

CITY OF TEAGUE
ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2020

City of Teague
Annual Financial Report
For the Year Ended September 30, 2020

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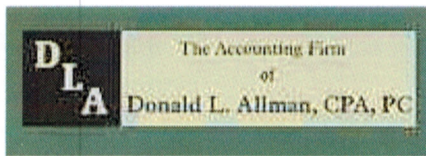
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CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report

To the City Council
City of Teague
105 South 4th Street
Teague, Texas 75860

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Teague, Texas as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Teague, Texas' 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Teague, Texas', as of September 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-10, schedule of changes in net pension liability and related ratios on page 31, schedule of pension expense and deferred outflows and inflows on page 32, schedule of changes in total OPEB liability and related ratios on page 33 & 34, and budgetary comparative information on page 37, schedule of share of net pension liability for the next ten years on page 38, schedule of contributions on page 39, and related notes on page 40, 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 of Teague, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, 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 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 statement are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2021, on our consideration of the City of Teague, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Teague, Texas' 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 of Teague, Texas' internal control over financial reporting and compliance.

Respectfully submitted,



Donald L. Allman, CPA, PC

Georgetown, Texas
June 14, 2021

The City of Teague



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Teague's annual financial report presents our discussion and analysis of the City's financial performance during the year ended September 30, 2020. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

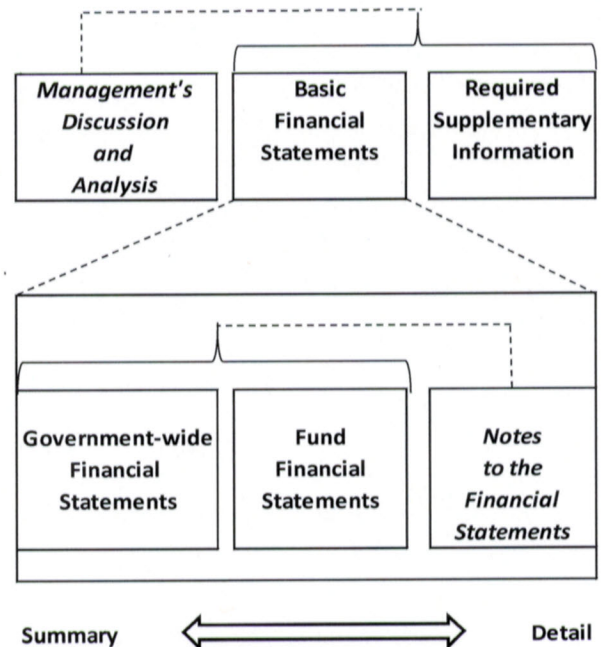
- The City's total combined net position on government-wide financial statements for both the General Fund and Proprietary Fund was \$6,370,382 at September 30, 2020.
- During the year, the City reported a net position increase of \$941,615 in government-wide financial statements, the General Fund had an increase of \$134,179 and the Proprietary Fund had an increase of \$807,436.
- The City reported a net position increase of \$123,392 before transfers on a governmental funds basis in the General Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide* financial statements that provide 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.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *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.
- *Business Activities* statements provide information about for-profit activities. Proprietary fund statements are considered business activities.

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



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

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 it has changed. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net position 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 and Business-type activities*. Most of the City's basic services are included here, such as public safety, sanitation, culture and recreation, street maintenance, water and sewer and general administration. Property taxes, charges for services, and grants finance most of these activities.

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 at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds* – The City provides water and sewer services to its citizens and charges fees to pay for this service. These activities are accounted for on the accrual basis of accounting.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$ 6.4 million at September 30, 2020. (See Table A-1).

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

	2020	2019	Total Percentage Change 2020-2019
Current assets:			
Cash and cash equivalents	2,408,799	1,990,307	21%
Investments	1,639,138	1,520,783	8%
Other receivables	445,704	431,057	3%
Due from other funds	-	-	
Prepaid expenses	-	-	
Net Pension asset	215,759	-	
Total current assets:	4,709,400	3,942,147	19%
Noncurrent assets:			
Land, furniture and equipment	14,194,949	13,636,349	4%
Less accumulated depreciation	(10,447,346)	(10,051,570)	4%
Other assets	0	0	0%
Total noncurrent assets	3,747,603	3,584,779	5%
Total Assets	8,457,003	7,526,926	12%
Deferred Outflows	61,510	238,553	-74%
Current liabilities:			
Accounts payable and accrued liabilities	82,884	71,635	16%
Consumer deposits	85,931	78,822	9%
Due to other funds	-	-	
Deferred revenue	-	-	
Total current liabilities	168,815	150,457	12%
Long-term liabilities:			
Vacation & Sick Leave payable	53,431	53,431	
Noncurrent liabilities due in one year	109,715	272,233	-60%
Noncurrent liabilities due more than 1 yr	1,278,217	1,485,903	-14%
Total Liabilities	1,610,178	1,962,024	-18%
Deferred Inflows	537,953	374,688	44%
Net Position:			
Net Investment in capital assets	2,464,764	2,029,707	21%
Restricted	156,141	290,088	-46%
Unrestricted	3,749,477	3,108,972	21%
Total Net Position	6,370,382	5,428,767	17%

The City has restricted net position of \$156,141 that represents next year's payment from debt service of \$148,812 and \$7,329 for law enforcement. The \$3,749,477 of unrestricted net position represents resources available to fund the programs of the City next year.

Changes in net position. The City's total revenues were \$4,900,258. A significant portion, 36 percent, of the City's revenue comes from taxes, while 39 percent relates to charges for services.

The total cost of all programs and services was \$3,958,643; 42 percent of these costs are for governmental activities.

Governmental Activities

- Property tax revenues increased \$188,051 to \$1,152,722.

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

	2020	2019	Total Percentage Change 2020-2019
Program Revenues:			
Charges for Services-General Fund	160,834	211,794	-24.10%
Charges for services-Water Sewer Fund	1,929,424	1,695,515	13.80%
General Revenues			
Property Taxes	1,152,722	964,671	19.49%
Sales Taxes	601,155	580,153	3.62%
Franchise fees	245,283	179,994	36.27%
Grants and Contributions	558,432	48,319	1055.72%
Investment Earnings	81,553	73,136	11.51%
Other revenues	170,855	176,238	-3.17%
Total Revenues	4,900,258	3,929,820	24.69%
General Government	855,400	640,098	33.63%
Public Safety	805,567	635,180	21.82%
Highways and Streets	221,977	281,118	-21.04%
Culture and Recreation	91,525	121,907	-24.92%
Library	139,533	119,843	16.43%
Economic Development	150,342	163,138	-7.99%
Water and Sewer	1,694,299	1,616,853	4.79%
Total Expenses	3,958,643	3,578,137	10.63%
Excess (Deficiency) Before Other Resources, Uses and Transfers:			
Other Resources (Uses)	-	-	
Transfers In (Out)	-	-	
Increase (Decrease) in Net Position	941,615	351,683	167.75%

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 \$ 2.3 million.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$1.1 million.
- Some of the cost was paid by those who directly benefited from the programs \$.2 million.

