	3.5%

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

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2019-2018
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	
Expenses by Functions/ Programs							
Administration	\$1,211.8	\$1,187.7	-	-	1,211.8	\$1,187.7	2.0%
Business and Support Services	747.3	758.3	-	-	747.3	758.3	-1.5%
Economic Development	179.3	153.1	-	-	179.3	153.1	17.1%
Public Health and Fire/ Emergency	2,463.9	2,432.5	-	-	2,463.9	2,432.5	1.3%
Police and Court	2,708.6	2,764.1	-	-	2,708.5	2,764.1	-2.0%
Animal Control	118.1	135.8	-	-	118.1	135.8	-13.0%
Library	810.6	1,011.0	-	-	810.6	1,011.0	-19.8%
Streets and General	1,028.7	1,013.7	-	-	1,028.7	1,013.7	1.5%
Parks and Recreation	405.8	388.4	-	-	405.8	388.4	4.5%
Inspection Services	156.6	229.7	-	-	156.6	229.7	-31.8%
Golf Course	462.8	118.9	-	-	462.8	118.9	289.2%
Airport Operations	444.1	416.2	-	-	444.1	416.2	6.7%
Disaster Recovery	-	331.0	-	-	0.0	331.0	-100.0%
Interest on Long-Term Electric	490.2	524.7	-	-	490.2	524.7	-6.6%
Water and Wastewater	-	-	\$15,797.4	\$16,354.4	15,797.4	16,354.4	-3.4%
Garbage	-	-	2,769.0	2,341.9	2,769.0	2,341.9	18.2%
	-	-	567.7	575.2	567.7	575.2	-1.3%
Total Expenses	<u>11,227.8</u>	<u>11,465.1</u>	<u>19,134.1</u>	<u>19,271.5</u>	<u>30,361.8</u>	<u>30,736.6</u>	-1.2%
Change in Net Position Before Items & Transfers	349.3	(1,660.9)	2,319.10	2,838.3	2,668.4	1,177.4	126.6%
Special Items	-	-	7,000.0	2,666.7	7,000.0	2,666.7	162.5%
Transfers	<u>4,077.7</u>	<u>3,133.3</u>	<u>(4,077.7)</u>	<u>(3,133.3)</u>	<u>-</u>	<u>-</u>	0.0%
Change in Net Position	<u>4,427.0</u>	<u>1,472.4</u>	<u>5,241.4</u>	<u>2,371.7</u>	<u>9,668.4</u>	<u>3,844.1</u>	151.5%
Net Position – Beginning	<u>23,719.7</u>	<u>22,247.3</u>	<u>37,540.0</u>	<u>35,168.3</u>	<u>61,259.7</u>	<u>57,415.6</u>	6.7%
Net Position – Ending	<u>\$28,146.7</u>	<u>\$23,719.7</u>	<u>\$42,781.4</u>	<u>\$37,540.0</u>	<u>\$70,928.1</u>	<u>\$61,259.7</u>	15.8%

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

- The cost of all *governmental* activities this year was \$11.2 million.
- The amount that our taxpayers paid for these activities was \$3.9 million in property taxes and \$3.4 million in sales and other taxes.
- The remaining funding came primarily from charges for services (\$1.8 million) and transfers from business-type activities (\$4.1 million).

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

	Total Cost of Services			Net Cost of Services		
	<u>2019</u>	<u>2018</u>	<u>% Change</u> <u>2019-2018</u>	<u>2019</u>	<u>2018</u>	<u>% Change</u> <u>2019-2018</u>
Administration and City Council	\$1,211.8	\$1,187.8	2.0%	\$1,159.5	\$1,137.8	1.9%
Business and Support Services	747.3	758.3	-1.5%	747.3	758.3	-1.5%
Economic Development/Tourism	179.3	153.1	17.1%	131.8	116.2	13.4%
Public Health and Safety:						
Fire/ Emergency Medical Services	2,463.9	2,432.5	1.3%	1,400.0	1,510.5	-7.3%
Police and Municipal Court	2,708.6	2,764.1	-2.0%	2,432.9	2,398.9	1.4%
Animal Control	118.1	135.8	-13.0%	115.8	122.6	-5.5%
Library	810.6	1,011.0	-19.8%	786.8	992.3	-20.7%
Streets and General Maintenance	1,028.7	1,013.7	1.5%	1,028.7	1,013.7	1.5%
Parks and Recreation	405.8	388.4	4.5%	377.8	374.8	0.8%
Inspection Services	156.6	229.7	-31.8%	119.8	200.4	-40.2%
Golf Course	462.8	118.9	289.2%	338.0	92.9	264.2%
Airport Operations	444.1	416.2	6.7%	129.2	94.8	36.4%
Disaster Recovery	-	330.9	-100.0%	(989.2)	(162.5)	508.7%
Interest on Long-Term Debt	490.2	524.7	-6.6%	490.2	524.7	-6.6%
Total	<u>\$11,227.8</u>	<u>\$11,465.1</u>	-2.1%	<u>\$8,268.6</u>	<u>\$9,175.4</u>	-9.9%

Business-type Activities

Revenues of the City's business-type activities decreased \$0.6 million from 2018 to \$21.5 million, and expenses decreased \$0.2 million to \$19.1 million compared to 2018. The electric fund had lower revenues and expenses due to change in power demand. The electric fund received \$7.0 million in nonoperating revenue from the Cambridge Project. Additionally, business-type activities transferred out \$4.1 million to governmental activities. Overall, net position increased \$5.2 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$11.7 million, an increase of \$2.4 million from 2018. Expenditures for the governmental funds were higher than prior year amounts by \$1.5 million. The increase in expenditures was primarily due to higher capital expenditures which totaled \$6.0 million in 2019.

General Fund Budgetary Highlights

The City revises its budget as needed to meet the needs of the City. General fund revenues were \$2.3 million (38%) higher than budgeted primarily due to grants and amounts received for library cost recovery. Expenditures exceeded appropriation by \$1.0 million primarily due to higher library building professional services than expected, and additional capital expenditures. Other financing sources from transfers from other funds were \$0.5 million lower than expected. Overall, the general fund ended the year with revenues exceeding expenditures by \$0.8 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the City had invested \$130.1 million in a broad range of capital assets, including land, equipment, buildings, vehicles, utility systems and infrastructure. (See Table A-4.) This amount represents a net increase (including additions and deductions) of \$7.3 million over the prior year.

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

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2019	2018	2019	2018	2019	2018	2019-2018
Land	\$1,500.4	\$1,500.4	\$2.6	\$2.6	\$1,503.0	\$1,503.0	0.0%
Buildings and Improvements	14,054.8	14,188.1	849.5	849.5	14,904.3	15,037.6	-0.9%
Construction in Progress	8,835.4	4,669.3	5,524.4	4,692.4	14,359.8	9,361.7	53.4%
Infrastructure	54,430.2	54,370.1	4,485.7	3,568.2	58,915.9	57,938.3	1.7%
Utility Systems	-	-	30,197.3	30,197.3	30,197.3	30,197.3	0.0%
Vehicles	2,921.6	2,226.3	408.9	354.5	3,330.5	2,580.8	29.0%
Furniture and Equipment	4,913.3	4,355.2	1,575.0	1,463.2	6,488.3	5,818.4	11.5%
Assets Held Under Capital Lease	365.0	365.0	-	-	365.0	365.0	0.0%
Totals at Historical Cost	87,020.7	81,674.4	43,043.4	41,127.7	130,064.1	122,802.1	5.9%
Total Accumulated Depreciation	(52,516.9)	(51,693.2)	(15,255.8)	(14,195.1)	(67,772.7)	(65,888.3)	2.9%
Net Capital Assets	<u>\$34,503.8</u>	<u>\$29,981.2</u>	<u>\$27,787.6</u>	<u>\$26,932.6</u>	<u>\$62,291.4</u>	<u>\$56,913.8</u>	9.4%

Long Term Debt

At yearend, the City had \$21.7 million in debt outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

Bond Ratings

The City's bonds are presently rated "AA-" by Standard & Poor's Rating Services. LCDC's bonds are presently rated at "A-" by Standard & Poor's Rating Services.

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2019	2018	2019	2018	2019	2018	2019-2018
Capital Lease Obligations	\$11.1	\$55.1	-	-	\$11.1	\$55.1	-79.8%
Bonds Payable, 2007 Series	-	-	\$4,090.0	\$4,495.0	4,090.0	4,495.0	-9.0%
Certificates of Obligation, 2016	6,730.0	7,040.0	-	-	6,730.0	7,040.0	-4.4%
Certificates of Obligation, 2010A	3,455.0	3,700.0	-	-	3,455.0	3,700.0	-6.6%
Certificates of Obligation, 2012	1,300.0	1,380.0	-	-	1,300.0	1,380.0	-5.8%
Refunding Bonds, 2012	1,380.0	1,640.0	-	-	1,380.0	1,640.0	-15.9%
Utility System Bonds 2016A	-	-	630.0	720.0	630.0	720.0	-12.5%
Utility System Bonds 2016B	-	-	645.0	735.0	645.0	735.0	-12.2%
LCDL Sales Tax Bonds	2,610.0	2,740.0	-	-	2,610.0	2,740.0	-4.7%
Bond Premium	432.0	469.2	-	-	432.0	469.2	-7.9%
Bond Discount	-	-	(25.5)	(29.1)	(25.5)	(29.1)	-12.2%
LCDL Note Payable	400.6	420.0	-	-	400.6	420.0	-4.6%
Total Long Term Debt	<u>\$16,318.7</u>	<u>\$17,444.3</u>	<u>\$5,339.5</u>	<u>\$5,920.9</u>	<u>\$21,658.1</u>	<u>\$23,365.2</u>	-7.3%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Property taxes for 2020 are expected to increase approximately 2.2% from prior year as a result of increased appraised values. Tax rates are consistent with prior year. Appraised value used for the 2020 budget preparation increased 2.2% over the amounts used in 2019. Overall general fund revenues are expected to increase 12% over 2018 levels.
- General operating fund spending in the 2020 budget is expected to be \$9.9 million, a 12% increase over budgeted amounts for 2019.

These indicators were taken into account when adopting the general fund budget for 2020. The 2020 budget is essentially a balanced budget. As a result fund balance in the general fund is expected to remain constant.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Financial Department.

