

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF  
SHOREACRES, TEXAS**

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

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# CITY OF SHOREACRES, TEXAS

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September 30, 2020

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## ***INDEPENDENT AUDITORS' REPORT***

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

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 City'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 City'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, and the major funds of the City as of September 30, 2020, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of changes in net pension and total other postemployment liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, 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.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
March 17, 2021

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

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**CITY OF SHOREACRES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2020

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

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

1. *Governmental Activities* – Most of the City's basic services are reported here, including public safety (police), public works, municipal court, culture and recreation, and general government. Sales tax, property tax, franchise fees, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water, sewer, and sanitation services.

The government-wide financial statements can be found after the MD&A within this report.

## **FUND FINANCIAL STATEMENTS**

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

### **Governmental Funds**

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, which is always considered to be a major fund for reporting purposes.

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

**CITY OF SHOREACRES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2020

**Proprietary Funds**

The City maintains one type of proprietary fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water, sewer, and sanitation operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

**Notes to Financial Statements**

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

**Other Information**

In addition to the financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and schedules of changes in net pension and total other postemployment (OPEB) liabilities and related ratios and a schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$8,171,220 as of year end. This compares with \$8,649,875 from the prior fiscal year. The largest portion of the City's net position, 72 percent, reflects its investments in capital assets (e.g., land, City hall, police station, fleet equipment, drainage systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**CITY OF SHOREACRES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2020

**Statement of Net Position**

The following table provides a condensed Statement of Net Position:

	2020			2019		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 1,483,065	\$ 3,364,883	\$ 4,847,948	\$ 1,158,751	\$ 3,913,415	\$ 5,072,166
Capital assets, net	4,126,382	3,818,087	7,944,469	4,583,895	3,630,353	8,214,248
<b>Total Assets</b>	<u>5,609,447</u>	<u>7,182,970</u>	<u>12,792,417</u>	<u>5,742,646</u>	<u>7,543,768</u>	<u>13,286,414</u>
Deferred outflows - pensions	20,109	4,567	24,676	98,422	19,979	118,401
Deferred outflows - OPEB	6,343	-	6,343	337	-	337
<b>Total Deferred Outflows of Resources</b>	<u>26,452</u>	<u>4,567</u>	<u>31,019</u>	<u>98,759</u>	<u>19,979</u>	<u>118,738</u>
Long-term liabilities	90,507	4,263,068	4,353,575	97,000	4,357,908	4,454,908
Other liabilities	83,456	135,369	218,825	46,168	211,921	258,089
<b>Total Liabilities</b>	<u>173,963</u>	<u>4,398,437</u>	<u>4,572,400</u>	<u>143,168</u>	<u>4,569,829</u>	<u>4,712,997</u>
Deferred inflows - pensions	63,710	15,555	79,265	34,364	7,475	41,839
Deferred inflows - OPEB	551	-	551	441	-	441
<b>Total Deferred Inflows of Resources</b>	<u>64,261</u>	<u>15,555</u>	<u>79,816</u>	<u>34,805</u>	<u>7,475</u>	<u>42,280</u>
Net investment in capital assets	4,126,382	1,738,365	5,864,747	4,583,895	2,353,667	6,937,562
Restricted	84,504	-	84,504	57,653	-	57,653
Unrestricted	1,186,789	1,035,180	2,221,969	1,021,884	632,776	1,654,660
<b>Total Net Position</b>	<u>\$ 5,397,675</u>	<u>\$ 2,773,545</u>	<u>\$ 8,171,220</u>	<u>\$ 5,663,432</u>	<u>\$ 2,986,443</u>	<u>\$ 8,649,875</u>

A portion of net position, less than one percent, is restricted for specific purposes. The remaining balance of unrestricted net position, \$2,221,969 or 27 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

As of September 30, 2020, the City reported deferred outflows and inflows of resources related to its pension and OPEB plans of \$31,019 and \$79,816, respectively. In addition, the City reported a net pension asset of \$259,781 and a total OPEB liability of \$42,983. The detail of these amounts is further discussed in the notes to the financial statements.

**CITY OF SHOREACRES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2020

**Statement of Activities**

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

	2020			2019		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 214,712	\$ 772,739	\$ 987,451	\$ 260,322	\$ 650,196	\$ 910,518
Operating grants	963	-	963	967	-	967
General revenues:						
Ad valorem taxes	1,048,981	-	1,048,981	963,604	-	963,604
Sales taxes	145,496	-	145,496	121,620	-	121,620
Franchise fees and local taxes	81,345	-	81,345	89,010	-	89,010
Investment income	6,915	23,709	30,624	15,365	55,336	70,701
Other revenues	44,721	16,685	61,406	41,495	62,527	104,022
<b>Total Revenues</b>	<b>1,543,133</b>	<b>813,133</b>	<b>2,356,266</b>	<b>1,492,383</b>	<b>768,059</b>	<b>2,260,442</b>
<b>Expenses</b>						
General government	480,163	-	480,163	387,481	-	387,481
Public safety	641,536	-	641,536	660,688	-	660,688
Public works	510,584	-	510,584	486,611	-	486,611
Municipal court	42,714	-	42,714	80,887	-	80,887
Culture and recreation	96,832	-	96,832	42,940	-	42,940
Water and sewer	-	881,477	881,477	-	813,197	813,197
Sanitation	-	181,615	181,615	-	153,675	153,675
<b>Total Expenses</b>	<b>1,771,829</b>	<b>1,063,092</b>	<b>2,834,921</b>	<b>1,658,607</b>	<b>966,872</b>	<b>2,625,479</b>
<b>(Decrease) in Net Position Before Transfers</b>	<b>(228,696)</b>	<b>(249,959)</b>	<b>(478,655)</b>	<b>(166,224)</b>	<b>(198,813)</b>	<b>(365,037)</b>
Transfers	(37,061)	37,061	-	(162,939)	162,939	-
<b>Change in Net Position</b>	<b>(265,757)</b>	<b>(212,898)</b>	<b>(478,655)</b>	<b>(329,163)</b>	<b>(35,874)</b>	<b>(365,037)</b>
Beginning net position	5,663,432	2,986,443	8,649,875	5,992,595	3,022,317	9,014,912
<b>Ending Net Position</b>	<b>\$ 5,397,675</b>	<b>\$ 2,773,545</b>	<b>\$ 8,171,220</b>	<b>\$ 5,663,432</b>	<b>\$ 2,986,443</b>	<b>\$ 8,649,875</b>

The City's net position decreased by \$478,655 during the current fiscal primarily as a result of an increase in expenses of \$209,442 and costs exceeding revenues recognized for the year.