Table A-3
Net Cost of Selected City Functions
(In million dollars)

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2020	2019		2020	2019	
General Government	855,400	640,098	34%	817,600	536,420	52%
Public Safety	805,567	635,180	27%	717,933	505,702	42%
Highways and Streets	221,977	281,118	-21%	211,467	269,663	-22%

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$ 3 million, while the previous year it was \$ 2.1 million. Revenues from business-type activities totaled \$ 1.9 million, while the previous year it was \$ 1.7 million.

General fund Budgetary Highlights

Over the course of the year, the City revised its budget. Even with these adjustments, actual expenditures were \$179,004 above final budget amounts.

On the other hand, resources available were \$ 112,277 above the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020, the City had invested \$14,194,949, in a broad range of capital assets, including land, infrastructure, equipment, buildings, and vehicles. (See Table A-4) This amount represents an increase (including additions and deductions) over last year of \$558,600.

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

	Total Cost of Services		Total Percentage Change 2020-2019
	2020	2019	
Land	177,927	177,927	0%
Water & Sewer System	8,774,793	8,310,825	6%
Infrastructure	588,348	545,980	8%
Buildings and Improvements	316,998	277,014	14%
Equipment	2,807,047	2,891,802	-3%
Vehicles	1,529,836	1,432,801	7%
Totals at historical cost	14,194,949	13,636,349	4%
Total accumulated depreciation	(10,447,346)	(10,051,570)	-4%
Net capital assets	3,747,603	3,584,779	5%

Long Term Debt

At year-end, the City had \$1.282 million in bonds, leases and notes outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

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

	2020	2019	Total Percentage Change 2020-2019
Bonds payable	751,000	943,000	-20%
Notes payable & leases	346,125	389,215	-11%
Loans payable	185,714	222,857	-17%
Less deferred amount			
On refundings	-	-	
Total bonds & notes payable	<u>1,282,839</u>	<u>1,555,072</u>	-18%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's budgetary general fund balance is not expected to substantially change during fiscal year 2020.

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 of Teague at 105 4th Ave., Teague, TX 75860 or 254-739-2547.

BASIC FINANCIAL STATEMENTS

CITY OF TEAGUE

EXHIBIT A-1

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit
ASSETS:				
Cash and Cash Equivalents	\$ 517,790	\$ 1,738,730	\$ 2,256,520	\$ 470,881
Investments	-	1,639,138	1,639,138	6,531
Receivables (net of allowances for uncollectibles)	299,867	145,837	445,704	-
Internal Balances	-	-	-	-
Restricted Assets:				
Cash	59,949	92,330	152,279	-
Net Pension Asset	144,558	71,201	215,759	-
Other Assets-Investment Land	-	-	-	51,506
Prepaid Insurance	-	-	-	-
Capital Assets (net of accumulated depreciation):				
Land	107,452	70,475	177,927	-
Buildings, Equipment and System, net	726,158	2,843,518	3,569,676	35,359
Total Assets	<u>1,855,774</u>	<u>6,601,229</u>	<u>8,457,003</u>	<u>564,277</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow Related to Pensions	27,493	13,563	41,056	-
Deferred Outflow Related to OPEB	13,703	6,751	20,454	-
Total Deferred Outflow of Resources	<u>41,196</u>	<u>20,314</u>	<u>61,510</u>	<u>-</u>
LIABILITIES:				
Accounts Payable and Other Current Liabilities	49,274	33,610	82,884	-
Accrued Interest Payable	-	-	-	-
Noncurrent Liabilities -				
Consumer Deposits	-	85,931	85,931	-
Accrued Vacation & Sick Leave payable	47,424	6,007	53,431	-
Net Pension Liability	-	-	-	-
Net OPEB Liability	70,412	34,681	105,093	-
Due within one year	44,572	65,143	109,715	-
Due in more than one year	301,553	871,571	1,173,124	-
Total Liabilities	<u>513,235</u>	<u>1,096,943</u>	<u>1,610,178</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow Related to Pensions	360,428	177,525	537,953	-
Total Deferred Inflows of Resources	<u>360,428</u>	<u>177,525</u>	<u>537,953</u>	<u>-</u>
NET POSITION:				
Net Investment in Capital Assets	487,485	1,977,279	2,464,764	35,359
Restricted For:				
Debt Service	56,482	92,330	148,812	-
Special Revenue Funds	7,329	-	7,329	-
Unrestricted	472,011	3,277,466	3,749,477	528,918
Total Net Position	<u>\$ 1,023,307</u>	<u>\$ 5,347,075</u>	<u>\$ 6,370,382</u>	<u>\$ 564,277</u>
STATEMENT OF NET POSITION				
SEPTEMBER 30, 2020				

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	\$ 517,790	\$ 1,738,730	\$ 2,256,520	\$ 488,114
Investments	-	1,639,138	1,639,138	-
Receivables (net of allowances for uncollectibles)	299,867	145,837	445,704	35,163
Internal Balances	-	-	-	-
Restricted Assets:				
Cash	59,949	92,330	152,279	-
Net Pension Asset	144,558	71,201	215,759	-
Other Assets-Investment Land	-	-	-	51,506
Prepaid Insurance	-	-	-	-
Capital Assets (net of accumulated depreciation):				
Land	107,452	70,475	177,927	-
Buildings, Equipment and System, net	726,158	2,843,518	3,569,676	39,886
Total Assets	<u>1,855,774</u>	<u>6,601,229</u>	<u>8,457,003</u>	<u>614,669</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow Related to Pensions	27,493	13,563	41,056	-
Deferred Outflow Related to OPEB	13,703	6,751	20,454	-
Total Deferred Outflow of Resources	<u>41,196</u>	<u>20,314</u>	<u>61,510</u>	<u>-</u>
LIABILITIES:				
Accounts Payable and Other Current Liabilities	49,274	33,610	82,884	1,075
Accrued Interest Payable	-	-	-	-
Noncurrent Liabilities -				
Consumer Deposits	-	85,931	85,931	-
Accrued Vacation & Sick Leave payable	47,424	6,007	53,431	-
Net Pension Liability	-	-	-	-
Net OPEB Liability	70,412	34,681	105,093	-
Due within one year	44,572	65,143	109,715	-
Due in more than one year	301,553	871,571	1,173,124	-
Total Liabilities	<u>513,235</u>	<u>1,096,943</u>	<u>1,610,178</u>	<u>1,075</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow Related to Pensions	360,428	177,525	537,953	-
Total Deferred Inflows of Resources	<u>360,428</u>	<u>177,525</u>	<u>537,953</u>	<u>-</u>
NET POSITION:				
Net Investment in Capital Assets	487,485	1,977,279	2,464,764	39,886
Restricted For:				
Debt Service	56,482	92,330	148,812	-
Special Revenue Funds	7,329	-	7,329	-
Unrestricted	472,011	3,277,466	3,749,477	573,708
Total Net Position	<u>\$ 1,023,307</u>	<u>\$ 5,347,075</u>	<u>\$ 6,370,382</u>	<u>\$ 613,594</u>

The accompanying notes are an integral part of this statement.