BASIC FINANCIAL STATEMENTS

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CITY OF LIBERTY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and Investments	\$6,374,064	\$18,858,711	\$25,232,775
Cash and Investments – Restricted	6,570,809	1,856,744	8,427,553
Accounts Receivable, Net	608,502	2,251,678	2,860,180
Taxes Receivable, Net	553,507	-	553,507
Due From State	846,438	-	846,438
Due from Other Governments	6,432	359,222	365,654
Prepays	140,110	-	140,110
Inventory	89,496	373,834	463,330
Internal Balances	119,914	(119,914)	-
Capital Assets, Net	34,503,848	27,787,646	62,291,494
TOTAL ASSETS	49,813,120	51,367,921	101,181,041
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Interest on Refunded Debt	65,146	-	65,146
Deferred Outflows Related to Pensions	1,320,528	247,382	1,567,910
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,385,674	247,382	1,633,056
<u>LIABILITIES</u>			
Accounts Payable	1,052,500	2,016,893	3,069,393
Customer Overpayments Payable	-	31,959	31,959
Due to State/Federal Agencies	109,651	36,178	145,829
Accrued Interest Payable	38,639	8,179	46,818
Service Deposits	-	298,440	298,440
Long-term Liabilities:			
Due Within One Year	1,480,660	644,355	2,125,015
Due In More Than One Year	19,800,118	5,706,704	25,506,822
TOTAL LIABILITIES	22,481,568	8,742,708	31,224,276
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Inflows Related to Pension	570,476	91,244	661,720
TOTAL DEFERRED INFLOWS OF RESOURCES	570,476	91,244	661,720
<u>NET POSITION</u>			
Net Investment in Capital Assets	21,733,119	27,788,541	49,521,660
Restricted for Debt Service	2,636,426	1,252,670	3,889,096
Restricted for Building Security and Technology	72,874	-	72,874
Unrestricted	3,704,331	13,740,140	17,444,471
TOTAL NET POSITION	\$28,146,750	\$42,781,351	\$70,928,101

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION

YEAR ENDED SEPTEMBER 30, 2019

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Government Activities:				
Administration	\$1,211,813	\$52,265	-	-
Business and Support Services	747,283	-	-	-
Economic Development/Tourism	179,348	33,056	\$14,500	-
Public Health and Safety:				
Fire/EMS	2,463,872	1,010,890	52,934	-
Police	2,544,956	60,800	4,669	-
Municipal Court	163,607	208,803	1,471	-
Animal Control	118,102	928	1,330	-
Library	810,572	10,412	13,372	-
Streets	930,864	-	-	-
Maintenance	97,790	-	-	-
Parks and Recreation	405,821	23,175	4,799	-
Inspection Services	156,615	36,840	-	-
Airport Operations	444,069	296,439	18,443	-
Golf Course	462,791	124,775	-	-
Disaster Recovery	-	-	989,205	-
Interest on Long-term Debt	490,214	-	-	-
Total Governmental Activities	11,227,717	1,858,383	1,100,723	-
Business-Type Activities:				
Electric	15,797,439	16,704,246	-	-
Water and Wastewater	2,769,009	3,671,038	117,390	-
Solid Waste	567,686	751,453	-	-
Total Business-Type Activities	19,134,134	21,126,737	117,390	-
Totals	\$30,361,851	\$22,985,120	\$1,218,113	-

General Revenues
Property Taxes Levied For:
General Purposes
Debt Service
Sales Tax
Other Taxes
Payments in Lieu of Taxes
Gain/loss on Sale of Assets
Miscellaneous Income
Investment Income
Total General Revenues

Special Items
Transfers

Change in Net Position

Net Position, Beginning of Year

Net Position, End of Year

The accompanying notes are an integral part of this statement.

<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$(1,159,548)	-	\$(1,159,548)
(747,283)	-	(747,283)
(131,792)	-	(131,792)
(1,400,048)	-	(1,400,048)
(2,479,487)	-	(2,479,487)
46,667	-	46,667
(115,844)	-	(115,844)
(786,788)	-	(786,788)
(930,864)	-	(930,864)
(97,790)	-	(97,790)
(377,847)	-	(377,847)
(119,775)	-	(119,775)
(129,187)	-	(129,187)
(338,016)	-	(338,016)
989,205	-	989,205
(490,214)	-	(490,214)
(8,268,611)	-	(8,268,611)
-	\$906,807	906,807
-	1,019,419	1,019,419
-	183,767	183,767
-	2,109,993	2,109,993
(8,268,611)	2,109,993	(6,158,618)
2,476,416	-	2,476,416
1,401,358	-	1,401,358
3,109,056	-	3,109,056
260,030	-	260,030
523,818	-	523,818
(8,527)	-	(8,527)
709,573	5,306	714,879
146,216	203,790	350,006
8,617,940	209,096	8,827,036
-	7,000,000	7,000,000
4,077,746	(4,077,746)	-
4,427,075	5,241,343	9,668,418
23,719,675	37,540,008	61,259,683
\$28,146,750	\$42,781,351	\$70,928,101

CITY OF LIBERTY, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019

	General Fund	Liberty Community Development Corporation	Debt Service Funds	
			City of Liberty	LCDL
<u>ASSETS</u>				
Cash and Investments	\$2,629,370	\$2,314,274	-	-
Cash and Investments – Restricted	72,874	-	\$2,361,433	\$302,955
Accounts Receivable, Net	608,502	-	-	-
Taxes Receivable – Delinquent	460,352	-	570,995	-
Less: Allowance for Uncollectible Taxes	(213,223)	-	(264,617)	-
Due from State/Federal Agencies	478,929	161,938	-	-
Due from Other Governments	6,432	-	-	-
Prepaid Assets	140,110	-	-	-
Inventory	89,496	-	-	-
Interfund Receivable	319,301	2,326	5,036	1,055
TOTAL ASSETS	4,592,143	2,478,538	2,672,847	304,010
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$4,592,143	\$2,478,538	\$2,672,847	\$304,010
<u>LIABILITIES</u>				
Accounts Payable	\$289,437	\$24,019	-	-
Due to State/Federal Agencies	108,488	-	-	-
Interfund Payable	6,539	1,055	-	-
TOTAL LIABILITIES	404,464	25,074	-	-
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred Taxes Revenue	238,495	-	\$301,792	-
TOTAL DEFERRED INFLOWS OF RESOURCES	238,495	-	301,792	-
<u>FUND BALANCES</u>				
Restricted Fund Balances:				
Debt Service	-	-	2,371,055	\$304,010
Capital Projects	-	-	-	-
Building Security and Technology	72,874	-	-	-
Committed Fund Balance	88,577	2,453,464	-	-
Assigned	129,086	-	-	-
Unassigned	3,658,647	-	-	-
TOTAL FUND BALANCES	3,949,184	2,453,464	2,371,055	304,010
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$4,592,143	\$2,478,538	\$2,672,847	\$304,010

The accompanying notes are an integral part of this statement.

Capital Projects Fund (CO 2016)	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
-	\$931,054	\$499,366	\$6,374,064
\$3,833,547	-	-	6,570,809
-	-	-	608,502
-	-	-	1,031,347
-	-	-	(477,840)
-	-	205,571	846,438
-	-	-	6,432
-	-	-	140,110
-	-	-	89,496
-	-	-	327,718
3,833,547	931,054	704,937	15,517,076
-	-	-	-
\$3,833,547	\$931,054	\$704,937	\$15,517,076
\$285,607	\$429,374	\$24,063	\$1,052,500
-	-	1,163	109,651
-	-	200,210	207,804
285,607	429,374	225,436	1,369,955
-	-	-	540,287
-	-	-	540,287
-	-	-	2,675,065
3,547,940	-	-	3,547,940
-	-	-	72,874
-	501,680	479,501	3,523,222
-	-	-	129,086
-	-	-	3,658,647
3,547,940	501,680	479,501	13,606,834
\$3,833,547	\$931,054	\$704,937	\$15,517,076

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CITY OF LIBERTY, TEXAS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2019

TOTAL GOVERNMENTAL FUND BALANCES	\$13,606,834
Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	34,503,848
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	540,287
Payables for debt principal which was not due in the current period are not reported in the funds.	(15,887,634)
Payables for debt interest which are not due in the current period are not reported in the funds.	(38,639)
The premium paid for bond issuance is income in the funds when incurred but are deferred and amortized in the SNP.	(431,969)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(398,415)
Liability for pension obligation is not reported in the funds.	(4,562,760)
Deferred outflows and inflows of resources related to pensions are not reported in the funds.	750,052
Interest on advance refunding of debt is expensed in the funds but deferred and amortized in the SNP.	<u>65,146</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$28,146,750</u></u>

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2019

	General	Liberty Community Development Corporation	Debt Service Funds	
			City of Liberty	LCDC
REVENUES:				
Ad Valorem Taxes	\$2,450,845	-	\$1,391,473	-
Sales Tax	2,078,628	\$1,030,428	-	-
Other Taxes	214,659	-	-	-
Payments in Lieu of Taxes	523,818	-	-	-
Fines & Forfeitures	208,803	-	-	-
Investment Income	11,682	9,258	8,349	\$1,072
Licenses, Fees & Rents	1,109,559	-	-	-
Intergovernmental Transfers & Grants	840,745	-	-	-
Donations	8,629	-	-	-
Sale of Assets	103,712	-	-	-
Other Revenues & Receipts	795,324	-	-	-
TOTAL REVENUES	8,346,404	1,039,686	1,399,822	1,072
EXPENDITURES:				
Administration	1,178,199	-	-	-
Business & Support Services	715,704	-	-	-
Economic Development / Tourism	-	56,080	-	-
Public Health & Safety:				
Fire/EMS	2,095,220	-	-	-
Police	2,302,506	-	-	-
Municipal Court	155,478	-	-	-
Animal Control	114,162	-	-	-
Library	679,436	-	-	-
Streets	776,062	-	-	-
Maintenance	93,984	-	-	-
Parks & Recreation	284,770	-	-	-
Inspection Services	156,751	-	-	-
Airport Operations	-	-	-	-
Golf Course	-	-	-	-
Capital Expenditures	1,849,972	-	-	-
Debt Service: Principal	43,087	19,402	895,000	130,000
Interest & Fees	1,846	16,446	394,705	104,063
TOTAL EXPENDITURES	10,447,177	91,928	1,289,705	234,063
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(2,100,773)	947,758	110,117	(232,991)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	3,333,078	-	-	234,063
Operating Transfers Out	(23,056)	(1,223,681)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	3,310,022	(1,223,681)	-	234,063
Net Change In Fund Balances	1,209,249	(275,923)	110,117	1,072
Fund Balances, Beginning of Year	2,739,935	2,729,387	2,260,938	302,938
Fund Balances, End of Year	\$3,949,184	\$2,453,464	\$2,371,055	\$304,010

The accompanying notes are an integral part of this statement.

Capital Projects Fund (CO 2016)	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
-	-	-	\$3,842,318
-	-	-	3,109,056
-	-	\$45,371	260,030
-	-	-	523,818
-	-	-	208,803
\$102,725	-	13,130	146,216
-	-	73,739	1,183,298
-	-	224,014	1,064,759
-	-	27,335	35,964
-	-	-	103,712
-	-	380,531	1,175,855
102,725	-	764,120	11,653,829
-	-	-	1,178,199
-	-	-	715,704
-	-	115,983	172,063
-	-	-	2,095,220
-	-	7,248	2,309,754
-	-	-	155,478
-	-	-	114,162
-	-	10,644	690,080
-	-	-	776,062
-	-	-	93,984
-	-	-	284,770
-	-	-	156,751
-	-	307,909	307,909
-	-	418,140	418,140
3,026,240	755,624	406,571	6,038,407
-	-	-	1,087,489
-	-	-	517,060
3,026,240	755,624	1,266,495	17,111,232
(2,923,515)	(755,624)	(502,375)	(5,457,403)
-	1,257,304	507,982	5,332,427
-	-	(7,944)	(1,254,681)
-	1,257,304	500,038	4,077,746
(2,923,515)	501,680	(2,337)	(1,379,657)
6,471,455	-	481,838	14,986,491
\$3,547,940	\$501,680	\$479,501	\$13,606,834

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CITY OF LIBERTY, 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, 2019**

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$(1,379,657)
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Capital outlays are not reported as expenses in the SOA.	6,038,407
Loss on disposition of capital assets in the SOA is not reported in the funds.	(112,239)
The depreciation of capital assets used in the governmental activities are not reported in the funds.	(1,403,511)
Interest paid for advance refunding of bonds is expensed in the funds but is deferred and amortized in the SNP. This is the change in amounts this year.	(13,029)
Premium received with bond issuance is revenue in the Funds, but is deferred and amortized in the SNP. This is the change in these amounts this year.	37,259
Certain property taxes are deferred inflows in the funds. This is the change in these amounts this year.	35,453
Interest is not expensed until paid in the funds but is expensed when incurred in the SOA. This is the change in these amounts this year.	2,617
Payables for compensated absences which were not due in the current period are not reported in the funds. This is the change in these amounts this year.	4,595
Repayment of debt principal is an expenditure in the funds but is not an expense in the SOA.	1,087,489
Change in net pension obligation and deferred outflows related to pensions are not reported as expenses in the SOA.	<u>129,691</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$4,427,075</u>