Total revenues for the governmental activities increased by a net \$50,750, or approximately three percent, compared to prior year. This increase can be attributed to increases in ad valorem taxes and sales taxes. Ad valorem taxes increased due to an increase in the property valuation. Sales tax revenue increased due to an increase in economic activity within the City. Expenses for governmental activities increased by \$113,222, or seven percent, compared to prior year due to increases in general government, public works, and culture and recreation expenses. General government and public works expenses increased due to increases in personnel related expenses. Culture and recreation expense increased due to equipment purchases.

**CITY OF SHOREACRES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2020**

Overall, business-type activity revenues increased by \$45,074 when compared to the previous year. This increase in revenue is attributable to an increase in water, sewer, and sanitation charges. Expenses increased \$96,220 primarily due to an increase in outside services and materials and supplies.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

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

The general fund is the chief operating fund of the City. There was an increase in the fund balance of \$166,968 from the prior year. The increase is primarily due to an excess of revenues over expenditures in the current year. As a measure of the general fund's liquidity, it may be useful to compare total fund balance as well as unassigned fund balance to total fund expenditures. Total general fund balance represents 55 percent of total general fund expenditures while the unassigned fund balance represents 49 percent of the same amount.

Total revenues for the general fund increased by \$129,852 compared to prior year due to increases in ad valorem tax revenue, sales tax revenue, and charges for services revenue. Charges for services revenue increased due to an increase in the lease and rental revenue. Total expenditures for the general fund increased \$127,995 primarily due to increases in general government, public works, and culture and recreational expenses. These increases can be attributed to increases in personnel related expenses and equipment purchases.

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Total actual revenues were less than final budgeted revenues by \$44,313 during the year due to less than expected revenues from all sources other than ad valorem and sales tax revenues as well as charges for services. General fund expenditures were under the final budget by \$327,082 due to lower than expected expenditures from public safety, public works, municipal court, and culture and recreation.

**CAPITAL ASSETS**

At the end of fiscal year 2020, the City's governmental and business-type activities had invested \$7,944,469 in a variety of capital assets and infrastructure (net of depreciation). This represents a net decrease of \$269,779.

Major capital asset events during the year included the following:

- Construction in progress for water transmission pipeline project for \$51,296
- Construction in progress for water tower, hydro tank project for \$230,349
- Construction in progress for wastewater rehabilitation for \$62,652

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

**CITY OF SHOREACRES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2020

**LONG-TERM DEBT**

At the end of the current year, the City reported long-term liabilities that consisted of \$4,255,000 in certificates of obligation, \$55,592 in compensated absences, and \$42,983 in an OPEB liability.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

**COVID**

In March 2020, COVID-19 was recognized as a pandemic both worldwide and in the United States with local stay at-home orders going into effect. The continued spread of the COVID-19 pandemic has given a rise in uncertainties that may have a negative impact on the operating activities and results of the City. The occurrence and extent of such impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are uncertain.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City's budgeted expenditures for fiscal year 2021 total \$1,650,859 in the general fund and \$663,508 in the water and sewer fund. The City Council adopted a 2020 total tax rate of \$0.823354 per \$100 valuation.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the finances of the City. Questions concerning this report or requests for additional financial information should be directed to the City Manager, City of Shoreacres, 601 Shore Acres Boulevard, Shoreacres, Texas, 77571 or call (281) 471-2244.

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***BASIC FINANCIAL STATEMENTS***

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# CITY OF SHOREACRES, TEXAS

## STATEMENT OF NET POSITION

September 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 913,184	\$ 808,791	\$ 1,721,975
Receivables, net	512,694	178,220	690,914
Internal balances	(156,997)	156,997	-
Restricted cash and cash equivalents	-	2,175,278	2,175,278
Net pension asset	214,184	45,597	259,781
	1,483,065	3,364,883	4,847,948
Capital assets:			
Nondepreciable	175,164	490,400	665,564
Net depreciable capital assets	3,951,218	3,327,687	7,278,905
	4,126,382	3,818,087	7,944,469
<b>Total Assets</b>	5,609,447	7,182,970	12,792,417
<b><u>Deferred Outflows of Resources</u></b>			
Deferred outflows - pensions	20,109	4,567	24,676
Deferred outflows - OPEB	6,343	-	6,343
<b>Total Deferred Outflows of Resources</b>	26,452	4,567	31,019
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts payable and accrued liabilities	40,230	68,590	108,820
Due to other governments	43,226	-	43,226
Customer deposits	-	66,779	66,779
	83,456	135,369	218,825
Noncurrent liabilities:			
Due within one year	42,772	107,261	150,033
Due in more than one year	47,735	4,155,807	4,203,542
	90,507	4,263,068	4,353,575
<b>Total Liabilities</b>	173,963	4,398,437	4,572,400
<b><u>Deferred Inflows of Resources</u></b>			
Deferred inflows - pensions	63,710	15,555	79,265
Deferred inflows - OPEB	551	-	551
<b>Total Deferred Inflows of Resources</b>	64,261	15,555	79,816
<b><u>Net Position</u></b>			
Net investment in capital assets	4,126,382	1,738,365	5,864,747
Restricted for:			
Child safety	2,784	-	2,784
Court security	8,264	-	8,264
Street maintenance	73,456	-	73,456
Unrestricted	1,186,789	1,035,180	2,221,969
<b>Total Net Position</b>	\$ 5,397,675	\$ 2,773,545	\$ 8,171,220

See Notes to Financial Statements.