CITY OF TEAGUE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

EXHIBIT A-2

Functions/Programs	Program Revenues			Net (Expense) Revenue and changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT							
Governmental Activities							
General Government	\$ 810,339	\$ 37,800	\$ 39,468	\$ -	\$ (733,071)	\$ -	\$ (733,071)
Public Safety & Court	805,567	87,634	-	-	(717,933)	-	(717,933)
Airport & Streets	221,977	10,510	-	-	(211,467)	-	(211,467)
Culture & Recreation	91,525	23,412	-	-	(68,113)	-	(68,113)
Economic Development	150,342	-	-	-	(150,342)	-	(150,342)
Library Services	139,533	1,478	-	-	(138,055)	-	(138,055)
Interest and Fiscal Charges	45,061	-	-	-	(13,393)	(31,668)	(45,061)
Total Governmental Activities	2,264,344	160,834	39,468	-	(2,032,374)	(31,668)	(2,064,042)
Business-type Activities:							
Water & Sewer	1,694,299	1,929,424	-	518,964	-	754,089	754,089
Total Business-type Activities	1,694,299	1,929,424	-	518,964	-	754,089	754,089
Total Primary Government	3,958,643	2,090,258	39,468	518,964	(2,032,374)	722,421	(1,309,953)
COMPONENT UNIT:							
Economic Development Corporation	\$ 202,516	\$ 1,533	\$ -	\$ -			\$ (200,983)
General Revenues					1,152,722	-	1,152,722
Property Taxes					601,155	-	601,155
Sales Taxes					245,283	-	245,283
Franchise Taxes					2,010	-	2,010
Alcoholic Beverage Taxes					291	-	291
Taxes, Hotel-Motel					51,954	29,599	81,553
Investment Earnings					113,138	55,416	168,554
Intergovernmental Revenue/Miscellaneous Transfers					-	-	-
Total General Revenues and Transfers					2,166,553	85,015	2,251,568
Change in Net Position					134,179	807,436	941,615
Net Position - Beginning					889,128	4,539,639	5,428,767
Prior Period Adjustments					-	-	-
Net Position - Ending					\$ 1,023,307	\$ 5,347,075	\$ 6,370,382
							\$ 564,277

The accompanying notes are an integral part of this statement.

CITY OF TEAGUE
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Assets:			
Cash and Cash Equivalents	\$ 570,410	\$ 7,329	\$ 577,739
Receivables (net of allowances for uncollectibles)	295,340	4,527	299,867
Total Assets	<u>\$ 865,750</u>	<u>\$ 11,856</u>	<u>\$ 877,606</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 49,274	\$ -	\$ 49,274
Due to Other Funds	-	-	-
Total Liabilities	<u>49,274</u>	<u>-</u>	<u>49,274</u>
Deferred Inflows of Resources			
Unavailable Revenue-Property Taxes	196,397	4,527	200,924
Total Deferred Inflows of Resources	<u>196,397</u>	<u>4,527</u>	<u>200,924</u>
Fund Balances:			
Restricted Fund Balances:			
Restricted for Law Enforcement	-	7,329	7,329
Unassigned	620,079	-	620,079
Total Fund Balance	<u>620,079</u>	<u>7,329</u>	<u>627,408</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 865,750</u>	<u>\$ 11,856</u>	<u>\$ 877,606</u>

The accompanying notes are an integral part of this statement

CITY OF TEAGUE**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2020****EXHIBIT A-4**

Total fund balances - governmental funds balance sheet	\$ 627,408
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Accrued Vacation & Sick Leave payable not recognized in governmental funds	(47,424)
Net Pension Asset is not recognized in governmental funds	144,558
Capital assets used in governmental activities are not reported in the funds:	833,610
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	200,924
Payables for notes which are not due in the current period are not reported in the funds.	(346,125)
Recognition of the City's proportionate share of the net OPEB liability is not reported in the funds.	(70,412)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(360,428)
Deferred Outflows of Resources for OPEB is not reported in governmental funds	13,703
Deferred Resource Outflows related to the pension plan are not reported in the funds.	27,493
Net position of governmental activities - Statement of Net Position	<u>\$ 1,023,307</u>

The accompanying notes are an integral part of this statement.

CITY OF TEAGUE
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**
EXHIBIT A-5

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenue:			
Taxes:			
General Property Taxes	\$ 959,995	\$ 192,727	\$ 1,152,722
General Sales and Use Taxes	601,155	-	601,155
Franchise Taxes	245,283	-	245,283
Alcoholic Beverages	2,010	-	2,010
Taxes, Hotel-Motel	291	-	291
License and Permits	12,238	-	12,238
Intergovernmental & Miscellaneous	113,138	-	113,138
Charges for Services	54,687	6,655	61,342
Fines	70,604	-	70,604
Rents	23,305	-	23,305
Investment Earnings	51,954	-	51,954
Miscellaneous	-	-	-
Contributions and Donations & Grants	39,468	-	39,468
Total Revenues	<u>2,174,128</u>	<u>199,382</u>	<u>2,373,510</u>
Expenditures:			
Current:			
General Government	778,453	9,263	787,716
Public Safety	728,804	-	728,804
Highway & Streets	214,425	-	214,425
Culture & Recreation	78,183	-	78,183
Economic Development	150,342	-	150,342
Library Services	139,533	-	139,533
Debt Service:			
Principal	43,090	-	43,090
Interest and Fiscal Charges	13,393	-	13,393
Capital Outlay:			
Equipment	94,632	-	94,632
Total Expenditures	<u>2,240,855</u>	<u>9,263</u>	<u>2,250,118</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(66,727)</u>	<u>190,119</u>	<u>123,392</u>
Other Financing Sources (Uses):			
Transfers in-Note Proceeds	-	-	-
Transfers	192,727	(192,727)	-
Total Other Financing Sources (Uses)	<u>192,727</u>	<u>(192,727)</u>	<u>-</u>
Net Change in Fund Balances	126,000	(2,608)	123,392
Fund Balances - Beginning	494,079	9,937	504,016
Fund Balances - Ending	<u>\$ 620,079</u>	<u>\$ 7,329</u>	<u>\$ 627,408</u>

The accompanying notes are an integral part of this statement.