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2019

	Business-Type Activities – Enterprise Funds			
	Electric	Water and Wastewater	Solid Waste	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS:</u>				
Cash and Investments	\$17,423,536	\$1,198,479	\$236,696	\$18,858,711
Cash and Investments – Restricted	-	1,856,744	-	1,856,744
Accounts Receivable, Net	1,925,490	267,407	58,781	2,251,678
Inventory	273,321	100,513	-	373,834
Due from Other Governments	-	359,222	-	359,222
Due from Other Funds	200,210	1,503	-	201,713
TOTAL CURRENT ASSETS	19,822,557	3,783,868	295,477	23,901,902
Property, Plant and Equipment	13,465,740	29,577,726	-	43,043,466
Less: Allowance For Depreciation	(4,544,299)	(10,711,521)	-	(15,255,820)
Net Property, Plant and Equipment	8,921,441	18,866,205	-	27,787,646
TOTAL ASSETS	28,743,998	22,650,073	295,477	51,689,548
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred Outflows Related to Pensions	100,092	147,290	-	247,382
TOTAL DEFERRED OUTFLOWS OF RESOURCES	100,092	147,290	-	247,382
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES:</u>				
Accounts Payable	1,926,841	43,185	46,867	2,016,893
Customer Overpayments Payable	31,959	-	-	31,959
Due to State/Federal Agencies	31,012	-	5,166	36,178
Due to Other Funds	219,544	99,757	2,326	321,627
Accrued Interest Payable	-	8,179	-	8,179
Service Deposits	258,700	39,535	205	298,440
Current Maturities of Long-term Liabilities	17,472	626,883	-	644,355
TOTAL CURRENT LIABILITIES	2,485,528	817,539	54,564	3,357,631
Long-term Liabilities, net of Current Portion	394,539	5,312,165	-	5,706,704
TOTAL LIABILITIES	2,880,067	6,129,704	54,564	9,064,335
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred Inflows Related to Pensions	38,688	52,556	-	91,244
TOTAL DEFERRED INFLOWS OF RESOURCES	38,688	52,556	-	91,244
<u>NET POSITION</u>				
Net Investment in Capital Assets	8,921,441	18,867,100	-	27,788,541
Restricted for Debt Service	-	1,252,670	-	1,252,670
Unrestricted (Deficit)	17,003,894	(3,504,667)	240,913	13,740,140
TOTAL NET POSITION	\$25,925,335	\$16,615,103	\$240,913	\$42,781,351

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2019

	Business-Type Activities – Enterprise Funds			
	Electric	Water and Wastewater	Solid Waste	Total
<u>OPERATING REVENUES:</u>				
Charges for Services, Net	\$16,704,246	\$3,671,038	\$751,453	\$21,126,737
Investment Income	192,052	10,328	1,410	203,790
Grant Income	-	117,390	-	117,390
Other Income	423	4,883	-	5,306
TOTAL OPERATING REVENUES	16,896,721	3,803,639	752,863	21,453,223
<u>OPERATING EXPENSES:</u>				
Power Purchases	15,467,504	-	-	15,467,504
Purchased Power Rebate	(1,190,962)	-	-	(1,190,962)
Personnel Costs	392,089	581,239	-	973,328
Distribution Supplies and Contracts	11,543	113,311	567,686	692,540
Maintenance and Repairs	869,289	629,987	-	1,499,276
Other Charges and Services	26,894	512,435	-	539,329
Interest Expense	-	116,329	-	116,329
TOTAL OPERATING EXPENSES	15,576,357	1,953,301	567,686	18,097,344
NET OPERATING INCOME (LOSS) BEFORE DEPRECIATION	1,320,364	1,850,338	185,177	3,355,879
LESS: Depreciation and Amortization	(221,082)	(815,708)	-	(1,036,790)
NET OPERATING INCOME (LOSS)	1,099,282	1,034,630	185,177	2,319,089
<u>NONOPERATING REVENUES (EXPENSES):</u>				
SRMPA - Cambridge Distribution	7,000,000	-	-	7,000,000
TOTAL NONOPERATING REVENUES (EXPENSES)	7,000,000	-	-	7,000,000
INCOME BEFORE TRANSFERS	8,099,282	1,034,630	185,177	9,319,089
Operating Transfers In	-	530,652	-	530,652
Operating Transfers Out	(3,435,081)	(901,817)	(271,500)	(4,608,398)
CHANGES IN NET POSITION	4,664,201	663,465	(86,323)	5,241,343
NET POSITION, BEGINNING OF YEAR	21,261,134	15,951,638	327,236	37,540,008
NET POSITION, END OF YEAR	\$25,925,335	\$16,615,103	\$240,913	\$42,781,351

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers
Cash Received from Suppliers for Rebate
Cash Paid to Suppliers for Goods and Services
Cash Paid to Employees for Services
NET CASH PROVIDED (USED) BY OPERATING
ACTIVITIES

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Transfers to General Fund
Grant Income
Operating Transfers - Other
NET CASH PROVIDED (USED) BY
NON-CAPITAL FINANCING ACTIVITIES

**CASH FLOWS FROM CAPITAL & RELATED
FINANCING ACTIVITIES**

Interest on Debt Paid
Principal Payments on Debts
Acquisition of Capital Assets
NET CASH PROVIDED (USED) BY CAPITAL
AND RELATED FINANCING ACTIVITIES

CASH FLOWS FROM INVESTING ACTIVITIES

Cambridge Revenue
Interest on Cash and Investments
NET CASH PROVIDED (USED) BY INVESTING
ACTIVITIES

NET INCREASE (DECREASE) IN CASH
CASH & INVESTMENTS, BEGINNING OF YEAR
CASH & INVESTMENTS, END OF YEAR

Business-Type Activities – Enterprise Funds			
Electric	Water & Wastewater	Solid Waste	Total
\$16,740,051	\$3,643,639	\$750,341	\$21,134,031
1,190,962	-	-	1,190,962
(16,894,742)	(1,160,264)	(554,404)	(18,609,410)
(392,089)	(581,239)	-	(973,328)
644,182	1,902,136	195,937	2,742,255
(2,103,069)	(901,817)	(271,500)	(3,276,386)
-	117,390	-	117,390
(1,332,012)	530,652	-	(801,360)
(3,435,081)	(253,775)	(271,500)	(3,960,356)
-	(108,739)	-	(108,739)
-	(585,000)	-	(585,000)
(1,051,011)	(840,809)	-	(1,891,820)
(1,051,011)	(1,534,548)	-	(2,585,559)
7,000,000	-	-	7,000,000
192,052	10,328	1,410	203,790
7,192,052	10,328	1,410	7,203,790
3,350,142	124,141	(74,153)	3,400,130
14,073,394	2,939,650	310,849	17,323,893
\$17,423,536	\$3,063,791	\$236,696	\$20,724,023

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2019

Reconciliation of Income before Transfers to Net Cash Provided (Used) by Operating Activities:

Income Before Transfers	\$8,099,282	\$1,034,630	\$185,177	\$9,319,089
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities -				
Depreciation and Amortization	221,082	815,708	-	1,036,790
Nonoperating Income	(7,000,000)	-	-	(7,000,000)
Investment Income	(192,052)	(10,328)	(1,410)	(203,790)
Grant Income	-	(117,390)	-	(117,390)
Interest Expense	-	116,329	-	116,329
(Increase) Decrease in:				
Accounts Receivable	35,929	(32,557)	(842)	2,530
Inventory	13,253	-	-	13,253
Due from Other Funds	(200,210)	35,037	8,181	(156,992)
Due from Other Governments	-	-	-	-
Prepaid Assets	-	(10,978)	-	(10,978)
Increase (Decrease) in:				
Accounts Payable	(10,974)	71,456	4,551	65,033
Customer Overpayments	(3,572)	-	-	(3,572)
Due to State/Federal Agencies	(5,163)	-	(46)	(5,209)
Due to Other Funds	(303,906)	-	596	(303,310)
Service Deposits	3,025	275	(270)	3,030
Compensated Absences Payable	(716)	5,657	-	4,941
Pension Items	(11,796)	(14,271)	-	(26,067)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$644,182	\$1,893,568	\$195,937	\$2,733,687

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED SEPTEMBER 30, 2019

	Employees Pension Trust Fund
<u>ASSETS</u>	
Investments, at Fair Value:	
Growth & Income Fund	\$1,830
Money Market Fund	91
Bond Fund	238
Balanced Fund	1,021
Fixed Income Account	51,715
Foreign Equity Portfolio Fund	768
Equity – Income Portfolio Fund	1,953
Growth Portfolio Fund	<u>1,119</u>
TOTAL ASSETS	<u>\$58,735</u>
<u>NET POSITION</u>	
Net Position of Assets Held In Trust For Pension Benefits	<u>\$58,735</u>
TOTAL NET POSITION	<u>\$58,735</u>

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION****FIDUCIARY FUNDS****YEAR ENDED SEPTEMBER 30, 2019**

	Employees Pension Trust Fund
<u>ADDITIONS:</u>	
Investment Income (Loss), Including Appreciation or Depreciation in Fair Value of Investments	<u>\$1,462</u>
TOTAL	<u>1,462</u>
<u>DEDUCTIONS:</u>	
Withdrawals	<u>-</u>
TOTAL	<u>-</u>
CHANGE IN NET POSITION	1,462
Net Position – Beginning of Year	<u>57,273</u>
Net Position – End of Year	<u><u>\$58,735</u></u>

The accompanying notes are an integral part of this statement.

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CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Liberty, Texas (the City) is a Home Rule City which operates under a City Charter adopted by the voters in 1958. The Charter provides for a Council – Manager form of government comprised of a mayor and six council members. It is the Council's responsibility to appoint a City Manager who is the chief administrative and executive officer of the City.

The City's major operations include public safety, fire protection, emergency medical services, parks and recreation, library, and general administrative services. Additionally, the City operates utility funds for the provision of utilities, including electric, water and wastewater, and solid waste services. The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity –

For financial reporting purposes, the City includes all funds, agencies and boards that are controlled by or dependent on the City Council. Control or dependence is determined on the basis of control of the governing board, budget adoption, taxing authority, and responsibility for debts or deficits.

The accompanying financial statements include those of the City of Liberty (the primary government) and its component unit. The Liberty Community Development Corporation (the Corporation), an entity legally separate from the City, is a non-profit industrial development corporation whose purpose is to promote economic development within the City. The Corporation is governed by a seven-member board that is appointed by the City Council. The budget, policies and directives of the Corporation are subject to approval by the City Council. Therefore, the Corporation is reported as if it were part of the City's operations, and is included in the financial reporting entity as a blended component unit. Its financial activity is reported as a major special revenue fund, a debt service fund and a capital projects fund in the accompanying financial statements. There are no other entities that should be included in the City's reporting entity because of significant operational or financial relationships to the City.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation –

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

Government-Wide Statements: The Statement of Net Position and the Statement of Activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed through user charges.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self financing or draws from the general revenues of the City.