# CITY OF SHOREACRES, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
<b>Primary Government</b>				
<b>Governmental Activities</b>				
General government	\$ 480,163	\$ -	\$ -	\$ (480,163)
Public safety	641,536	196,111	963	(444,462)
Public works	510,584	18,601	-	(491,983)
Municipal court	42,714	-	-	(42,714)
Culture and recreation	96,832	-	-	(96,832)
<b>Total Governmental Activities</b>	1,771,829	214,712	963	(1,556,154)
<b>Business-Type Activities</b>				
Water/sewer services	881,477	594,248	-	-
Sanitation	181,615	178,491	-	-
<b>Total Business-Type Activities</b>	1,063,092	772,739	-	-
<b>Total Primary Government</b>	\$ 2,834,921	\$ 987,451	\$ 963	(1,556,154)
<b>General Revenues:</b>				
Taxes				
Ad valorem taxes				1,048,981
Sales taxes				145,496
Franchise fees and local taxes				81,345
Investment income				6,915
Other revenues				44,721
Transfers				(37,061)
<b>Total General Revenues and Transfers</b>				1,290,397
<b>Change in Net Position</b>				(265,757)
Beginning net position				5,663,432
<b>Ending Net Position</b>				\$ 5,397,675

See Notes to Financial Statements.

**Net (Expense) Revenue and  
Change in Net Position  
Primary Government**

<b>Business-Type Activities</b>	<b>Total</b>
\$ -	\$ (480,163)
-	(444,462)
-	(491,983)
-	(42,714)
-	(96,832)
-	(1,556,154)
(287,229)	(287,229)
(3,124)	(3,124)
(290,353)	(290,353)
(290,353)	(1,846,507)
-	1,048,981
-	145,496
-	81,345
23,709	30,624
16,685	61,406
37,061	-
77,455	1,367,852
(212,898)	(478,655)
2,986,443	8,649,875
\$ 2,773,545	\$ 8,171,220

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# CITY OF SHOREACRES, TEXAS

## BALANCE SHEET GOVERNMENTAL FUND

September 30, 2020

		<u>General</u>
<b><u>Assets</u></b>		
Cash and cash equivalents	\$	913,184
Receivables, net		125,859
<b>Total Assets</b>	<b>\$</b>	<b><u>1,039,043</u></b>
<b><u>Liabilities</u></b>		
Accounts payable and accrued liabilities	\$	40,230
Due to other funds		156,997
Due to other governments		43,226
<b>Total Liabilities</b>	<b>\$</b>	<b><u>240,453</u></b>
<b><u>Deferred Inflows of Resources</u></b>		
Unavailable revenue - property taxes		53,214
<b>Total Deferred Inflows of Resources</b>		<b><u>53,214</u></b>
<b><u>Fund Balance</u></b>		
Restricted		
Child safety		2,784
Court security		8,264
Street maintenance		73,456
Unassigned		660,872
<b>Total Fund Balance</b>		<b><u>745,376</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$</b>	<b><u>1,039,043</u></b>
<b>Adjustments for the Statement of Net Position:</b>		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental fund.		
Capital assets - nondepreciable		175,164
Capital assets - net depreciable		3,951,218
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund.		
		53,214
Other accounts receivable are not considered current financial resources and, therefore, are not reported in governmental fund.		
Court accounts receivable		386,835
Long-term liabilities and deferred outflows/inflows are not due and payable in the current period and, therefore, are not reported in the governmental fund.		
Net pension asset		214,184
Deferred outflows - pensions		20,109
Deferred outflows - OPEB		6,343
Deferred inflows - pensions		(63,710)
Deferred inflows - OPEB		(551)
Noncurrent liabilities due within one year		(42,772)
Noncurrent liabilities due in more than one year		(47,735)
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>5,397,675</u></b>

See Notes to Financial Statements.

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# CITY OF SHOREACRES, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND

For the Year Ended September 30, 2020

	<u>General</u>
<b><u>Revenues</u></b>	
Ad valorem taxes	\$ 1,031,860
Sales taxes	145,496
Franchise fees and local taxes	81,345
Licenses and permits	18,601
Fines and forfeitures	109,923
Charges for services	109,437
Intergovernmental	963
Investment income	6,915
Other revenue	44,721
<b>Total Revenues</b>	<u>1,549,261</u>
<b><u>Expenditures</u></b>	
Current:	
General government	468,803
Public safety	614,856
Municipal court	47,414
Culture and recreation	88,898
Public works	125,261
<b>Total Expenditures</b>	<u>1,345,232</u>
<b>Excess of Revenues Over Expenditures</b>	<u>204,029</u>
<b><u>Other Financing Sources (Uses)</u></b>	
Transfers (out)	(37,061)
<b>Total Other Financing (Uses)</b>	<u>(37,061)</u>
<b>Net Change in Fund Balance</b>	166,968
Beginning fund balance	578,408
<b>Ending Fund Balance</b>	<u>\$ 745,376</u>

See Notes to Financial Statements.

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**CITY OF SHOREACRES, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2020**

Net changes in fund balance - total governmental fund \$ 166,968

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

The governmental fund reports capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense (457,513)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.

Deferred property tax revenue 17,121

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Compensated absences 17,251

Net pension asset 126,186

Total Othe Postemployment Benefits (OPEB) liability (10,758)

Change in deferred outflows - pensions 4,699

Change in deferred outflows - OPEB 6,665

Change in deferred inflows - pensions (112,358)

Change in deferred inflows - OPEB (769)

**Change in Net Position of Governmental Activities** **\$ (265,757)**

See Notes to Financial Statements.