CITY OF TEAGUE**EXHIBIT A-6****RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Net change in fund balances - total governmental funds

Amounts reported for governmental activities in the statement of Activities ("SOA") are different because:	\$ 123,392
Capital outlays are not reported as expenses in the SOA.	94,632
The depreciation of capital assets used in governmental activities is not reported in the funds.	(124,515)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(46,358)
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	-
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	43,090
Changes in Net Pension Liability/Pension Assets, Deferred Outflows of Resources and Deferred Inflows of Resources are not included in governmental funds.	91,362
Accrued Vacation & Sick Leave expense not included in governmental funds	(47,424)
Change in net position of governmental activities - Statement of Activities	<u>\$ 134,179</u>

The accompanying notes are an integral part of this statement.

CITY OF TEAGUE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2020

	Enterprise Fund Water and Sewer Fund
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 1,738,730
Investments	1,639,138
Receivables (net of allowances for uncollectibles)	145,837
Due from other funds	-
Total Current Assets	<u>\$ 3,523,705</u>
Prepaid Insurance	-
Noncurrent Assets:	
Restricted Cash, Cash Equivalents and Investments -	
Cash	92,330
Net Pension Asset	71,201
Capital Assets:	
Land	70,475
Property, Plant and Equipment-Net	2,843,518
Total Noncurrent Assets	<u>3,077,524</u>
Total Assets	<u>6,601,229</u>
Deferred Outflows of Resources	20,314
LIABILITIES:	
Current Liabilities:	
Accounts payable	33,610
Consumer deposits	85,931
Accrued interest payable	-
Total Current Liabilities	<u>119,541</u>
Current Liabilities Payable from Restricted Assets-	
General Obligation Bonds Payable	65,143
Total Current Liabilities Payable	<u>65,143</u>
From Restricted Assets	65,143
Vacation & Sick Leave payable	6,007
Net Pension Liability	-
Net OPEB Liability	34,681
Noncurrent Liabilities Payable from Restricted Assets	
General Obligation Bonds Payable	871,571
Total Noncurrent Liabilities	<u>871,571</u>
Total Liabilities	<u>1,096,943</u>
Deferred Inflows of Resources	177,525
NET POSITION:	
Net Investment in Capital Assets	1,977,279
Restricted For:	
Debt Service	92,330
Unrestricted	3,277,466
Total Net Position	<u>\$ 5,347,075</u>

The accompanying notes are an integral part of this statement.

CITY OF TEAGUE**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION – PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020****EXHIBIT A-8**

	Enterprise Fund Water and Sewer Fund
OPERATING REVENUES:	
Water	\$ 959,940
Sewer	717,975
Sanitation	251,509
Total Operating Revenues	<u>1,929,424</u>
OPERATING EXPENSES:	
Personnel Services	445,840
Other Services & Charges	268,004
Supplies & Materials	488,029
Depreciation	271,261
Sanitation	221,165
Total Operating Expenses	<u>1,694,299</u>
Operating Income	<u>235,125</u>
NON-OPERATING REVENUES (EXPENSES):	
Intergovernmental & miscellaneous Revenue	55,416
Grant revenues	518,964
Interest Revenue	29,599
Interest Expense & Fees	(31,668)
Total Non-operating Revenues (Expenses)	<u>572,311</u>
Income Before Transfers	807,436
Transfers In	-
Change in Net Position	<u>807,436</u>
Total Net Position - Beginning	4,539,639
Total Net Position - Ending	<u>\$ 5,347,075</u>

The accompanying notes are an integral part of this statement.

CITY OF TEAGUE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Enterprise Fund Water and Sewer Fund
Cash Flows from Operating Activities	
<i>Cash Received from Customers</i>	\$ 1,982,383
<i>Cash Payments to Employees for Services</i>	(445,840)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(956,190)
Net Cash Provided (Used) by Operating Activities	<u>580,353</u>
Cash Flows from Non-capital Financing Activities:	
<i>Intergovernmental Revenue</i>	55,416
<i>Grant proceeds</i>	518,964
Net Cash Provided (Used) by Non-capital Financing Activities	<u>574,380</u>
Cash Flows from Capital and Related Financing Activities	
Capital assets purchased	(463,968)
<i>Principal Paid</i>	(229,143)
<i>Interest Paid</i>	(31,668)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(724,779)</u>
Cash Flows from Investing Activities:	
<i>Purchase of Investment Securities</i>	-
<i>Decrease in restricted cash</i>	33,141
<i>Interest and Dividends on Investments</i>	29,599
Net Cash Provided (Used) for Investing Activities	<u>62,740</u>
Net Increase (Decrease) in Cash and Cash Equivalents	492,694
Cash and Cash Equivalents at Beginning of Year	1,246,036
Cash and Cash Equivalents at End of Year	<u>\$ 1,738,730</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	235,125
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
<i>Depreciation</i>	271,261
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	52,959
<i>Increase (Decrease) in Accounts Payable</i>	13,899
<i>Increase (Decrease) in Accrued Expenses</i>	-
<i>Increase (Decrease) in Consumer Deposits</i>	7,109
Total Adjustments	<u>345,228</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 580,353</u>

The accompanying notes are an integral part of this statement.

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

A. Summary of Significant Accounting Policies

The combined financial statements of City of Teague (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the city's reporting entity include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City and there is fiscal dependency by the organization on the City.
- the exclusion of the organization would result in misleading or incomplete financial statements

Based on these criteria, the City has one component unit, The Economic Development Corporation of Teague. Their financial statements can be obtained at P.O. Box 376, Teague, Texas 75860. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and 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 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.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The City reports the following major enterprise funds.

Water, and Sewer Fund. This is the City's primary enterprise operating fund and accounts for all expenditures and resources of the enterprise fund.

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

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

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon 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.

c. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	40
Building Improvements	40
Vehicles	7
Office Equipment	5
Computer Equipment	5

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. There is an allowance for uncollectible accounts receivable of \$2,377 included in the total.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. 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 or deductions from TMRS' 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.