Fund Financial Statements: Fund financial statements report detailed information about the City. Separate financial statements are provided for governmental funds and proprietary funds. The focus of governmental and proprietary fund financial statements is on the major funds rather than reporting funds by type. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Governmental Fund Types: All governmental funds are reported using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes receivable, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property taxes are recorded and deferred until they become available. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. The funds included in this category are as follows:

General Fund – This fund is the general operating fund of the City and is used to account for resources and functions traditionally associated with governments that are not required to be accounted for in another fund.

Special Revenue Funds – These funds are established to account for the proceeds of specific revenue sources other than assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, all general obligation indebtedness not serviced by the proprietary funds.

Capital Projects Funds – These funds are used to account for all major capital expenditures not financed by the proprietary or trust funds.

Proprietary Fund Types: All proprietary funds are accounted for using the accrual basis of accounting and the economic resources measurement focus. These funds account for operations that are primarily financed by user charges. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating expenses of the City's proprietary fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City's funds included in this category are the utility funds and an internal service fund. Utility funds are used to account for operations financed and operated in a manner similar to private business enterprises, where the intent of the Council is that the cost of providing certain goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges for those services. Utility funds for the City consist of the Electric Fund, Water and Wastewater Fund, and Solid Waste Fund.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund Types: Fiduciary fund statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. These fund types account for assets held by the City as a trustee or agent for individuals, organizations, and other units of governments. The City currently has one fiduciary fund, the Pension Trust Fund. This fund was established to provide pension benefits for City employees. The principal revenue source for this fund is earnings from investments. The assets of this fund and results of operations have not been combined with other funds of the City in the accompanying financial statements. (See Note 9).

C. Use of Estimates –

The preparation of financial statements in conformity with generally accepted accounting principles, as applicable to governmental entities, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Budgets and Budgetary Accounting –

Prior to September 30, of each year, the City adopts a budget for the fiscal year beginning October 1, of that year. The budget, which includes anticipated revenues and expenditures, is adopted for the Governmental Fund Types and all Proprietary Funds. The budget is amended by the Council as needed throughout the year.

E. Interfund Transactions and Balances –

Interfund transactions intended to reflect the transfer of resources between funds are reflected as transfers. Certain transactions representing short-term liabilities between funds are recorded as receivables and payables in the respective funds at the time the transactions are reported on the fund basis statements.

F. Cash and Investments -

For purposes of the Statement of Cash Flows, the City considers all certificates of deposit with a maturity of one year or less when issued to be cash equivalents. Cash deposits and certificates of deposit are reported at their carrying amount, which reasonably estimates fair value.

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value based on market indicators regarded as measures of equity or fixed income performance results. The city does not have investments valued at other than quoted market prices.

G. Restricted Cash and Investments–

As of September 30, 2019, the City had cash and investments restricted as follows:

	<u>Restricted</u>
Cash Restricted for Debt Service – City Governmental	\$2,361,433
Cash Restricted for Debt Service – LCDC Governmental	302,955
Cash Restricted for Debt Service – Proprietary Funds	1,260,849
Cash Restricted for Building Security & Technology	72,874
Cash and Investments from Certificates of Obligation, Series 2016, Restricted for Various Capital Projects	3,833,547
Cash from Bonds Payable, Series 2016 A, Restricted for Water and Wastewater Capital Projects	498,603
Cash from Bonds Payable, Series 2016 B, Restricted for Water and Wastewater Capital Projects	97,292
Total Restricted Cash	<u><u>\$8,427,553</u></u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Accounts Receivable –

Accounts receivable from electric, water and wastewater, and solid waste services are presented net of allowance for doubtful accounts of \$20,315 at September 30, 2019. The change in allowance from prior year has been netted against charges for service revenue.

I. Inventories –

The City does not maintain significant inventories of materials and supplies in the governmental fund types, except for street department materials. Inventories of materials and supplies are maintained for the proprietary funds. The inventory of each fund is recorded at cost (first-in, first-out basis), which is lower than market.

J. Capital Assets and Depreciation –

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation basis for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. The minimum capitalization threshold is any individual item with a total cost greater than \$5,000.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the general capital assets. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets are being depreciated using the straight-line method and depreciation expense for governmental assets is specifically identified by function with general assets being allocated based on a percentage of governmental functional expenditures over total governmental expenditures.

Depreciation expense for the proprietary funds is recorded in each respective proprietary fund. The following estimated useful lives are used for calculating depreciation expense:

	<u>Depreciable Life</u>
Infrastructure	15-40
Building & improvements	15-40
System	15-40
Vehicles	5-7
Heavy equipment	5-10
Office equipment	3-5

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources –

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an addition to net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

L. Fund Balances –

Governmental Accounting Standards Board (GASB) Statement No. 54-*Fund Balance Reporting and Government Fund Type Definitions* establishes fund balance classifications based primarily on the extent to which the City is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures.

In the fund financial statements, governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the City Council through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the City Council. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in any other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

For the government-wide financial statements, net position are reported as restricted when constraints placed on net position are either: (1) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

M. Net Position –

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the city-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Retirement Plan –

During the fiscal year 2002 the City elected to terminate its defined contribution retirement plan and began contributing to a defined benefit retirement plan. All plan costs are funded by the City on a current basis. See additional information in Note 9.

O. 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 additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions –

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None Reported	Not applicable

B. Deficit Fund Balance or Fund Net Assets of Individual Funds –

Following are funds having deficit fund balances or fund net assets at year-end, if any, along with remarks that address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None		

NOTE 3 – CASH DEPOSITS AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

A. Cash Deposits –

At September 30, 2019, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$23,526,291 and the bank balance was \$23,849,056. The City's cash deposits at September 30, 2019, and during the year ended September 30, 2019, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 3 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments –

The City is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments that are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and commercial paper.

The City's investments at September 30, 2019, are shown below:

<u>Investments</u>	
U. S. Treasuries:	
U. S. Treasury Bills	\$6,622,140
U. S. Treasury Bills	2,893,572
Certificates of Deposit	500,575
Mutual Funds:	
American Funds Capital Income Builder A	12,814
Franklin Income A	9,661
Franklin High Income A	8,650
American Funds Income Fund of America A	14,964
Federated High Income Bond Fund A #317	6,357
Equity Funds:	
American Funds Capital World Growth & Income	11,909
Franklin Templeton Rising Dividends	16,080
Franklin Templeton Founding Allocation A	8,068
American Funds Washington Mutual A	14,554
American Funds New Perspective A	14,693
	<u>\$10,134,037</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 3 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

C. Analysis of Specific Deposit and Investment Risks –

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year-end and if so, the reporting of certain related disclosures:

1. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The following investments had the respective Morningstar Ratings (Morningstar 5 - highest to Morningstar 1 - lowest) at September 30, 2019.

At September 30, 2019, the City's investments, other than those which are obligations of or guaranteed by the U.S. Government, are rated as to credit quality as follows:

Investment	Credit Rating
Mutual Funds:	
American Funds Capital Income Builder	Morningstar Rating 4
Franklin Templeton Income A	Morningstar Rating 4
Franklin Templeton High Income	Morningstar Rating 2
American Funds Income Fund of America A	Morningstar Rating 4
Federated High Income Bond Fund A #317	Morningstar Rating 4
Equity Funds:	
American Funds Capital World Growth & Income	Morningstar Rating 3
Franklin Templeton Rising Dividends	Morningstar Rating 3
Franklin Templeton Founding Allocation	Morningstar Rating 2
American Funds Washington Mutual A	Morningstar Rating 4
American Funds New Perspective A	Morningstar Rating 5

2. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year-end, the City was not exposed to custodial credit risk.

3. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end, the City was not exposed to concentration of credit risk.

4. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to interest rate risk.

5. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to foreign currency risk.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 4 – PROPERTY TAXES

Taxable property within the City is subject to assessment, levy and collection of ad valorem taxes necessary to provide for the payment of general obligation indebtedness, and to support the general governmental services provided. The City's Charter adopts the provisions of Article XI, Section 5 of the Texas Constitution, which limits the tax rate that the City can levy for all purposes to \$2.50 per \$100 valuation. The total tax rate for the fiscal year ended September 30, 2019 was \$0.5851 per \$100 assessed valuation based on the total net assessed value of \$684,684,188. This includes a debt service rate of \$0.2109 per \$100 assessed valuation and a maintenance and operations rate of \$0.3742 per \$100 assessed valuation.

Taxes are levied on October 1 of each year, and are payable without penalty or interest through the following January 31. The City recognizes property tax revenue when levied to the extent that it results in current receivables. Property taxes are collected and remitted to the City by the Liberty County Tax Assessor Collector's office.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes receivable of \$477,840 at September 30, 2019 are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

NOTE 5 – DUE TO/FROM OTHER FUNDS

As of September 30, 2019, interfund receivables and payables consisted of the following:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund-Fixed Asset Repl.	Electric Fund	\$219,544	Short term loan
General Fund-Fixed Asset Repl.	Water & Wastewater	99,757	Short term loan
LCDC	Solid Waste	2,326	Sales Tax Collection
LCDC Debt Service	LCDC	1,055	Short term loan
Debt Service	General Fund	5,036	Tax Collection
Electric	HMPG Flood Wall & Levee	200,210	Short term loan
Water & Waste Water	General Fund	1,503	Short term loan
		<u>\$529,431</u>	

All amounts due are scheduled to be repaid within one year.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 6 – TRANSFERS BETWEEN FUNDS

Transfers between funds during 2019 consisted of the following:

<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>	<u>Amount</u>
General Fund	Electric Fund	\$1,929,933
General Fund	Water & Wastewater Fund	901,817
General Fund	Solid Waste Fund	271,500
General Fund	LCDC	229,828
	Total	<u>\$3,333,078</u>
Capital Project Fund	Electric Fund (Cambridge)	<u>\$1,257,304</u>
Hotel-Motel/Tourism Fund	General Fund	<u>\$23,056</u>
Library Memorial Fund	Municipal Library Trust	<u>\$7,944</u>
LCDC Debt Service Fund	LCDC Fund	<u>\$234,063</u>
Golf Course Fund	LCDC Fund	<u>\$404,302</u>
Airport	LCDC Fund	<u>\$4,156</u>
HMPG Flood Wall & Leve Fund	Electric Fund	<u>\$68,524</u>
Water & Wastewater Fund	Electric Fund	\$179,320
Water & Wastewater Fund	LCDC Fund	351,332
	Total	<u>\$530,652</u>

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases & Transfers</u>	<u>Ending Balances</u>
<u>Governmental Activities:</u>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$1,500,440	-	-	\$1,500,440
Construction in Progress	4,669,243	\$4,166,165	-	8,835,408
Total Capital Assets Not Being Depreciated	<u>6,169,683</u>	<u>4,166,165</u>	<u>-</u>	<u>10,335,848</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	14,188,109	132,241	\$(265,516)	14,054,834
Infrastructure	54,370,146	60,100	-	54,430,246
Vehicles	2,226,273	933,406	(238,066)	2,921,613
Furniture and Equipment	4,355,184	746,495	(188,391)	4,913,288
Assets Held Under Capital Lease	365,000	-	-	365,000
Total Capital Assets Being Depreciated	<u>75,504,712</u>	<u>1,872,242</u>	<u>(691,973)</u>	<u>76,684,981</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	7,049,328	358,591	(153,277)	7,254,642
Infrastructure	40,137,987	372,618	-	40,510,605
Vehicles	1,316,447	241,223	(238,066)	1,319,604
Furniture and Equipment	3,049,527	406,746	(188,391)	3,267,882
Assets Held Under Capital Lease	139,915	24,333	-	164,248
Total Accumulated Depreciation	<u>51,693,204</u>	<u>1,403,511</u>	<u>(579,734)</u>	<u>52,516,981</u>
Total Capital Assets Being Depreciated, Net	<u>23,811,508</u>	<u>468,731</u>	<u>(112,239)</u>	<u>24,168,000</u>
Governmental Activities Capital Assets, Net	<u>\$29,981,191</u>	<u>\$4,634,896</u>	<u>\$(112,239)</u>	<u>\$34,503,848</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation was charged to functional expenditures as follows:

Governmental Activities:

Administration	\$55,546
Business and Support Services	30,303
Economic Development	7,285
Fire /EMS	399,574
Police	265,170
Municipal Court	7,019
Animal Control	4,834
Library	137,254
Streets	177,721
Maintenance	4,197
Parks & Recreation	122,169
Inspection Services	7,073
Airport Operations	136,160
Golf	49,206
Total Depreciation Expense	<u>\$1,403,511</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases & Transfers</u>	<u>Ending Balances</u>
<u>Business-Type Activities:</u>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$2,568	-	-	\$2,568
Construction in Progress	4,692,459	\$1,356,000	\$(524,041)	5,524,418
Total Capital Assets Not Being Depreciated	<u>4,695,027</u>	<u>1,356,000</u>	<u>(524,041)</u>	<u>5,526,986</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	849,482	-	-	849,482
System Improvements	30,197,327	-	-	30,197,327
Vehicles	354,459	54,443	-	408,902
Furniture and Equipment	1,463,227	87,945	23,884	1,575,056
Infrastructure	3,568,240	393,432	524,041	4,485,713
Total Capital Assets Being Depreciated	<u>36,432,735</u>	<u>535,820</u>	<u>547,925</u>	<u>37,516,480</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	198,722	20,454	-	219,176
System Improvements	12,677,108	674,697	-	13,351,805
Vehicles	362,846	25,813	-	388,659
Furniture and Equipment	956,470	315,826	23,884	1,296,180
Total Accumulated Depreciation	<u>14,195,146</u>	<u>1,036,790</u>	<u>23,884</u>	<u>15,255,820</u>
Total Capital Assets Being Depreciated, Net	<u>22,237,589</u>	<u>(500,970)</u>	<u>524,041</u>	<u>22,260,660</u>
Business-type Activities Capital Assets, Net	<u>\$26,932,616</u>	<u>\$855,030</u>	<u>-</u>	<u>\$27,787,646</u>

Depreciation was charged to functional expenditures as follows:

Business-type Activities

Water & Wastewater	\$815,708
Electric	<u>221,082</u>
Total Depreciation Expense	<u>\$1,036,790</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 8 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2019 was as follows:

	Rate	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due in One Year
<u>Governmental Activities:</u>						
Bonds:						
Certificates of Obligation, Series 2010A (Maturing 3/1/2030)	2.0-4.0%	\$3,700,000	-	\$(245,000)	\$3,455,000	\$255,000
Tax & Revenue Certificates Of Obligation, Series 2012 (Maturing 3/1/2032)	2.0-4.0%	1,380,000	-	(80,000)	1,300,000	80,000
General Obligation Refunding Bonds, Series 2012 (Maturing 3/1/24)	2.0-2.5%	1,640,000	-	(260,000)	1,380,000	265,000
LCDC Sales Tax Bonds, Series 2014 (Maturing 3/1/2034)	3.0-4.0%	2,740,000	-	(130,000)	2,610,000	130,000
Certificates of Obligation, Series 2016 (Maturing 3/1/2036)	2.0-3.0%	7,040,000	-	(310,000)	6,730,000	320,000
Bond Premium		469,228	-	(37,258)	431,969	-
Total Bonds		<u>16,969,228</u>	<u>-</u>	<u>(1,062,258)</u>	<u>15,906,969</u>	<u>1,050,000</u>
Capital Lease-Fire Truck		55,139	-	(43,087)	12,052	12,052
LCDC Note Payable	4.0%	419,984	-	(19,402)	400,582	20,193
Other Liabilities:						
Compensated Absences		403,010	\$230,078	(234,673)	398,415	398,415
Net Pension Liability		4,140,575	422,185	-	4,562,760	-
Total Governmental Activities		<u>\$21,987,936</u>	<u>\$652,263</u>	<u>\$(1,359,420)</u>	<u>\$21,280,778</u>	<u>\$1,480,660</u>
<u>Business-type Activities:</u>						
Bonds:						
Tax & Revenue Certificates of Obligation, Series 2007 (Maturing 3/1/28)	1.9- 2.55%	\$4,495,000	-	\$(405,000)	\$4,090,000	\$415,000
Utility System Revenue Bonds, Series 2016A (Maturing 3/1/26)	0.0- 0.94%	720,000	-	(90,000)	630,000	90,000
Utility System Revenue Bonds, Series 2016B (Maturing 3/1/26)	0.0- 0.89%	735,000	-	(90,000)	645,000	90,000
Bond Discount		(29,186)	-	3,648	(25,538)	-
		<u>5,920,814</u>	<u>-</u>	<u>(581,352)</u>	<u>5,339,462</u>	<u>595,000</u>
Other Liabilities:						
Compensated Absences		44,414	\$55,250	(50,309)	49,355	49,355
Net Pension Liability		892,129	70,112	-	962,241	-
Total Business-type Activities		<u>\$6,857,357</u>	<u>\$125,362</u>	<u>\$(631,661)</u>	<u>\$6,351,058</u>	<u>\$644,355</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 8 – LONG TERM LIABILITIES (CONTINUED)

Governmental Activity Bonds and Certificates of Obligation

General obligation bonds and certificates are serviced by the debt service fund. The amount of long-term debt that can be incurred by the City is not limited by state statute or the City's Home Rule Charter. The only limitation would be the overall tax rate limitation of \$2.50 per \$100 assessed valuation. Bond covenants for the general obligation bonds and certificates of obligation require the City to levy a tax sufficient to pay the current interest and principal of the debt. During the current year, the City was in compliance with these bond covenants. Principal and interest requirements to retire the City's general long-term bonds and certificates of obligation are as follows as of September 30, 2019:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2020	\$920,000	\$363,555	\$1,283,555
2021	950,000	335,580	1,285,580
2022	980,000	305,943	1,285,943
2023	1,010,000	274,630	1,284,630
2024	1,035,000	242,455	1,277,455
2025-2029	4,140,000	804,181	4,944,181
2030-2034	2,900,000	242,436	3,142,436
2035-2036	930,000	19,635	949,635
Total	<u>\$12,865,000</u>	<u>\$2,588,415</u>	<u>\$15,453,415</u>

In October, 2012, the City issued \$2.7 million General Obligation Refunding Bonds, Series 2012. The bonds were issued to effect an advance refunding of a substantial portion of the Certificates of Obligation, Series 2004. The proceeds from the issuance were placed with a trustee such that funds would be available to pay the debt on the refunding date. As such, the debt is considered defeased and is no longer considered a liability of the City. In accordance with GASB Statement No. 65, the amount placed with the trustee that represents interest on the refunded debt has been deferred in the governmental activities statement of net position and amortized to expense over the term of the new debt issued.

In April, 2012, the City issued \$1.75 million Tax and Revenue Certificates of Obligation, Series 2012. The funds will be utilized to construct, improve and equip certain municipal buildings including the police station, cultural center and public works. The bonds are to be paid from a tax levy on appraised property in the city. The bonds are further secured by surplus revenues of the water and sewer system of the City.

In September, 2010, the City issued General Obligation Refunding Bonds, Series 2010 of \$3.1 million and refunded both the Tax Anticipation Notes of \$975 thousand that had been issued earlier in the year and the General Obligation Refunding Bonds, Series 1998. The interest rate on the Series 2010 bonds is lower than both of the debt issuances that were refunded. Additionally, in September, 2010, the City issued Certificates of Obligation, Series 2010A of \$4.7 million. The purpose of the Series 2010A issuance is to provide funding for the various capital needs of the City.

In October, 2016, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2016 of \$7.655 million. The funds will be utilized to construct, improve and repair various fixed assets of the City. The bonds are to be paid from a tax levy on appraised property in the City. The bonds are further secured by surplus revenues of the water and sewer system of the City. The remaining proceeds of the debt issuance are reflected as restricted as of September 30, 2019.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 8 – LONG TERM LIABILITIES (CONTINUED)

In March, 2014, the LCDC issued Sales Tax Revenue Bonds, Series 2014 of \$3.215 million for a street construction project within the City of Liberty. The bonds will be paid from the one-half cent sales tax collected each year. Principal and interest requirements to retire LCDC's long-term bonds are as follows as of September 30, 2019:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2020	\$130,000	\$99,513	\$229,513
2021	135,000	94,213	229,213
2022	145,000	88,613	233,613
2023	150,000	83,275	233,275
2024	155,000	78,319	233,319
2025-2029	855,000	302,388	1,157,388
2030-2034	1,040,000	113,125	1,153,125
Total	<u>\$2,610,000</u>	<u>\$859,446</u>	<u>\$3,469,446</u>

Governmental Activities Notes Payable

During July, 2014, LCDC financed the purchase of a fire truck for the City of Liberty by issuing a note payable through Houston Galveston Area Council on Governments. The note will be paid back utilizing sales tax revenue of LCDC. The future debt service requirements on the note are as follows:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2020	\$20,193	\$15,655	\$35,848
2021	21,015	14,833	35,848
2022	21,872	13,977	35,849
2023	22,762	13,086	35,848
2024	23,690	12,158	35,848
2025-2029	133,739	45,504	179,243
2030-2034	157,311	15,958	173,269
Total	<u>\$400,582</u>	<u>\$131,171</u>	<u>\$531,753</u>

Business-type Activities Bonds and Certificates of Obligation

The City also has debt obligations in the proprietary funds. That debt will be paid from the net revenues of the utility systems. Principal and interest requirements to retire the proprietary funds debt obligations are as follows:

<u>Water & Wastewater Fund</u>			
<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2020	\$595,000	\$99,514	\$694,514
2021	600,000	90,015	690,015
2022	610,000	80,020	690,020
2023	620,000	69,255	689,255
2024	640,000	57,646	697,646
2025-2028	2,300,000	102,625	2,402,625
Total	<u>\$5,365,000</u>	<u>\$499,075</u>	<u>\$5,864,075</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 8 – LONG TERM LIABILITIES (CONTINUED)

In April, 2016, the City issued Utility System Revenue Bonds of \$1.8 million. The Utility System Revenue Bonds, Series 2016A (\$900,000) and Series 2016B (\$915,000) were issued to fund improvements to the wastewater and water systems of the City, respectfully. The bonds will be paid from the revenues of the utility system. The remaining net proceeds from the debt issuance is reflected as restricted cash as of September 30, 2019.

Governmental Activities Capital Leases

During 2013, the City entered into a capital lease for the purchase of a fire truck. Property held under capital leases at September 30, 2019 totaled \$365,000. Future minimum lease payments for the capital lease as of September 30, 2019, are as follows:

<u>Year Ending September 30,</u>	
2020	<u>\$12,157</u>
Total	<u>12,157</u>
Amount Representing Interest	<u>(105)</u>
Total	<u>\$12,052</u>

Compensated Absences

City employees are entitled to certain compensated absences based on the length of their employment. Sick leave may be carried from one year to the next year. Employees with more than five years of service with the City will be paid for unused sick leave upon separation of employment. The amount of leave is based on their length of service with the maximum amount paid between 20 days and 60 days. Compensation for vacation time may be carried from one year to the next year. Employees will be paid for unused vacation time up to two times their annual vacation days upon separation of employment. Unused accrued vacation in excess of these days will not be reimbursed. Additionally, employees can accumulate up to 40 hours per year in compensation time to be used as time off from work. Accrued compensated absences at September 30, 2019, were \$447,770.