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# CITY OF SHOREACRES, TEXAS

## STATEMENT OF NET POSITION

### PROPRIETARY FUND

September 30, 2020

	<u>Utility</u>
<b><u>Assets</u></b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 808,791
Receivables, net	178,220
Due from other funds	156,997
Restricted cash and cash equivalents	2,175,278
Net pension asset	45,597
	<u>3,364,883</u>
Capital assets:	
Nondepreciable	490,400
Net depreciable capital assets	3,327,687
	<u>3,818,087</u>
<b>Total Capital Assets</b>	<u>3,818,087</u>
<b>Total Assets</b>	<u>7,182,970</u>
<b><u>Deferred Outflows of Resources</u></b>	
Deferred outflows - pensions	<u>4,567</u>
<b><u>Liabilities</u></b>	
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	68,590
Customer deposits	66,779
Bonds payable due in one year	100,000
Compensated absences due in one year	7,261
	<u>242,630</u>
<b>Total Current Liabilities</b>	<u>242,630</u>
<b>Noncurrent Liabilities</b>	
Bonds payable due in more than one year	4,155,000
Compensated absences due in more than one year	807
	<u>4,155,807</u>
<b>Total Noncurrent Liabilities</b>	<u>4,155,807</u>
<b>Total Liabilities</b>	<u>4,398,437</u>
<b><u>Deferred Inflows of Resources</u></b>	
Deferred inflows - pensions	<u>15,555</u>
<b><u>Net Position</u></b>	
Net investment in capital assets	1,738,365
Unrestricted	1,035,180
	<u>2,773,545</u>
<b>Total Net Position</b>	<u>\$ 2,773,545</u>

See Notes to Financial Statements.

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**CITY OF SHOREACRES, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
For the Year Ended September 30, 2020

	<b>Utility</b>
<b><u>Operating Revenues</u></b>	
Water charges	\$ 414,071
Sewer charges	180,177
Sanitation	178,491
<b>Total Operating Revenues</b>	<b>772,739</b>
 <b><u>Operating Expenses</u></b>	
Personnel services	67,893
Water services	68,378
Solid waste disposal	181,615
Materials and supplies	28,148
Maintenance	350,143
Utilities	27,094
Depreciation	177,306
Other	4,406
<b>Total Operating Expenses</b>	<b>904,983</b>
<b>Operating (Loss)</b>	<b>(132,244)</b>
 <b><u>Nonoperating Revenues (Expenses)</u></b>	
Investment income	23,709
Interest expense	(158,109)
Miscellaneous revenue	16,685
<b>Total Nonoperating (Expenses)</b>	<b>(117,715)</b>
<b>Loss Before Transfers</b>	<b>(249,959)</b>
 Transfers	37,061
<b>Change in Net Position</b>	<b>(212,898)</b>
 Beginning net position	2,986,443
<b>Ending Net Position</b>	<b>\$ 2,773,545</b>

See Notes to Financial Statements.

# CITY OF SHOREACRES, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUND (Page 1 of 2)

For the Year Ended September 30, 2020

	<u>Utility</u>
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers	\$ 727,803
Payments to suppliers	(856,071)
Payments to employees	(72,170)
<b>Net Cash (Used) by Operating Activities</b>	<u>(200,438)</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>	
Miscellaneous revenue	16,685
Net transfer from general fund	37,061
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>53,746</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Acquisition and construction of capital assets	(365,040)
Principal paid on capital debt	(95,000)
Interest and fiscal agent fees paid	(158,109)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<u>(618,149)</u>
<b><u>Cash Flows from Investing Activities</u></b>	
Interest on investments	23,709
<b>Net Cash Provided by Investing Activities</b>	<u>23,709</u>
<b>Net (Decrease) in Cash and Cash Equivalents</b>	(741,132)
Beginning cash and cash equivalents	<u>3,725,201</u>
<b>Ending Cash and Cash Equivalents</b>	<u>\$ 2,984,069</u>
<b>Ending Cash and Cash Equivalents</b>	
Unrestricted cash and cash equivalents	\$ 808,791
Restricted cash and cash equivalents	2,175,278
<b>Total Ending Cash and Cash Equivalents</b>	<u>\$ 2,984,069</u>



# CITY OF SHOREACRES, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUND (Page 2 of 2)

For the Year Ended September 30, 2020

	<u>Utility</u>
<b>Reconciliation of Operating Income (Loss)</b>	
<b>to Net Cash Provided (Used) by Operating Activities</b>	
Operating (loss)	\$ (132,244)
<b>Adjustments to Reconcile Operating</b>	
<b>(Loss) to Net Cash (Used)</b>	
<b>by Operating Activities:</b>	
Depreciation	177,306
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in Current Assets:</b>	
Accounts receivable	(50,945)
Due from other funds	(113,726)
Net pension asset	(27,929)
Deferred outflows - pensions	15,412
<b>Increase (Decrease) in Current Liabilities:</b>	
Accounts payable and accrued liabilities	(82,561)
Customer deposits	6,009
Compensated absences	160
Deferred inflows - pensions	8,080
<b>Net Cash (Used) by Operating Activities</b>	<u><u>\$ (200,438)</u></u>

See Notes to Financial Statements.

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# CITY OF SHOREACRES, TEXAS

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2020

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The City of Shoreacres, Texas (the “City”) was incorporated under the laws of the State of Texas (the “state”) 1949. The City is a “General Law City”, with a Mayor and five Council members elected to two-year terms. City Hall functions as a courthouse, Council chambers, meeting room, and administrative building.

The City provides the following services: public safety including police, fire, and emergency medical services; public works; municipal court services; culture and recreation; water, sewer and sanitation services; and general administration, including permits and inspections.

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

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

#### B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

#### C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental fund, while business-type activities incorporate data from the City’s enterprise fund. Separate financial statements are provided for the governmental fund and proprietary fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City’s water, sewer, and sanitation functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2020

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental fund:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales taxes, franchise fees, fines and forfeitures, as well as licenses and permits. Expenditures include general government, public safety, public works, municipal court, and culture and recreation. The general fund is always considered a major fund for reporting purposes.