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfer" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

h. Compensated Absences

On retirement or death of certain employees, the City pays an accrued vacation leave in a lump case payment to such employee or his/her estate. Accrued sick leave payment is recorded as used.

i. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenditures, expenses, and other disclosure. Accordingly, actual results could differ from those estimates.

j. Fund Balances – Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

k. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements 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 acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

B. Compliance and Accountability

1. 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

2. Deficit Fund Balance of Fund Net Position of Individual Funds

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

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

C. 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.

Cash Deposits:

At September 30, 2020, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing savings accounts included in temporary investments) was \$2,408,799 and the bank balance was \$2,408,799. The City's cash deposits at September 30, 2020 and during the year ended September 30, 2020, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

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 be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

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 general purpose 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 which 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) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments at September 30, 2020 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Texpool	N/A	<u>\$1,639,138</u>
Total Investments		<u>\$1,639,138</u>

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:

a. 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. At year end, the City was not significantly exposed to credit risk.

At September 30, 2020, the City's investments, other than those which are obligations of or guaranteed by the U.S. Government, have no credit risk.

CITY OF TEAGUE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2020

b. 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.

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

c. 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.

d. 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.

e. 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.

Investment Accounting Policy

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

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA- or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The City's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Note D. Receivables

Receivables at September 30, 2020, consist of the following:

Property Taxes	\$196,397	Accounts Receivable Utility Customers	\$145,837
Franchise Fees	51,848		
Sales Tax	44,527		
Accounts Receivable	<u>7,095</u>		
	\$299,867		

Note E. Property Taxes

Sec. 4. CITIES AND TOWNS WITH POPULATION OF 5,000 OR LESS: CHARTERED BY GENERAL LAW; TAXES; FINES, FORFEITURES, AND PENALTIES. Cities and towns having a population of five thousand or less may be chartered alone by general law. They may levy, assess and collect such taxes as may be authorized by law, but no tax for any purpose shall ever be lawful for any one year which shall exceed one and one-half per cent of the taxable property of such city; and all taxes shall be collectible only in current money, and all licenses and occupation taxes levied, and all fines, forfeitures and penalties accruing to said cities and towns shall be collectible only in current money.

The City is permitted, by Article XI, Section 5 of the State of Texas Constitution and the City Charter, to levy property taxes up to \$1.50 per \$100 of assessed valuation for general governmental services. Within the \$1.50 maximum levy, there is no legal limit upon the amount of property taxes which can be levied for debt service. Property taxes attach as an enforceable lien on property as of February 1. Taxes are levied on October 1 and are payable by January 31. After which time they become delinquent, and penalties and interest may be assessed by the City.

Property taxes are collected and remitted to the city by the Freestone County Tax Assessor-Collector. The Freestone County Appraisal District appraises property values for the City. Property taxes are levied by October 1, in conformity with Subtitle E, Texas Property Code. Current taxes become delinquent on February 1 following the tax year. The City's Ad Valorem Tax Rate for 2019 was \$0.759663 per \$100.00 assessed valuation. The adjusted original tax roll was \$1,074,227 on total taxable assessed value of \$141,408,361.

Property taxes as of September 30, 2020, are as follows:

Current Taxes Receivable \$57,786, Delinquent Taxes Receivable \$138,611 Total \$196,397.

Note F. Capital Assets

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 107,452	\$ -	\$ -	\$ 107,452
Total capital assets not being depreciated	<u>107,452</u>	<u>-</u>	<u>-</u>	<u>107,452</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	545,980	42,368	-	588,348
Buildings and improvements	277,014	39,984	-	316,998
Equipment	1,828,137	12,280	-	1,840,417
Vehicles	1,257,818	-	-	1,257,818
Total capital assets being depreciated	<u>3,908,949</u>	<u>94,632</u>	<u>-</u>	<u>4,003,581</u>
Less accumulated depreciation for:				
Infrastructure	(203,487)	(23,679)	-	(227,166)
Buildings and improvements	(164,006)	(8,206)	-	(172,212)
Equipment	(1,542,846)	(77,381)	-	(1,620,227)
Vehicles	(1,242,569)	(15,249)	-	(1,257,818)
Total accumulated depreciation	<u>(3,152,908)</u>	<u>(124,515)</u>	<u>-</u>	<u>(3,277,423)</u>
Total capital assets being depreciated, net	<u>756,041</u>	<u>(29,883)</u>	<u>-</u>	<u>726,158</u>
Governmental activities capital assets, net	<u>\$ 863,493</u>	<u>\$ (29,883)</u>	<u>\$ -</u>	<u>\$ 833,610</u>
	Beginning Balances	Increases	Decreases	Ending Balances
<u>Business-type activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	70,475	-	-	70,475
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>70,475</u>	<u>-</u>	<u>-</u>	<u>70,475</u>
<i>Capital assets being depreciated:</i>				
Water & Sewer System	8,310,825	463,968	-	8,774,793
Equipment	966,630	-	-	966,630
Vehicles	272,018	-	-	272,018
Total capital assets being depreciated	<u>9,549,473</u>	<u>463,968</u>	<u>-</u>	<u>10,013,441</u>
Less accumulated depreciation for:				
Water & Sewer System	(5,980,245)	(225,715)	-	(6,205,960)
Equipment	(716,972)	(18,804)	-	(735,776)
Vehicles	(201,445)	(26,742)	-	(228,187)
Total accumulated depreciation	<u>(6,898,662)</u>	<u>(271,261)</u>	<u>-</u>	<u>(7,169,923)</u>
Total capital assets being depreciated, net	<u>2,650,811</u>	<u>192,707</u>	<u>-</u>	<u>2,843,518</u>
Business-type activities capital assets, net	<u>\$ 2,721,286</u>	<u>\$ 192,707</u>	<u>\$ -</u>	<u>\$ 2,913,993</u>
Depreciation was charged to functions as follows:				
General Government	\$ 26,858			
Public Safety	76,763			
Highways and Streets	7,552			
Library Services	-			
Culture and Recreation	13,342			
Economic Development	-			
	<u>\$ 124,515</u>			

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

F. Interfund Balances and Activity

1. Due To and From Other Funds

Balance due to and due from other funds at September 30, 2020, consisted of the following:

<u>Due to Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
Water & Sewer Fund	General Fund	\$ -	Short-term loans
		\$ -	

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

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2020, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
Other Governmental Funds	Water & Sewer Fund	\$ -	Supplement other funds sources
		\$ -	

G. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2020, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities:</u>					
Notes	389,215	-	(43,090)	346,125	44,57
Total governmental activities:	\$ 389,215	\$ -	\$ (43,090)	\$ 346,125	\$ 44,57

Leases-Governmental

The city issued a note for \$ 471,172 during the year ended September 30, 2018 at the rate of 3.441% repayable in yearly payments of \$56,842 maturing in 2027. This note paid off a lease on an existing fire truck in the amount of \$155,052 and purchased an additional fire truck for \$ 316,090 .