NOTE 9 – RETIREMENT PLANS

A. Employee Pension Plan –

Substantially all full time employees of the City of Liberty were covered by the City of Liberty Employee Pension Plan, a qualified defined contribution retirement plan. During fiscal year 2002, the City terminated the plan. The plan was established by action of the City Council, and the City acts as plan administrator. The City funded all costs on a current basis through contributions equal to 10% of the qualifying gross salary of participating employees. No employee contributions were required for participation. The City did not incur any costs under the plan for the year ended September 30, 2019. Additionally, the City has no unfunded liabilities to the plan. Employees' interest are vested at the rate of 10% per year for the first four years of employment, and 20% per year for the next three years of employment, with 100% vesting after seven years. Due to the plan termination during 2002, the participants were allowed to rollover their vested amounts upon termination of the plan. A separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position are presented in the accompanying financial statements.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 9 – RETIREMENT PLANS (CONTINUED)

B. TMRS Pension Plan –

1. Description of Plan –

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. The TMRS defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

2. Benefits Provided –

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

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

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

Deposit rate:	7%
Matching Ratio (City to Employee):	2 to 1
Vesting Period:	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibility for the City, expressed as Age/ Years of Service is: "60/5, any age/20."

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

Inactive employees or beneficiaries currently receiving benefits	42
Inactive employees entitled to but not yet receiving benefits	132
Active employees	<u>96</u>
	<u>270</u>

3. Contributions –

Under state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 18.74% and 17.83% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019, were \$861,152 and were equal to the required contributions.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 9 – RETIREMENT PLANS (CONTINUED)

4. Net Pension Liability –

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

Actuarial Assumptions

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

<u>Actuarial Assumptions</u>	
	<u>12/31/18</u>
Investment rate of return	6.75%, net of pension plan investment expense, including inflation
Inflation	2.5%
Overall payroll growth	3.0%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of experience of TMRS over a four year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In connection with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal (EAN) actuarial cost method and a one-time change to the amortization policy. 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 addition expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 9 – RETIREMENT PLANS (CONTINUED)

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

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	<u>Increase (Decrease)</u>	
		Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2017	\$15,406,179	\$10,373,475	\$5,032,704
Changes for the year:			
Service cost	554,261	-	554,261
Interest	1,036,711	-	1,036,711
Change in benefit terms	-	-	-
Difference between expected and actual experience	(272,717)	-	(272,717)
Changes in assumptions	-	-	-
Contributions – employer	-	832,343	(832,343)
Contributions – employee	-	310,635	(310,635)
Net investment income	-	(310,700)	310,700
Benefit payments, including refunds of employee contributions	(649,270)	(649,270)	-
Administrative expense	-	(6,005)	6,005
Other changes	-	(315)	315
Net changes	668,985	176,688	492,297
Balance at 12/31/2018	<u>\$16,075,164</u>	<u>\$10,550,163</u>	<u>\$5,525,001</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 9 – RETIREMENT PLANS (CONTINUED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$7,680,334	\$5,525,001	\$3,743,526

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2019, the City recognized pension expense of \$705,397. At yearend, 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
Differences between expected and actual economic experience	-	\$(293,341)
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	\$904,189	(368,379)
Contributions subsequent to the measurement date	663,721	-
Total	<u>\$1,567,910</u>	<u>\$(661,720)</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$663,721 will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	Net Deferred Outflows (Inflows)
Year Ended September 30:	
2020	\$6,378
2021	(39,290)
2022	73,201
2023	202,180
Total	<u>\$242,469</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 9 – RETIREMENT PLANS (CONTINUED)

6. Deferred Compensation Plan –

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The group plan is basically available for all full-time employees on a strictly voluntary basis. No contributions are made by the City to this plan. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. The plan is administered by Ing Life Insurance and Annuity Company. The plan assets are held in trust for the exclusive benefits of the participants and their beneficiaries. The plan assets are not included in the financial statements of the City.

NOTE 10 – ELECTRIC SYSTEM

The City owns and operates a municipal electric distribution system for the benefit of its citizens. The electric distribution system consists of distribution lines, two substations (which are owned and operated by Sam Rayburn Municipal Power Agency) and interconnected transmission lines of Entergy Gulf States, which supply power to the City's system. The City furnishes electric service to its customers solely within its City limits.

The City is one of three voting members (consisting of the Cities of Liberty, Livingston, and Jasper, Texas) of the Sam Rayburn Municipal Power Agency (SRMPA). The SRMPA is a political subdivision of the State of Texas and is governed by a board of six directors, two of which are appointed by each member city.

SRMPA was formed to undertake the planning, financing, development, acquisition and operation of projects for the generation and transmission of electric power to supply the present and future needs of the member cities and the Vinton (Louisiana) Public Power Agency (the Participants). Each Participant is required by contract with SRMPA, to purchase its electrical requirements from SRMPA, and to pay liabilities under such contract as an operating and maintenance expense to its electrical system. An integral part of the bond indenture for long-term debt of SRMPA, are covenants that SRMPA will establish rates for electric power to the Participants sufficient to pay all debt service requirements (including funding of required reserves), all operating and maintenance costs of repairs and improvements. The City, as a Participant, is required to establish rates to its customers sufficient to meet its obligations to SRMPA under the exclusive power sales contract. As a result of SRMPA restructuring its debts, the City continued to receive a rebate on power costs due to overfunded debt service accounts of \$1,190,962 during 2019. This rebate is being used to defray the cost of purchased power. (See special item discussion in Note 15)

NOTE 11 – LIBERTY COMMUNITY DEVELOPMENT CORPORATION

As indicated in Note 1, the Liberty Community Development Corporation (LCDC) is a non-profit industrial development corporation whose purpose is to promote economic development within the City of Liberty. Due to the control and financial dependence exerted by the City over the Corporation, that entity is considered a component unit of the City for financial reporting purposes, and its financial activity is included in the accompanying financial statements as a special revenue fund. The Corporation is funded by a one-half (1/2) cent sales tax which became effective as of October 1995. During 2014, LCDC issued \$3.2 million of sales tax revenue bonds for a street construction project. The accompanying financial statements include an LCDC debt service fund associated with the bonds. During 2019, LCDC funded a sewer line extension of \$0.4 million, funded municipal golf course improvements of \$0.4 million, and funded various smaller capital expenditures of the City.

NOTE 12 – JOINT OPERATING AGREEMENT, PORT OF LIBERTY

Commencing in 1968, the City of Liberty entered into a joint operating agreement with the Chambers-Liberty Counties Navigation District (the District) which established certain terms with respect to the operation of the Port of Liberty (the Port). The Port facilities were constructed on land owned jointly by the City and the District, and the board of commissioners of the Port are appointed jointly by the City and the District, but neither entity can unilaterally appoint a majority of the board. The board of the Port is responsible for selection of management, development of a budget, and for continuing operations of the Port. The City does not account for revenues or expenditures for Port activities. The Port of Liberty has separate audited financial statements which may be obtained by contacting Port officials.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 13 – INTERGOVERNMENTAL REVENUES AND GRANTS

The City received funding from federal and state programs as well as private grants as follows:

General Fund:	
County Fire Aid	\$20,167
Division of Emergency Management - Emergency Management	
Performance Grant	27,630
Indigent Defense Fee	1,471
Police – LEOSE	2,169
US Fish and Wildlife Management Grant	1,386
Fire- LEOSE	682
FEMA – (current year \$82,766)	780,479
Texas A&M Forest Service Grants	4,455
Library Grants	537
Total General Fund	<u>\$838,976</u>
Proprietary Funds:	
Water and Wastewater Fund – CDBG – sewer system	<u>\$117,390</u>
Total Proprietary Funds	<u>\$117,390</u>
Special Revenue Funds:	
HMPG – Floodwall and Levee Grant	\$205,571
Airport – TX DOT Ramp Grant	18,843
Total Special Revenue Funds	<u>\$224,414</u>

During fiscal 2019, the City received additional funding from FEMA of \$797,687 for the flood disaster that occurred in 2016. The expenditures for this grant were incurred at that time and recovery of expenditures from a grant had been deemed uncertain in 2016. Additionally, the City was notified in 2019 that amounts are due back to FEMA for Hurricane Ike funding from 2008 of approximately \$100,000. This has been recorded in payables and reflected as a reduction of grant income.

NOTE 14 – RISK MANAGEMENT AND CONTINGENCIES

The City is exposed to various risks of losses related to torts; theft, damage, or destruction of assets; errors and omission; injuries to employees or others; and natural disasters. The City's primary risk management activity is to maintain various types of insurance coverage to cover any significant losses that might be incurred.

The City is contingently liable with respect to claims or litigation arising from the ordinary course of operations. The settlement of such claims would require budget appropriations of future revenues. City officials have asserted that they have no significant pending or threatened litigation, or claims against the City that would have a material adverse effect on the financial position of the City. Federal and State funds received during the current year and prior years through various grant programs are subject to audit by the applicable agencies. The City does not anticipate any substantial disallowance of project costs for any of the projects.

NOTE 15 – SPECIAL ITEMS

As discussed in Note 10, the City is a member of SRMPA for electrical power purposes. In 2012, SRMPA entered into supplemental agreements to sell excess electrical capacity to third parties. Such agreements were named the "Cambridge Project" and the activities are not commingled with the normal operation of SRMPA. During 2019, the City received \$7.0 million from SRMPA for Cambridge Project net profits.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LIBERTY, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL
AND MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED SEPTEMBER 30, 2019**

	General Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES:</u>				
Ad Valorem Taxes	\$2,290,000	\$2,290,000	\$2,974,663	\$684,663
Sales Tax	2,100,000	2,100,000	2,078,628	(21,372)
Other Taxes	210,000	210,000	214,659	4,659
Fines & Forfeitures	227,700	227,700	208,803	(18,897)
Investment Income	9,515	9,515	11,682	2,167
Licenses, Fees, & Rents	997,950	997,950	1,109,559	111,609
Intergovernmental Transfers & Grants	64,200	64,200	840,745	776,545
Other Revenues & Receipts	166,500	166,500	907,665	741,165
TOTAL REVENUES	6,065,865	6,065,865	8,346,404	2,280,539
<u>EXPENDITURES:</u>				
Administration & City Council	1,150,280	1,250,280	1,178,199	72,081
Business & Support Services	770,279	770,279	715,704	54,575
Economic Development/Tourism	-	-	-	-
Public Health & Safety:				
Fire	2,156,989	2,156,989	2,095,220	61,769
Police	2,415,007	2,416,407	2,302,506	113,901
Municipal Court	174,784	174,784	155,478	19,306
Animal Control	143,915	143,915	114,162	29,753
Library	422,912	422,912	679,436	(256,524)
Streets	876,808	915,308	776,062	139,246
Maintenance	96,661	96,661	93,984	2,677
Parks & Recreation	288,615	288,615	284,770	3,845
Inspection Services	206,434	206,434	156,751	49,683
Capital Expenditures	592,550	592,550	1,849,972	(1,257,422)
Disaster Recovery	-	-	-	-
Debt Service	-	-	44,933	(44,933)
TOTAL EXPENDITURES	9,295,234	9,435,134	10,447,177	(1,012,043)
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(3,229,369)	(3,369,269)	(2,100,773)	1,268,496
<u>OTHER FINANCING SOURCES:</u>				
Transfers from Other Funds	3,636,884	3,825,974	3,333,078	(492,896)
Transfers to Other Funds	-	-	(23,056)	(23,056)
TOTAL OTHER FINANCING SOURCES	3,636,884	3,825,974	3,310,022	(515,952)
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES	407,515	456,705	1,209,249	752,544
FUND BALANCES, BEGINNING OF YEAR	2,739,935	2,739,935	2,739,935	-
FUND BALANCES, END OF YEAR	\$3,147,450	\$3,196,640	\$3,949,184	\$752,544

- (A) General Fund Budgetary information includes Fixed Asset Replacement Fund
 (B) LCDC Budgetary information includes LCDC debt service
 (C) General Fund expenditures exceeded appropriations primarily due to Library building professional services and disaster recovery expenditures.
 (D) Debt Service budgeted certain debt service payments as transfers.