The City reports the following enterprise fund:

The *enterprise fund* is used to account for and report the operations that provide water, sewer, and sanitation services. These services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The utility fund is considered a major fund for reporting purposes.

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

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

**E. Measurement Focus and Basis of Accounting**

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

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2020**

recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, sales taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

**1. Cash and Cash Equivalents**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund type considers temporary investments with maturity of three months or less when purchased to be cash equivalents.

**2. Investments**

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations and is reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code.

**3. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial,

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2020**

individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The City chose not to report general infrastructure assets retroactively, as permitted by GASB Statement No. 34 for smaller governments. The City will prospectively report general infrastructure assets acquired or constructed after October 1, 2003 in the Statement of Net Position in the period they acquire or construct those assets.

Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Useful Life</u>
Buildings and improvements	10 to 30 years
Machinery and equipment	3 to 20 years
Water facilities	20 to 40 years
Vehicles	5 years
Infrastructure	20 to 30 years

**4. Deferred Outflows/Inflows of Resources**

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

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.

At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2020**

from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

**5. Compensated Employee Absences**

Employees earn vacation time based on years of service with the City, up to a maximum of 20 days per year. Employees may accrue up to a maximum of 30 days of vacation time. Upon termination of employment, any unused vacation time is paid as part of the final paycheck.

Sick leave accrues on the basis of one day per month of employment. A maximum of 65 days may be accrued. Employees are granted sick pay only for actual sick time. Payment for no more than 160 hours for sick leave accrued with two years or more of continued employment with the City will be paid upon resignation, retirement, or, in case of death, paid to the estate. The estimated amount that will be paid as compensation for services provided is recorded as a liability in the Statement of Net Position. All eligible time is accrued when incurred in the government-wide and proprietary fund financial statements.

**6. Long-Term Obligations**

In government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

**7. Net Position Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**8. Fund Balance Flow Assumptions**

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

**9. Fund Balance Policies**

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

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2020**

imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

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

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**10. Estimates**

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

**11. Pensions**

For the purposes of measuring the net pension liability/(asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**12. Other Postemployment Benefits**

The City participates in a single-employer, unfunded, defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the City's total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TMRS from reports prepared by their consulting actuary.



**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2020

**G. Revenues and Expenditures/Expenses**

**1. Property Taxes**

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid.

**2. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

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

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Prior to the beginning of each fiscal year, the City Administrator submits to the City Council a proposed budget for the general and utility funds. The City Council uses this as a basis to formulate the operating budget for the upcoming year, which includes proposed expenditures and the means of financing those expenditures.

Public hearings are conducted at which all interested persons' comments concerning the budget are heard. The budget is legally enacted by the City Council. Budgetary control is maintained at the fund level. All annual appropriations lapse at fiscal year end.

**1. Expenditures in Excess of Appropriations**

Expenditures exceeded appropriations at the legal level on control within the general fund as follows:

General government	\$19,454
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**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2020

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

Cash and temporary investments include petty cash on hand in various departments and demand deposit accounts. As of year end, the City had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Money market funds	\$ 2,175,278	N/A
TexPool	627,596	N/A
<b>Total</b>	<b>\$ 2,802,874</b>	

*Concentration of credit risk.* With the exception of U.S. Treasury securities, bond funds, and authorized pools, the City’s investment policy does not allow for an investment in any one issuer that is in excess of 50 percent of the portfolio’s total investments.

*Credit risk.* The City’s policy requires that investment pools must be rated no lower than ‘AAA’ or ‘AAA-m’. Bankers’ acceptances must be issued in the United States and carry a rating of ‘A1’/‘P1’ as provided by two of the top nationally recognized rating agencies. As of September 30, 2020, the City’s investments in TexPool were rated ‘AAAm’ by Standard & Poor’s. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. The Federal Deposit Insurance Corporation (FDIC) insures deposits held at banks and thrift institutions up to limited amounts. As of September 30, 2020, the City’s deposits were fully insured.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

**TexPool**

TexPool was established as a trust company with the Treasurer of the State as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rates TexPool ‘AAAm’. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review.

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2020

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

**B. Receivables**

The following comprise receivable balances at year end:

	<u>General</u>	<u>Utility</u>	<u>Total</u>
Accounts	\$ -	\$ 180,987	\$ 180,987
Ad valorem	58,329	-	58,329
Sales taxes	28,552	-	28,552
Other	44,094	-	44,094
Less allowance	(5,116)	(2,767)	(7,883)
<b>Totals</b>	<u>\$ 125,859</u>	<u>\$ 178,220</u>	<u>\$ 304,079</u>

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2020

**C. Capital Assets**

A summary of changes in capital assets for the year end is as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 175,164	\$ -	\$ -	\$ 175,164
Total capital assets, not being depreciated	<u>175,164</u>	<u>-</u>	<u>-</u>	<u>175,164</u>
Capital assets, being depreciated:				
Buildings and improvements	863,179	-	-	863,179
Parks	233,707	-	-	233,707
Vehicles and equipment	457,373	-	-	457,373
Infrastructure	5,776,608	-	-	5,776,608
Total capital assets being depreciated	<u>7,330,867</u>	<u>-</u>	<u>-</u>	<u>7,330,867</u>
Less accumulated depreciation for:				
Buildings and improvements	(173,268)	(21,825)	-	(195,093)
Parks	(122,292)	(13,847)	-	(136,139)
Vehicles and equipment	(382,016)	(36,734)	-	(418,750)
Infrastructure	(2,244,560)	(385,107)	-	(2,629,667)
Total accumulated depreciation	<u>(2,922,136)</u>	<u>(457,513)</u>	<u>-</u>	<u>(3,379,649)</u>
Total capital assets being depreciated net	<u>4,408,731</u>	<u>(457,513)</u>	<u>-</u>	<u>3,951,218</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 4,583,895</u>	<u>\$ (457,513)</u>	<u>\$ -</u>	<u>4,126,382</u>
		<b>Net Investment in Capital Assets</b>		<u>\$ 4,126,382</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 16,024
Public safety	47,470
Culture and recreation	7,934
Public works	386,085
<b>Total Governmental Activities Depreciation Expense</b>	<u>\$ 457,513</u>