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Business-type activities:</u>					
Northline Loan	222,857	-	(37,143)	185,714	37,14
General obligation bonds	\$ 943,000	\$ -	\$ (192,000)	\$ 751,000	\$ 28,00
Total business-type activities	\$ 1,165,857	\$ -	\$ (229,143)	\$ 936,714	\$ 65,14

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Bonds

\$1,855,000, 2005 Combination General Obligation Refunding Bonds, due in annual installments ranging from \$170,057 to \$168,506 at rates of 3.0% to 4.25%, maturing January 1, 2020. The balance at September 30, 2020 is \$0.

\$535,000, 2009 Certificates of Obligation, due in annual installments ranging from \$10,000 to \$29,000 at rates of 3.625%, maturing January 15, 2039. The balance at September 30, 2020 is \$370,000.

\$465,000, 2009 Certificates of Obligation, due in annual installments, ranging from \$9,000 to \$25,000 at rates of 3.625%, maturing January 15, 2039. The balance at September 30, 2020 is \$340,000.

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2020, are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	44,572	11,910	56,482
2022	46,106	10,376	56,482
2023	47,692	8,790	56,482
2024	49,334	5,451	54,785
2025	51,031	3,695	54,726
Thereafter	107,390	1,879	109,269
Totals	<u>\$ 346,125</u>	<u>\$ 92,681</u>	<u>\$ 438,806</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	65,143	27,187	92,330
2022	67,143	26,171	93,314
2023	67,143	114,038	181,181
2024	69,143	23,996	93,139
2025	70,142	21,278	91,420
2026-2028	104,000	62,856	166,856
2029-2033	200,000	75,251	275,251
2034-2038	240,000	36,318	276,318
2039-2043	54,000	1,957	55,957
Totals	<u>\$ 936,714</u>	<u>\$ 389,052</u>	<u>\$ 1,325,766</u>

H. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2018, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

I. Pension Plan

1. **Plan Description** The City participates as one of 860 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 B, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' 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.trms.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.

Employees covered by benefit terms:

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

Inactive employees or beneficiaries currently receiving benefits	23
Inactive employees entitled to but not yet receiving benefits	44
Active employees	<u>21</u>
Total covered employees	88

3. **Contributions**

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

Employees for the City were required to contribute 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.94% and 12.76% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2020 were \$108,802 and were equal to the required contributions.

4. **Net Pension Liability**

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

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000. Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2019, valuation were based on the results of actuarial investigation of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

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 Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2018	\$ 2,927,950	\$ 2,816,959	\$ 110,991
Changes for the year			
Service cost	141,889	-	141,889
Interest	197,226	-	197,226
Change of benefit terms	-	-	-
Difference between expected and actual experience	(75,705)	-	(75,705)
Changes of assumptions	12,177	-	12,177
Contributions - employer	-	108,802	(108,802)
Contributions - employee	-	61,272	(61,272)
Net investment income	-	434,796	(434,796)
Benefit payments, including refunds of employee contributions	(154,063)	(154,063)	-
Administrative expense	-	(2,461)	2,461
Other changes	-	(72)	72
Net changes	121,524	448,274	(326,750)
Balance at 12/31/2019	\$ 3,049,474	\$ 3,265,233	\$ (215,759)

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	\$ 208,441	\$ (215,759)	\$ (556,673)

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.tmrs.com.

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

For the year ended September 30, 2020, the City recognized pension expense of \$20,804.

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

CITY OF TEAGUE			
SCHEDULE OF PENSION EXPENSE			
SEPTEMBER 30, 2020			
1.	Total Service Cost		141,889
2.	Interest on the Total Pension Liability		197,226
3.	Changes in Current Period Benefits		-
4.	Employee Contributions		(61,272)
5.	Projected earnings on Plan Investments		(190,145)
6.	Administrative Expense		2,461
7.	Other Changes in Fiduciary Net Position		74
8.	Recognition of Current Year Outflow (Inflow) of Resouces-Liab		(31,764)
9.	Recognition of Current Year Outflow (Inflow) of Resouces-Assets		(48,930)
10.	Amortization of Prior Year Outflows (Inflows) of Resources-Liab		(43,253)
11.	Amortization of Prior Year Outflows (Inflows) of Resources-Assets		54,518
12.	Total Pension Expense (Income)		20,804

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ -	\$ (37,852)
Changes in actuarial assumptions	6,088	-
Difference between projected and actual investment earnings	-	(195,721)
Contributions subsequent to the measurement date	-	-
Total	<u>\$ 6,088</u>	<u>\$ (233,573)</u>

Year ended Dec. 31:	
2020	\$ 55,602
2021	\$ 55,602
2022	\$ 55,602
2023	\$ 55,603
2024	\$ -
Thereafter	\$ -
	222,409

\$ 227,485 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Net Other Post Employment Benefits Liability.

Actuarial Assumptions

Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled to but not yet receiving benefits	5
Active employees	21
Total covered employees	42

Actuarial assumptions were developed from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. These assumptions were adopted in 2015 and first used in the December 31, 2015 valuation.

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

The Mortality Experience Investigation Study covering 2009 through 2011 is used as the basis for the post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs). Mortality Rates for service employees uses the RP2000 Combined Mortality Table 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 with scale BB to account for future mortality improvements subject to the 3% floor.

Inflation	2.50% per year
Overall payroll growth	3.50 to 10.5% per year including inflation
Discount rate	3.31%

Changes in the Net Other Post Employment Benefits Liability

	Increase (Decrease)
Balance at 12/31/18	<u>Total OPEB Liability</u>
	\$ 94,846
Changes for the year	
Service Cost	2,088
Interest on Total OPEB liability	3,595
Changes of benefit terms	0
Differences between expected and actual experience	0
Changes in assumption or other inputs	7,141
Benefit payments	(1,566)
Net changes	11,258
Total OPEB Liability – end of year	\$106,104
Total OPEB Liability as a Percentage of Covered Payroll	12.20%
Covered Payroll	\$869,899
Sensitivity of the Total OPEB Liability to Changes in the Discount Rate	

The following presents the total OPEB liability of the City, calculated using the current discount rate of 3.31% as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or -1 percentage point higher (4.31%) than the current rate. Because the SDBF is considered an unfunded trust, the relevant discount rate to calculate the total OPEB liability is based on the Fidelity Index's 20 year Municipal GO AA Index.