Liberty Community Development Corporation			
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
-	-	-	-
\$1,050,000	\$1,050,000	\$1,030,428	\$(19,572)
-	-	-	-
-	-	-	-
10,000	10,000	10,330	330
-	-	-	-
-	-	-	-
-	-	-	-
1,060,000	1,060,000	1,040,758	(19,242)
-	-	-	-
-	-	-	-
69,950	552,956	56,080	496,876
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
234,813	234,813	269,911	(35,098)
304,763	787,769	325,991	461,778
755,237	272,231	714,767	442,536
-	84,000	234,063	(150,063)
(316,500)	(477,047)	(1,223,681)	(746,634)
(316,500)	(393,047)	(989,618)	(596,571)
438,737	(120,816)	(274,851)	(154,035)
3,032,325	3,032,325	3,032,325	-
\$3,471,062	\$2,911,509	\$2,757,474	\$(154,035)

Debt Service			
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
\$1,241,156	\$1,241,156	\$1,391,473	\$150,317
-	-	-	-
-	-	-	-
-	-	-	-
5,000	5,000	8,349	3,349
-	-	-	-
-	-	-	-
42,500	42,500	-	(42,500)
1,288,656	1,288,656	1,399,822	111,166
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
813,676	813,676	1,289,705	(476,029)
813,676	813,676	1,289,705	(476,029)
474,980	474,980	110,117	(364,863)
-	-	-	-
(474,980)	(474,980)	-	474,980
(474,980)	(474,980)	-	474,980
-	-	110,117	110,117
2,260,938	2,260,938	2,260,938	-
\$2,260,938	\$2,260,938	\$2,371,055	\$110,117

CITY OF LIBERTY, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL
AND MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED SEPTEMBER 30, 2019**

	Capital Projects			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES:</u>				
Ad Valorem Taxes	-	-	-	-
Sales Tax	-	-	-	-
Other Taxes	-	-	-	-
Fines & Forfeitures	-	-	-	-
Investment Income	-	-	-	-
Licenses, Fees, & Rents	-	-	-	-
Intergovernmental Transfers & Grants	-	-	-	-
Other Revenues & Receipts	-	-	-	-
TOTAL REVENUES	-	-	-	-
<u>EXPENDITURES:</u>				
Administration & City Council	-	-	-	-
Business & Support Services	-	-	-	-
Economic Development/Tourism	-	-	-	-
Public Health & Safety:				
Fire	-	-	-	-
Police	-	-	-	-
Municipal Court	-	-	-	-
Animal Control	-	-	-	-
Library	-	-	-	-
Streets	-	-	-	-
Maintenance	-	-	-	-
Parks & Recreation	-	-	-	-
Inspection Services	-	-	-	-
Capital Expenditures	-	\$1,651,567	\$755,624	\$895,943
Disaster Recovery	-	-	-	-
Debt Service	-	-	-	-
TOTAL EXPENDITURES	-	1,651,567	755,624	895,943
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	-	(1,651,567)	(755,624)	895,943
<u>OTHER FINANCING SOURCES:</u>				
Transfers from Other Funds	-	1,651,567	1,257,304	(394,263)
Transfers to Other Funds	-	-	-	-
TOTAL OTHER FINANCING SOURCES	-	1,651,567	1,257,304	(394,263)
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES	-	-	501,680	501,680
FUND BALANCES, BEGINNING OF YEAR	-	-	-	-
FUND BALANCES, END OF YEAR	-	-	\$501,680	\$501,680

The accompanying Independent Auditor's Report should be read with this additional information.

CITY OF LIBERTY, TEXAS
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS –
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2019**

	2018	2017	2016	2015	2014
Total Pension Liability					
Service Cost	\$554,261	\$555,605	\$520,691	\$517,416	\$318,408
Interest (on the Total Pension Liability)	1,036,711	991,341	935,272	863,571	780,406
Changes of Benefit Terms	-	-	-	-	4,030,494
Difference Between Expected and Actual Experience	(272,717)	(242,896)	(76,539)	53,707	325,260
Change of Assumptions	-	-	-	530,215	-
Benefit Payments, Including Refunds of Employee Contributions	(649,270)	(613,204)	(519,266)	(375,511)	(295,510)
Net Change in Total Pension Liability	668,985	690,846	860,158	1,589,398	5,159,058
Total Pension Liability – Beginning	<u>15,406,179</u>	<u>14,715,333</u>	<u>13,855,175</u>	<u>12,265,777</u>	<u>7,106,719</u>
Total Pension Liability – Ending (a)	<u>\$16,075,164</u>	<u>\$15,406,179</u>	<u>\$14,715,333</u>	<u>\$13,855,175</u>	<u>\$12,265,777</u>
Plan Fiduciary Net Position					
Contributions – Employer	\$832,343	\$837,384	\$735,499	\$732,389	\$201,943
Contributions – Employee	310,635	311,887	290,194	304,618	204,251
Net Investment Income	(310,700)	1,197,456	515,312	10,273	371,202
Benefit Payments, Including Refunds of Employee Contributions	(649,270)	(613,204)	(519,266)	(375,511)	(295,510)
Administrative Expense	(6,005)	(6,210)	(5,824)	(6,261)	(3,875)
Other	(315)	(315)	(314)	(308)	(319)
Net Change in Plan Fiduciary Net Position	176,688	1,726,998	1,015,601	665,200	477,692
Plan Fiduciary Net Position – Beginning	<u>10,373,475</u>	<u>8,646,477</u>	<u>7,630,876</u>	<u>6,965,676</u>	<u>6,487,984</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$10,550,163</u>	<u>\$10,373,475</u>	<u>\$8,646,477</u>	<u>\$7,630,876</u>	<u>\$6,965,676</u>
Net Pension Liability – Ending (a) – (b)	<u>\$5,525,001</u>	<u>\$5,032,704</u>	<u>\$6,068,856</u>	<u>\$6,224,299</u>	<u>\$5,300,101</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	<u>65.63%</u>	<u>67.33%</u>	<u>58.76%</u>	<u>55.08%</u>	<u>56.79%</u>
Covered Employee Payroll	<u>\$4,437,636</u>	<u>\$4,455,530</u>	<u>\$4,145,627</u>	<u>\$4,351,691</u>	<u>\$4,085,010</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	<u>124.50%</u>	<u>112.95%</u>	<u>146.39%</u>	<u>143.03%</u>	<u>129.75%</u>

The accompanying Independent Auditor's Report should be read with this additional information.

CITY OF LIBERTY, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS -
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2019

	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
Actuarially Determined Contribution	\$861,152	\$830,396	\$819,924	\$744,092	\$605,241
Contributions in Relation to the Actuarially Determined Contribution	<u>861,152</u>	<u>830,396</u>	<u>819,924</u>	<u>744,092</u>	<u>605,241</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered Employee Payroll	<u>\$4,762,279</u>	<u>\$4,426,509</u>	<u>\$4,419,225</u>	<u>\$4,253,975</u>	<u>\$4,424,680</u>
Contributions as a Percentage of Covered Employee Payroll	<u>18.08%</u>	<u>18.76%</u>	<u>18.55%</u>	<u>17.49%</u>	<u>13.68%</u>

Notes to Schedule of Contributions

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January thirteen 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	23 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 – 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes Adopted restricted prior service credit.

SUPPLEMENTAL SECTION

CITY OF LIBERTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019

	Police Seizure Fund	Police Pre-Seizure Fund	Airport Fund	Hotel-Motel/ Tourism Fund
<u>ASSETS</u>				
Cash and Investments	\$52,092	\$2,585	\$64,073	-
Cash and Investments - Restricted	-	-	-	-
Due from State	-	-	-	-
Interfund Receivable	-	-	-	-
TOTAL ASSETS	52,092	2,585	64,073	-
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$52,092	\$2,585	\$64,073	-
<u>LIABILITIES</u>				
Accounts Payable	-	\$2,585	\$6,079	-
Due to State	-	-	-	-
Interfund Payable	-	-	-	-
TOTAL LIABILITIES	-	2,585	6,079	-
<u>DEFERRED INFLOWS OF RESOURCES</u>	-	-	-	-
<u>FUND BALANCES</u>				
Restricted- Capital Projects	-	-	-	-
Committed Fund Balances	\$52,092	-	57,994	-
TOTAL FUND BALANCES	52,092	-	57,994	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$52,092	\$2,585	\$64,073	-

The accompanying Independent Auditor's Report should be read with this additional information.

Golf Course Fund	Library Memorial Fund	Municipal Library Trust	HMPG Flood Wall & Levee	Total Nonmajor Special Revenue Funds
\$54,739	\$58,951	\$266,926	-	\$499,366
-	-	-	-	-
-	-	-	\$205,571	205,571
-	-	-	-	-
54,739	58,951	266,926	205,571	704,937
-	-	-	-	-
\$54,739	\$58,951	\$266,926	\$205,571	\$704,937
\$10,038	-	-	\$5,361	\$24,063
1,163	-	-	-	1,163
-	-	-	200,210	200,210
11,201	-	-	205,571	225,436
-	-	-	-	-
-	-	-	-	-
43,538	\$58,951	\$266,926	-	479,501
43,538	58,951	266,926	-	479,501
\$54,739	\$58,951	\$266,926	\$205,571	\$704,937

CITY OF LIBERTY, TEXAS**COMBINING STATEMENT OF REVENUES, EXPENDITURES****AND CHANGES IN FUND BALANCES****NONMAJOR GOVERNMENTAL FUNDS****YEAR ENDED SEPTEMBER 30, 2019**

	Police Seizure Fund	Police Pre-Seizure Fund	Airport Fund	Hotel-Motel/ Tourism Fund
<u>REVENUES:</u>				
Other Taxes	-	-	-	\$45,371
Forfeiture	-	-	-	-
Investment Income	\$256	-	-	-
Rents	-	-	\$73,739	-
Intergovernmental Grants	-	-	18,443	-
Grants and Donations	-	-	-	14,500
Other Revenues & Receipts	-	-	222,700	33,056
TOTAL REVENUES	<u>256</u>	<u>-</u>	<u>314,882</u>	<u>92,927</u>
<u>EXPENDITURES:</u>				
Economic Development / Tourism	-	-	-	115,983
Public Health and Safety:				
Police	7,248	-	-	-
Library	-	-	-	-
Airport	-	-	307,909	-
Golf Course	-	-	-	-
Capital Expenditure	12,488	-	-	-
TOTAL EXPENDITURES	<u>19,736</u>	<u>-</u>	<u>307,909</u>	<u>115,983</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(19,480)</u>	<u>-</u>	<u>6,973</u>	<u>(23,056)</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating Transfers In	-	-	4,156	23,056
Operating Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>4,156</u>	<u>23,056</u>
Net Change in Fund Balance	(19,480)	-	11,129	-
Fund Balances, Beginning of Year	<u>71,572</u>	<u>-</u>	<u>46,865</u>	<u>-</u>
Fund Balances, End of Year	<u>\$52,092</u>	<u>-</u>	<u>\$57,994</u>	<u>-</u>

The accompanying Independent Auditor's Report should be read with this additional information.