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2020

The following is a summary of changes in capital assets for business-type activities for the year end:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 7,839	\$ -	\$ -	\$ 7,839
Construction in progress	117,746	364,815	-	482,561
Total capital assets, not being depreciated	<u>125,585</u>	<u>364,815</u>	<u>-</u>	<u>490,400</u>
Capital assets, being depreciated:				
Buildings and improvements	869,253	-	-	869,253
Infrastructure	412,636	-	-	412,636
Land improvements	19,940	-	-	19,940
Water facilities	3,150,432	225	-	3,150,657
Vehicles and equipment	34,582	-	-	34,582
Total capital assets being depreciated	<u>4,486,843</u>	<u>225</u>	<u>-</u>	<u>4,487,068</u>
Less accumulated depreciation for:				
Buildings and improvements	(137,413)	(22,160)	-	(159,573)
Infrastructure	(99,785)	(20,799)	-	(120,584)
Land improvements	(16,256)	(1,329)	-	(17,585)
Water facilities	(679,145)	(147,912)	-	(827,057)
Vehicles and equipment	(49,476)	-	14,894	(34,582)
Total accumulated depreciation	<u>(982,075)</u>	<u>(192,200)</u>	<u>14,894</u>	<u>(1,159,381)</u>
Total capital assets being depreciated net	<u>3,504,768</u>	<u>(191,975)</u>	<u>14,894</u>	<u>3,327,687</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 3,630,353</u>	<u>\$ 172,840</u>	<u>\$ 14,894</u>	<u>3,818,087</u>
			<b>Less Associated Debt</b>	(4,255,000)
			<b>Plus Unspent Bond Proceeds</b>	2,175,278
			<b>Net Investment in Capital Assets</b>	<u>\$ 1,738,365</u>

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2020

**D. Long-Term Debt**

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Activities:</b>					
Compensated absences	\$ 64,775	\$ 22,734	\$ (39,985)	\$ 47,524	\$ 42,772
Total OPEB liability	32,225	10,758	-	42,983	-
<b>Total Governmental Activities</b>	<u>\$ 97,000</u>	<u>\$ 33,492</u>	<u>\$ (39,985)</u>	<u>\$ 90,507</u>	<u>\$ 42,772</u>
				<u>\$ 47,735</u>	
<b>Business-Type Activities:</b>					
Direct placements:					
Certificates of obligation	\$ 4,350,000	\$ -	\$ (95,000)	\$ 4,255,000 *	\$ 100,000
Other liabilities:					
Compensated absences	7,908	2,888	(2,728)	8,068	7,261
<b>Total Business-Type Activities</b>	<u>\$ 4,357,908</u>	<u>\$ 2,888</u>	<u>\$ (97,728)</u>	<u>\$ 4,263,068</u>	<u>\$ 107,261</u>
				<u>\$ 4,155,807</u>	
				<u>\$ 4,255,000</u>	

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

During fiscal year 2019, the City issued \$4,500,000 Combination Tax and Surplus Revenue Certificates of Obligation, Series 2018 (The "Certificates"). The Certificates will be payable by the City's ad valorem tax and surplus revenues from the City's water and sewer system, for costs associated with construction, improvements, repair, rehabilitation, replacement and extensions the City's water and sewer system.

Business-type activities long-term debt at year end was comprised of the following debt issue:

<u>Description</u>	<u>Interest</u> <u>Rates</u>	<u>Balance</u>
<b>Business-Type Activities</b>		
Certificates of Obligation, Series 2018	1.73%-4.34%	\$ 4,255,000
<b>Total Business-Type Activities</b>		<u>\$ 4,255,000</u>

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2020

The annual requirements to amortize certificates of obligation issues outstanding for direct placements at year end are as follows:

Year Ending Sept. 30	Certificates of Obligation	
	Principal	Interest
2021	\$ 100,000	\$ 156,530
2022	100,000	154,560
2023	100,000	152,530
2024	105,000	150,410
2025	105,000	148,100
2026-2030	570,000	698,264
2031-2035	675,000	599,103
2036-2040	810,000	463,293
2041-2045	985,000	282,563
2046-2050	705,000	62,062
<b>Total</b>	<b>\$ 4,255,000</b>	<b>\$ 2,867,415</b>

**Federal Arbitrage**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS

**E. Interfund Transactions**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
Utility fund	General fund	\$ 156,997

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amounts</u>
Utility fund	General fund	\$ 37,061

Amounts transferred from the utility fund to the general fund represent a contribution towards common expenses incurred by the general fund.

**IV. OTHER INFORMATION**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2020

Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

**B. Contingent Liabilities**

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

**C. Pension Plan**

**Texas Municipal Retirement System**

Plan Description

The City participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. TMRS is an agency created by the State and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the "Board"). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at [www.tmr.com](http://www.tmr.com).

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

Benefits Provided

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

At retirement, the 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 payment 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 percent of the member's deposits and interest.



**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2020**

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

	<b>2020</b>	<b>2019</b>
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	7	
Inactive employees entitled to, but not yet receiving, benefits	17	
Active employees	10	
<b>Total</b>	<b>34</b>	

Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City-matching percentages are either 100 percent, 150 percent, or 200 percent, 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 five percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.68 percent and 4.49 percent in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2020 were \$26,796, which were equal to the required contributions.

Net Pension Liability/(Asset)

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

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2020**

Actuarial Assumptions

The TPL in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for annuity purchase rates is based on the mortality experience investigation study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2020

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

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

Discount Rate

The discount rate used to measure the TPL was 6.75 percent. 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 TPL.