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

1% Decrease in		1% Increase in	
	Discount Rate (2.31%)	Discount Rate (3.31%)	Discount Rate (4.31%)
Total OPEB liability	\$124,240	\$106,104	\$91,872

CITY OF TEAGUE				
SCHEDULE OF OPEB EXPENSE				
SEPTEMBER 30, 2020				
1.	Total Service Cost			3,064
2.	Interest on the Total OPEB Liability			3,434
3.	Changes in Benefit terms			-
4.	Employer administrative costs			-
5.	Recognition of deferred outflows/inflows of resources			
6.	Difference between expected and actual experience			(5,383)
7.	Changes in assumptions or other inputs			4,659
8.	Total OPEB Expense			5,774

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ -	\$ (5,638)
Changes in assumptions and other inputs	11,992	-
Contributions subsequent to the measurement date	<u>N/A</u>	<u>City to provide</u>
Total	<u>\$ 11,992</u>	<u>\$ (5,638)</u>

Year ended Dec. 31:

2020	\$ (1,263)
2021	\$ (1,269)
2022	\$ 1,816
2023	\$ -
2024	\$ -
Thereafter	\$ -
	(716)

Other Information

Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. In order to determine the retiree portion of the City's Supplemental Death Benefit Plan contributions (that which is considered OPEB), the City should perform the following calculation:

Total covered payroll * retiree Portion of SDB Contribution (Rate)

J. Health Care Coverage

During the year ended September 30, 2019, employees of the City were covered by a health insurance plan (the Plan). The city paid premiums of \$475 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third-party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the third-party administrator is renewable October 1, 2018, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Texas Municipal League are available for the year ended December 31, 2018, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

CITY OF TEAGUE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

K. Commitments and Contingencies

1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

The City of Teague has brought suit against the City of Fairfield, titled **City of Teague v. City of Fairfield**, cause nos. CV 18-334-B, and CV 18-334-1 pending in the 87th Judicial District Court, Freestone County, Texas. The suit is based upon a contractual agreement entered into between the two cities in 1990 and 1992 whereby the cities jointly owned and operated the water/wastewater facilities serving the Boyd Unit, a prison complex operated by the Texas Department of Criminal Justice. Teague asserts that Fairfield has breached the terms of the contract by failing to manage the water/wastewater facilities according to the contract and failing to remit to Teague certain contractually owed payments for the operation of the Boyd Unit. Teague has also filed suit that Fairfield has committed numerous violations of the Texas Open Meetings Act. Both suits are currently on appeal. The law firm of Messer, Fort & McDonald, P.L.L.C, asserts that it is difficult to state with any certainty the potential outcomes that may result from the contract litigation. If Fairfield prevails on appeal then it would be found immune from recovery by Teague and no recovery would be found. If Teague's contract claim against Fairfield is found to be viable then the claim could proceed to trial and Teague would be entitled to recover any funds to which it is entitled under the terms of the contract. Teague has alleged that it is owed approximately \$750,000, but this amount is uncertain at this time. Therefore, since no potential outcome can be reasonably determined at this time, only footnote disclosure is appropriate.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered part of the basic financial statements

CITY OF TEAGUE
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2020

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes:				
General Property Taxes	\$ 763,000	\$ 763,000	\$ 959,995	\$ 196,995
General Sales and Use Taxes	580,000	580,000	601,155	21,155
Franchise Taxes	137,000	137,000	245,283	108,283
Alcoholic Beverages	1,700	1,700	2,010	310
Taxes, Hotel-Motel	100	100	291	191
License and Permits	33,300	33,300	12,238	(21,062)
Intergovernmental	-	-	113,138	113,138
Charges for Services	33,200	33,200	54,687	21,487
Fines	94,200	94,200	70,604	(23,596)
Rents	-	-	23,305	23,305
Investment Earnings	58,000	58,000	51,954	(6,046)
Miscellaneous	6,000	6,000	-	(6,000)
Contributions and Donations	355,351	355,351	39,468	(315,883)
Total Revenues	<u>2,061,851</u>	<u>2,061,851</u>	<u>2,174,128</u>	<u>112,277</u>
Expenditures:				
Current:				
General Government	579,950	579,950	778,453	(198,503)
Public Safety	845,344	845,344	728,804	116,540
Highways & Streets	271,407	271,407	214,425	56,982
Culture & Recreation	237,350	237,350	78,183	159,167
Economic Development	-	-	150,342	(150,342)
Library Services	127,800	127,800	139,533	(11,733)
Principal	-	-	43,090	(43,090)
Interest and Fiscal Charges	-	-	13,393	(13,393)
Equipment	-	-	94,632	(94,632)
Total Expenditures	<u>2,061,851</u>	<u>2,061,851</u>	<u>2,240,855</u>	<u>(179,004)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(66,727)</u>	<u>(66,727)</u>
Other Financing Sources (Uses):				
Transfers in-Note Proceeds	-	-	192,727	192,727
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>192,727</u>	<u>192,727</u>
Net Change in Fund Balances	-	-	126,000	126,000
Prior Period Adjustment			-	-
Fund Balances - Beginning	494,079	494,079	494,079	-
Fund Balances - Ending	<u>\$ 494,079</u>	<u>\$ 494,079</u>	<u>\$ 620,079</u>	<u>\$ 126,000</u>

EXHIBIT B-2

CITY OF TEAGUE
SCHEDULE OF THE CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

	Fiscal Year									
	2019	2018	2017	2016	2015	2013	2012	2011	2010	2009
City's proportion of the net pension liability (asset)	-7.08%	3.79%	15.79%	13.25%	8.47%	-	-	-	-	-
City's proportionate share of the net pension liability (asset)	\$ (215,759)	\$ 110,991	\$ 412,325	\$ 377,349	\$ 231,873	\$ -	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability (asset) associated with the City	3,049,474	2,927,950	2,611,656	2,471,733	2,504,283	-	-	-	-	-
Total	\$ 2,833,715	\$ 3,038,941	\$ 3,023,981	\$ 2,849,082	\$ 2,736,156	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 875,320	\$ 802,439	\$ 869,899	\$ 933,988	\$ 853,857	\$ -	\$ -	\$ -	\$ -	\$ -
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-24.65%	13.83%	47.40%	27.16%	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	107.08%	102.41%	86.77%	91.53%	-	-	-	-	-	-

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

CITY OF TEAGUE
SCHEDULE OF CITY CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS*

	Fiscal Year									
	2020	2019	2018	2017	2016	2015	2012	2011	2010	2009
Contractually required contribution	\$ 170,074	\$ 155,545	\$ 168,498	\$ 114,145	\$ 120,863	\$ 109,804	-	-	-	-
Contributions in relation to the contractually required contribution	(170,074)	(155,545)	(168,498)	(114,145)	(120,863)	(109,804)	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 875,320	\$ 802,439	\$ 869,899	\$ 893,060	\$ 933,988	\$ 853,857	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	19.43%	19.38%	19.37%	12.78%	12.94%	12.86%	-	-	-	-