Golf Course Fund	Library Memorial Fund	Municipal Library Trust	HMPG Flood Wall & Levee	Total Nonmajor Special Revenue Funds
-	-	-	-	\$45,371
-	-	-	-	-
-	\$145	\$12,729	-	13,130
-	-	-	-	73,739
-	-	-	\$205,571	224,014
-	10,335	2,500	-	27,335
\$124,775	-	-	-	380,531
124,775	10,480	15,229	205,571	764,120
-	-	-	-	115,983
-	-	-	-	7,248
-	10,139	505	-	10,644
-	-	-	-	307,909
418,140	-	-	-	418,140
119,988	-	-	274,095	406,571
538,128	10,139	505	274,095	1,266,495
(413,353)	341	14,724	(68,524)	(502,375)
404,302	7,944	-	68,524	507,982
-	-	(7,944)	-	(7,944)
404,302	7,944	(7,944)	68,524	500,038
(9,051)	8,285	6,780	-	(2,337)
52,589	50,666	260,146	-	481,838
\$43,538	\$58,951	\$266,926	-	\$479,501

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OTHER FINANCIAL AND STATISTICAL INFORMATION

CITY OF LIBERTY, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>
2009-2010	\$2,550,854	\$2,415,771	95%	\$67,867	\$2,483,638
2010-2011	2,686,971	2,505,852	93%	92,271	2,598,123
2011-2012	2,786,389	2,647,312	95%	116,076	2,763,388
2012-2013	3,007,120	2,922,853	97%	122,703	3,045,556
2013-2014	3,249,316	3,040,377	94%	110,391	3,150,768
2014-2015	3,352,700	3,065,321	92%	253,511	3,318,832
2015-2016	3,330,057	3,149,898	95%	228,260	3,378,158
2016-2017	3,453,243	3,286,123	95%	92,157	3,378,280
2017-2018	3,646,335	3,455,603	95%	100,262	3,555,865
2018-2019	3,875,803	3,670,787	95%	101,361	3,772,148

The accompanying Independent Auditor's Report should be read with this additional information.

<u>Total Collections As Percent of Current Levy</u>	<u>Tax Adjustments</u>	<u>Outstanding Delinquent Taxes</u>	<u>Outstanding Delinquent Percent</u>
97.4%	\$(2,414)	\$786,485	30.8%
96.7%	(41,366)	833,965	31.0%
99.2%	(19,506)	837,460	30.0%
101.3%	(32,539)	836,666	27.8%
97.0%	(11,524)	923,690	28.4%
99.0%	3,332	960,890	28.7%
101.4%	(65,654)	847,136	25.4%
97.8%	(12,881)	909,218	26.3%
97.5%	(16,453)	983,236	27.0%
97.3%	(55,544)	1,031,664	26.6%

CITY OF LIBERTY, TEXAS
GENERAL FUND REVENUES BY SOURCE
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Ad Valorem and Other Taxes</u>	<u>Sales Tax</u>	<u>In Lieu of Taxes</u>	<u>Inter-Governmental Transfers and Grants</u>
2009-2010	\$1,627,973	\$1,756,434	\$311,333(c)	164,722
2010-2011	1,701,344	2,052,692	-	112,083
2011-2012	1,727,048	2,002,343	-	193,121
2012-2013	2,026,426	2,056,737	-	54,208
2013-2014	2,116,727	2,302,566	-	233,216
2014-2015	2,323,762	2,023,822	-	66,949
2015-2016	2,371,085	1,909,135	-	105,513
2016-2017	2,210,126	1,993,516	-	84,409
2017-2018	2,436,693	2,007,052	-	555,384(b)
2018-2019	2,665,504	2,078,628	523,818	840,745(a)

(a) Includes \$797,686 of recovery from FEMA from 2016 flooding disasters.

(b) Includes \$491,491 of recovery from FEMA for Hurricane Harvey disaster costs in 2017.

(c) Beginning in 2011, all interfund transfers were recorded as other financing sources.

<u>Fines & Forfeitures</u>	<u>License, Fees and Rents</u>	<u>Other Revenue</u>	<u>Total</u>
\$59,651	\$557,029	\$209,843	\$4,686,985
73,196	654,497	60,202	4,654,014
84,790	710,399	325,475	5,043,176
128,188	769,441	260,639	5,295,639
186,588	793,362	306,148	5,938,607
212,030	938,002	252,182	5,816,747
232,841	989,017	122,493	5,730,084
287,671	917,864	265,548	5,759,134
237,403	948,612	157,480	6,342,624
208,803	1,109,559	919,347	8,346,404

CITY OF LIBERTY, TEXAS
GENERAL FUND EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Administration</u>	<u>Street</u>	<u>Fire and Emergency Services</u>	<u>Municipal Court</u>	<u>Cultural Center Library</u>
2009-2010	\$787,919	\$819,612	\$1,591,511	\$113,063	\$449,802
2010-2011	804,830	661,439	1,368,132	104,603	397,841
2011-2012	878,208	685,418	1,457,042	95,137	418,470
2012-2013	903,017	668,383	1,438,913	143,024	431,771
2013-2014	971,667	663,206	1,601,881	158,924	440,912
2014-2015	1,008,313	732,961	1,979,890	171,142	436,254
2015-2016	1,057,252	647,239	1,993,663	148,170	647,239
2016-2017	1,114,905	757,464	1,984,960	188,320	769,117
2017-2018	1,160,749	778,490	2,015,486	128,010	852,546
2018-2019	1,261,659	776,062	2,095,220	155,478	679,436

- (a) Includes \$83,234 of hurricane disaster recovery costs.
- (b) Includes \$648,451 of hurricane disaster recovery costs.
- (c) Includes \$330,955 of hurricane disaster recovery costs and \$1,257,053 capital expenditures.

<u>Parks and Recreation</u>	<u>Maintenance</u>	<u>Police</u>	<u>Other</u>	<u>Totals</u>
\$303,873	\$261,769	\$1,822,230	\$273,556(a)	\$6,423,335
259,119	69,569	1,580,218	769,329	6,015,080
229,486	100,003	1,718,548	1,360,662	6,942,974
232,114	79,702	1,723,889	1,340,978	6,961,791
272,721	80,105	1,758,414	1,893,209	7,841,039
282,727	92,746	1,899,551	1,465,849	8,069,433
294,029	93,679	2,124,228	1,524,630	8,530,129
269,292	88,709	2,270,494	2,684,848(b)	10,128,109
280,456	96,897	2,362,355	2,725,679(c)	10,400,668
275,770	93,984	2,302,506	2,807,062	10,447,177

CITY OF LIBERTY, TEXAS
ELECTRIC FUND REVENUES BY SOURCE
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Service Sales (a)</u>	<u>Interest Earned</u>	<u>Other Income</u>	<u>Total Income</u>
2009-2010	\$10,968,231	\$10,453	\$184,122	\$11,162,806
2010-2011	16,956,294	21,448	2,518	16,980,260
2011-2012	17,679,763	11,602	20,357	17,711,722
2012-2013	16,894,645	9,625	2,151	16,906,421
2013-2014	17,913,089	7,137	8,214	17,928,440
2014-2015	17,348,117	13,276	5,135	17,366,528
2015-2016	15,472,175	39,944	9,201	15,521,320
2016-2017	15,903,554	43,907	-	15,947,461
2017-2018	17,201,644	163,448	3,826	17,368,918
2018-2019	16,704,246	192,052	423	16,896,721

(a) Net of change in allowance for doubtful accounts.

CITY OF LIBERTY, TEXAS
ELECTRIC FUND EXPENSES
LAST TEN FISCAL YEARS

Operating Expenses

<u>Fiscal Year</u>	<u>Power Purchases</u>	<u>Others</u>	<u>Total Operating</u>	<u>Depreciation</u>	<u>Total Expenses</u>
2009-2010	\$9,710,848(a)	\$1,108,574	\$10,819,422	\$114,332	\$10,933,754
2010-2011 (b)	13,853,970(a)	815,192	14,669,162	136,565	14,805,727
2011-2012	15,004,801(a)	911,161	15,915,962	144,964	16,060,926
2012-2013	14,190,481(a)	788,269	14,978,750	131,506	15,110,256
2013-2014	15,838,927(a)	673,499	16,512,426	127,957	16,640,383
2014-2015	14,644,277(a)	891,610	15,535,887	176,238	15,712,125
2015-2016	12,780,405(a)	1,143,796	13,924,201	177,981	14,102,182
2016-2017	13,976,373(a)	857,681	14,834,054	125,331	14,959,385
2017-2018	15,228,979(a)	902,203	16,131,182	223,356	16,354,538
2018-2019	14,276,542(a)	1,299,814	15,576,356	221,082	15,797,438

(a) net of rebate

(b) The City added an industrial customer in 2011.

CITY OF LIBERTY, TEXAS
WATER AND WASTEWATER FUND
REVENUES BY SOURCE AND EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS

Revenues				
<u>Fiscal Year</u>	<u>Water Service (a)</u>	<u>Wastewater Service</u>	<u>Other Income</u>	<u>Total Income</u>
2009-2010	\$1,390,220	\$1,192,060	\$56,948	\$2,639,228
2010-2011	1,608,260	1,217,131	60,644	2,886,035
2011-2012	1,586,210	1,205,708	16,941	2,808,859
2012-2013	1,624,944	1,201,261	15,837	2,842,042
2013-2014	1,628,574	1,212,803	20,791	2,862,168
2014-2015	1,610,083	1,319,268	13,512	2,942,863
2015-2016	1,640,900	1,564,119	14,142	3,219,161
2016-2017	1,727,953	1,644,154	100,114	3,472,221
2017-2018	2,045,035	1,721,199	227,658	3,993,892
2018-2019	1,942,486	1,728,552	132,601	3,803,639

(a) Net of change in allowance for doubtful accounts.

Expenses		
<u>Operating Expenses</u>	<u>Depreciation</u>	<u>Total Expenses</u>
\$1,722,595	\$315,707	\$2,038,302
1,271,264	314,826	1,586,090
1,353,264	326,402	1,679,666
1,446,388	362,535	1,808,923
1,416,297	358,746	1,775,043
1,605,232	432,982	2,038,214
1,772,880	411,213	2,184,093
1,982,463	452,059	2,434,522
1,673,049	668,887	2,341,936
1,953,301	815,708	2,769,009

CITY OF LIBERTY, TEXAS
SOLID WASTE FUND
REVENUES AND EXPENSES
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Operating Expenses</u>
2009-2010	\$1,077,723	\$1,052,082
2010-2011	655,041	439,926
2011-2012	631,769	473,439
2012-2013	656,313	492,041
2013-2014	711,385	541,861
2014-2015	727,637	560,293
2015-2016	738,515	566,548
2016-2017	736,429	560,215
2017-2018	747,090	575,154
2018-2019	752,863	567,686

FEDERAL AWARDS SECTION

SWAIM, BRENTS & ASSOCIATES, P.C.
2804 Jefferson Drive
Liberty, Texas 77575
(936) 336-7205

**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**

Honorable Mayor and Members of the City Council
City of Liberty, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Liberty, Texas (the City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 14, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Swaim, Brents & Associates, P.C.

Swaim, Brents & Associates, P.C.
Liberty, Texas
February 14, 2020