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2020

Changes in the NPL/(A)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 63,991	\$ -	\$ 63,991
Interest	118,237	-	118,237
Change in current period benefits	-	-	-
Difference between expected and actual experience	(9,096)	-	(9,096)
Changes in assumptions	11,092	-	11,092
Contributions - employer	-	26,550	(26,550)
Contributions - employee	-	28,365	(28,365)
Net investment income	-	285,091	(285,091)
Benefit payments, including refunds of employee contributions	(53,594)	(53,594)	-
Administrative expense	-	(1,618)	1,618
Other changes	-	(49)	49
<b>Net Changes</b>	<b>130,630</b>	<b>284,745</b>	<b>(154,115)</b>
Balance at December 31, 2018	1,746,459	1,852,125	(105,666)
<b>Balance at December 31, 2019</b>	<b>\$ 1,877,089</b>	<b>\$ 2,136,870</b>	<b>\$ (259,781)</b>

Sensitivity of the NPL/(A) to Changes in the Discount Rate

The following presents the NPL/(A) of the City, calculated using the discount rate of 6.75 percent, as well as what the City's NPL/(A) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one 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/(Asset)	\$ 6,686	\$ (259,781)	\$ (476,760)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tnrs.com](http://www.tnrs.com).

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2020, the City recognized net pension expense of \$3,828.

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2020

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
Differences between expected and actual economic experience	\$ -	\$ 15,900
Changes in actuarial assumptions	5,835	-
Net difference between projected and actual investment earnings	-	63,365
Contributions subsequent to the measurement date	18,841	-
<b>Total</b>	<b>\$ 24,676</b>	<b>\$ 79,265</b>

\$18,841 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction/increase of the NPL/(A) for the fiscal 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:

Fiscal Year Ended September 30	Pension Expense
2021	\$ (28,877)
2022	(18,573)
2023	6,035
2024	(32,015)
<b>Total</b>	<b>\$ (73,430)</b>

**D. Other Postemployment Benefits**

**TMRS Supplemental Death Benefit**

Plan Description

The City participates in a OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2020**

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TMRS Act requires the PTF to allocate a five percent interest credit from investment income to the SDBF on an annual basis each December 31 based on the mean balance in the SDBF during the year.

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2019 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	4	
Inactive employees entitled to, but not yet receiving, benefits	4	
Active employees	10	
<b>Total</b>	18	

Total OPEB Liability

The City's total OPEB liability of \$42,983 was measured as of December 31, 2019 and was determined by an actuarial valuation as of that date.

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

Inflation	2.50%	
Salary increases	3.50% to 11.50% including inflation	
Discount rate	2.75%*	
Retirees' share of benefit-related costs	Zero	
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB 68.	
Mortality rates-service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.	
Mortality rates-disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.	

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

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

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2020**

Changes in the Total OPEB Liability

		<u>Total OPEB</u>	<u>Liability</u>
Changes for the year:			
Service cost	\$	1,986	
Interest		1,229	
Difference between expected and actual experience		(928)	
Changes of assumptions		8,641	
Benefit payments*		(170)	
	<b>Net Changes</b>	<u>10,758</u>	
Beginning balance		<u>32,225</u>	
	<b>Ending Balance</b>	<u>\$ 42,983</u>	

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

There were no changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

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

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
	<u>in Discount</u>	<u>(2.75%)</u>	<u>in Discount</u>
	<u>Rate (1.75%)</u>	<u>(2.75%)</u>	<u>Rate (3.75%)</u>
City's Total OPEB Liability	<u>\$ 53,420</u>	<u>\$ 42,983</u>	<u>\$ 35,129</u>

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2020

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2020, the City recognized OPEB expense of \$5,081. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in actuarial assumptions	\$ 6,175	\$ -
Difference in expected and actual	-	551
Contributions subsequent to the measurement date	168	-
<b>Total</b>	<b>\$ 6,343</b>	<b>\$ 551</b>

\$168 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the of total OPEB liability for the fiscal year ending September 30, 2021. Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Fiscal Year Ended September 30</b>	<b>OPEB Expense Amount</b>
2021	\$ 1,866
2022	1,866
2023	1,288
2024	604
<b>Total</b>	<b>\$ 5,624</b>



***REQUIRED SUPPLEMENTARY INFORMATION***

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

For the Year Ended September 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Budget as Amended</u>		
<b><u>Revenues</u></b>				
Ad valorem taxes	\$ 1,007,666	\$ 1,007,666	\$ 1,031,860	\$ 24,194
Sales taxes	90,000	90,000	145,496	55,496
Franchise fees and local taxes	99,500	99,500	81,345	(18,155)
Licenses and permits	20,000	20,000	18,601	(1,399)
Fines and forfeitures	221,650	221,650	109,923	(111,727)
Charges for services	101,000	101,000	109,437	8,437
Intergovernmental	1,000	1,000	963	(37)
Investment income	7,600	7,600	6,915	(685)
Other revenue	45,158	45,158	44,721	(437)
<b>Total Revenues</b>	<u>1,593,574</u>	<u>1,593,574</u>	<u>1,549,261</u>	<u>(44,313)</u>
<b><u>Expenditures</u></b>				
<b>Current:</b>				
General government	449,349	449,349	468,803	(19,454) *
Public safety	663,054	663,054	614,856	48,198
Public works	326,347	316,347	125,261	191,086
Municipal court	148,423	148,423	47,414	101,009
Culture and recreation	95,141	95,141	88,898	6,243
<b>Total Expenditures</b>	<u>1,682,314</u>	<u>1,672,314</u>	<u>1,345,232</u>	<u>327,082</u>
<b>Excess(Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(88,740)</u>	<u>(78,740)</u>	<u>204,029</u>	<u>282,769</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers (out)	(3,629)	(3,629)	(37,061)	(33,432)
Transfers in	92,369	92,369	-	(92,369)
<b>Total Other Financing Sources (Uses)</b>	<u>88,740</u>	<u>88,740</u>	<u>(37,061)</u>	<u>(125,801)</u>
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>166,968</u>	<u>\$ 156,968</u>
Beginning fund balance			<u>578,408</u>	
<b>Ending Fund Balance</b>			<u>\$ 745,376</u>	