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

CITY OF TEAGUE
SCHEDULE OF FUNDING PROGRESS
SEPTEMBER 30, 2020
(UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets <u>a</u>	Actuarial Accrued Liability (AAL) <u>b</u>	Funded Ratio (c)=(a/b)	Unfunded (Over funded) AAL (UAAL) (d)=(b-a)	Covered Payroll <u>e</u>	UAAL as a Percentage of Covered Payroll (d)/(e)
12/31/15	2,813,561	2,868,202	98.09%	54,641	878,877	6.22%
12/31/16	2,657,523	3,023,981	87.88%	366,458	892,597	41.06%
12/31/17	2,521,800	2,849,082	88.51%	327,282	908,258	36.03%
12/31/18	2,816,959	2,927,950	96.21%	110,991	869,899	12.76%
12/31/19	3,265,223	3,049,474	93.39%	(215,749)	875,320	(24.65)%

CITY OF TEAGUE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2020

Budget

The official budget was prepared for adoption for the General Fund, and the Debt Service Fund. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data:

- a. Prior to September 30 of the preceding fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Council is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Council.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Council. Amendments are presented to the Board at its regular meetings.

Each amendment must have Council approval. Such amendments are made before the fact, are reflected in the official minutes of the Council and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms

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

Changes of assumptions

There were changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

*Combining Statements
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

CITY OF TEAGUE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

EXHIBIT C-1

	Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS			
Assets:			
Cash and Cash Equivalents	\$ 7,329	\$ 56,482	\$ 63,811
Receivables (net of allowances for uncollectibles)	-	4,527	4,527
Total Assets	<u>\$ 7,329</u>	<u>\$ 61,009</u>	<u>\$ 68,338</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Deferred Revenue	\$ -	\$ 18,199	\$ 18,199
Total Liabilities	<u>-</u>	<u>18,199</u>	<u>18,199</u>
Fund Balances:			
Restricted Fund Balances:		-	-
Restricted for debt service		42,810	42,810
Restricted for Law enforcement	7,329	-	7,329
Total Fund Balance	<u>7,329</u>	<u>42,810</u>	<u>50,139</u>
Total Liabilities and Fund Balance	<u>\$ 7,329</u>	<u>\$ 61,009</u>	<u>\$ 68,338</u>

CITY OF TEAGUE**EXHIBIT C-2**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds (See Exhibit 5-A)
Revenue:			
Taxes:			
General Property Taxes	\$ -	\$192,727	\$ 192,727
Other revenues	6,655		6,655
Total Revenues:	<u>\$ 6,655</u>	<u>\$192,727</u>	<u>\$ 199,382</u>
Expenditures:			
Current:			
Debt Service Principal		165,000	165,000
Debt Service Interest		3,506	3,506
General Government	9,263	-	9,263
Public Safety	-	-	-
Total Expenditures	<u>9,263</u>	<u>168,506</u>	<u>177,769</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,608)</u>	<u>24,221</u>	<u>21,613</u>
Other Financing Sources (Uses):			
Transfers (Out)/In	-	14,372	14,372
Total Other Financing Sources (Uses)	<u>-</u>	<u>14,372</u>	<u>14,372</u>
Net Change in Fund Balances	(2,608)	38,593	35,985
Fund Balances - Beginning	\$ 9,937	\$ 4,217	\$ 14,154
Fund Balances - Ending	<u>\$ 7,329</u>	<u>\$ 42,810</u>	<u>\$ 50,139</u>

CITY OF TEAGUE
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2020

EXHIBIT C-3

	Police Forfeiture Fund	Christmas in the Park Fund	Court House Security Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
ASSETS				
Assets:				
Cash and Cash Equivalents	\$ 101	\$ 578	\$ 6,650	\$ 7,329
Total Assets	<u>\$ 101</u>	<u>\$ 578</u>	<u>\$ 6,650</u>	<u>\$ 7,329</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Fund Balances:				
Restricted Fund Balances:				
Restricted for Special Revenue Funds	\$ 101	\$ 578	\$ 6,650	\$ 7,329
Total Fund Balance	<u>101</u>	<u>578</u>	<u>6,650</u>	<u>7,329</u>
Total Liabilities and Fund Balance	<u>\$ 101</u>	<u>\$ 578</u>	<u>\$ 6,650</u>	<u>\$ 7,329</u>

CITY OF TEAGUE**EXHIBIT C-4**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

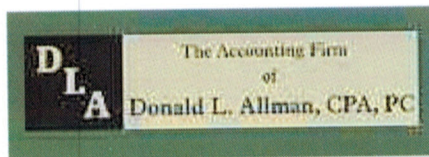
	Police Forfeiture Fund	Christmas in the Park Fund	Court House Security Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenue:				
Fines	\$ -	\$ 4,471	\$ 2,184	\$ 6,655
Total Revenues	-	4,471	2,184	6,655
Expenditures:				
Current:				
General Government	-	5,858	3,405	9,263
Public Safety	-	-	-	-
Total Expenditures	-	5,858	3,405	9,263
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(1,387)	(1,221)	(2,608)
Other Financing Sources (Uses):			-	
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	-	(1,387)	(1,221)	(2,608)
Fund Balances - Beginning	101	1,965	7,871	9,937
Fund Balances - Ending	\$ 101	\$ 578	\$ 6,650	\$ 7,329

CITY OF TEAGUE
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2020

EXHIBIT C-5

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue:			
Taxes:			
General Property Taxes	\$ 168,500	\$192,727	\$ 24,227
Total Revenues	<u>168,500</u>	<u>192,727</u>	<u>24,227</u>
Expenditures:			
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>168,500</u>	<u>192,727</u>	<u>24,227</u>
Other Financing Sources (Uses):			
Transfers Out	<u>(168,500)</u>	<u>-</u>	<u>168,500</u>
Total Other Financing Sources (Uses)	<u>(168,500)</u>	<u>-</u>	<u>168,500</u>
Net Change in Fund Balances	-	192,727	192,727
Fund Balances - Beginning	-	-	-
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.



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CERTIFIED PUBLIC ACCOUNTANT

Independent Auditors' 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

City Council
City of Teague
105 South 4th Street
Teague, Texas 75860

Members of the City Council
City of Teague, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Teague, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Teague, Texas' basic financial statements, and have issued our report thereon dated June 14, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Teague, Texas' 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 of Teague, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Teague, Texas' internal control.

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

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

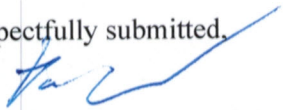
Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Donald L. Allman, CPA, PC

Georgetown, Texas
June 14, 2021