Notes to Required Supplementary Information:

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

# CITY OF SHOREACRES, TEXAS

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY/(ASSET) AND RELATED RATIOS

### TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2020

	Measurement Year*			
	2014	2015	2016	2017
<b>Total Pension Liability</b>				
Service cost	\$ 64,456	\$ 72,260	\$ 77,770	\$ 76,078
Interest (on the total pension liability)	97,657	104,802	108,078	114,566
Difference between expected and actual experience	(7,625)	(46,685)	(19,983)	(92,723)
Change in assumptions	-	23,562	-	-
Benefit payments, including refunds of employee contributions	(48,621)	(64,018)	(41,408)	(96,404)
<b>Net Change in Total Pension Liability</b>	105,867	89,921	124,457	1,517
Beginning total pension liability	1,387,187	1,493,054	1,582,975	1,707,432
<b>Ending Total Pension Liability</b>	<u>\$ 1,493,054</u>	<u>\$ 1,582,975</u>	<u>\$ 1,707,432</u>	<u>\$ 1,708,949</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	\$ 28,959	\$ 37,437	\$ 36,495	\$ 38,327
Contributions - employee	33,009	34,409	35,095	34,085
Net investment income	85,419	2,349	108,130	240,777
Benefit payments, including refunds of employee contributions	(48,621)	(64,018)	(41,408)	(96,404)
Administrative expense	(892)	(1,430)	(1,221)	(1,247)
Other	(73)	(71)	(66)	(63)
<b>Net Change in Plan Fiduciary Net Position</b>	97,801	8,676	137,025	215,474
Beginning plan fiduciary net position	1,493,039	1,590,840	1,599,516	1,736,541
<b>Ending Plan Fiduciary Net Position</b>	<u>\$ 1,590,840</u>	<u>\$ 1,599,516</u>	<u>\$ 1,736,541</u>	<u>\$ 1,952,015</u>
<b>Net Pension (Asset)</b>	<u>\$ (97,786)</u>	<u>\$ (16,541)</u>	<u>\$ (29,109)</u>	<u>\$ (243,066)</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	106.55%	101.04%	101.70%	114.22%
<b>Covered Payroll</b>	\$ 660,180	\$ 688,186	\$ 701,895	\$ 681,699
<b>Net Pension (Asset) as a Percentage of Covered Payroll</b>	-14.81%	-2.40%	-4.15%	-35.66%

\*Only six years of information is currently available. The City will build this schedule over the next four-year period.

Measurement Year*	
2018	2019
\$ 72,941	\$ 63,991
114,106	118,237
(39,614)	(9,096)
-	11,092
<u>(109,923)</u>	<u>(53,594)</u>
37,510	130,630
1,708,949	1,746,459
<u>\$ 1,746,459</u>	<u>\$ 1,877,089</u>

\$ 36,885	\$ 26,550
32,827	28,365
(58,489)	285,091
(109,923)	(53,594)
(1,130)	(1,618)
(60)	(49)
<u>(99,891)</u>	<u>284,745</u>
1,952,015	1,852,125
<u>\$ 1,852,124</u>	<u>\$ 2,136,870</u>

<u>\$ (105,665)</u>	<u>\$ (259,781)</u>
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106.05%      113.84%

\$ 656,531      \$ 567,294

-16.09%      -45.79%

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# CITY OF SHOREACRES, TEXAS

## SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

### TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2020

	Measurement Year*		
	2017	2018	2019
<b>Total OPEB Liability</b>			
Service cost	\$ 2,181	\$ 2,298	\$ 1,986
Interest (on the total OPEB liability)	1,008	1,078	1,229
Difference between expected and actual experience	-	272	(928)
Changes in assumptions	2,899	(2,725)	8,641
Benefit payments**	(205)	(263)	(170)
<b>Net Change in Total OPEB Liability</b>	<b>5,883</b>	<b>660</b>	<b>10,758</b>
Beginning total OPEB liability	25,682	31,565	32,225
<b>Ending Total OPEB Liability</b>	<b>\$ 31,565</b>	<b>\$ 32,225</b>	<b>\$ 42,983</b>
<b>Covered Payroll</b>	<b>\$ 681,699</b>	<b>\$ 656,531</b>	<b>\$ 567,294</b>
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	<b>4.63%</b>	<b>4.91%</b>	<b>7.58%</b>

\*Only three year's of information is currently available. The City will build this schedule over the next seven-year period.

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

#### Notes to Required Supplementary Information:

##### Valuation Date:

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

##### Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation.
Discount rate	2.75%
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB 68.
Mortality - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

##### Other Information:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019. Changes in assumptions include the annual change in the municipal bond index rate. There were no benefit changes during the year.

# CITY OF SHOREACRES, TEXAS

## SCHEDULE OF CONTRIBUTIONS

### TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2020

	Fiscal Year*			
	2014	2015	2016	2017
Actuarially determined contribution	\$ 28,643	\$ 34,840	\$ 37,352	\$ 37,269
Contributions in relation to the actuarially determined contribution	(28,643)	(34,840)	(37,352)	(37,269)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
 Covered payroll	 \$ 658,853	 \$ 675,614	 \$ 709,393	 \$ 674,259
 Contributions as a percentage of covered payroll	 4.35%	 5.16%	 5.27%	 5.53%

\*Only seven years of information is currently available. The City will build this schedule over the next three-year period.

#### Notes to Required Supplementary Information:

1. Valuation Date:

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

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	N/A
Asset valuation method	10 year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

3. Other Information:

There were no benefit changes during the year.



<b>Fiscal Year*</b>		
<b>2018</b>	<b>2019</b>	<b>2020</b>
\$ 38,553	\$ 27,770	\$ 26,796
<u>(38,553)</u>	<u>(27,770)</u>	<u>(26,796)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 684,750	\$ 560,242	\$ 589,594
5.63%	4.96%	4.54%

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