

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF  
LIBERTY HILL, TEXAS**

**For the Year Ended  
September 30, 2019**

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# CITY OF LIBERTY HILL, TEXAS

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September 30, 2019

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

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

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

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

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

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

### **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, each major fund, and the aggregate remaining fund information of the City as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of changes in net pension and total other postemployment benefits 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
July 30, 2020

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

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**CITY OF LIBERTY HILL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

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, which include general government, public safety, municipal court, and public works. Interest payments on the City's governmental debt are also reported here. Property taxes, sales taxes, franchise fees, and other revenue 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 wastewater operations. Interest payments on the City's business-type activities debt are also reported here.

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

### **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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, Liberty Parke Public Improvement District (PID) fund, and capital improvement fund, which are considered to be major funds for reporting purposes.

The City adopts an annual appropriated budget for two of its ten governmental funds. Budgetary comparison schedules have been provided for each fund to demonstrate compliance with these budgets.

#### **Proprietary Funds**

The City maintains one type of proprietary fund, enterprise funds. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and wastewater treatment operations. The proprietary fund financial statements provide separate information for the water, sewer, and wastewater operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

**CITY OF LIBERTY HILL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

**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 basic 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, as well as the schedules of changes in net pension and total OPEB liability and related ratios and a schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the 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. Assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$27,233,317 as of September 30, 2019. A portion of the City's net position, 77 percent, reflects its investment in capital assets (e.g., land and City hall, as well as the public works facilities). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

**CITY OF LIBERTY HILL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

**Statement of Net Position**

The following table reflects the condensed Statement of Net Position:

	September 30, 2019			
	Governmental	Business-Type	Reconciliation	Total
	Activities	Activities		
Current and other assets	\$ 10,899,521	\$ 8,041,429	\$ -	\$ 18,940,950
Capital assets, net	6,522,880	33,964,305	-	40,487,185
<b>Total Assets</b>	<b>17,426,253</b>	<b>42,001,882</b>	<b>-</b>	<b>59,428,135</b>
Deferred outflows - pensions	195,205	-	-	195,205
Deferred outflows - OPEB	26,689	-	-	26,689
<b>Total Deferred Outflows of Resources</b>	<b>221,894</b>	<b>-</b>	<b>-</b>	<b>221,894</b>
Long-term liabilities	15,886,140	14,441,995	-	30,328,135
Other liabilities	870,025	1,192,084	-	2,062,109
<b>Total Liabilities</b>	<b>16,756,165</b>	<b>15,634,079</b>	<b>-</b>	<b>32,390,244</b>
Deferred inflows - pensions	24,629	-	-	24,629
Deferred inflows - OPEB	1,839	-	-	1,839
<b>Total Deferred Inflows of Resources</b>	<b>26,468</b>	<b>-</b>	<b>-</b>	<b>26,468</b>
<b>Net Position:</b>				
Net investment in capital assets	6,522,880	19,522,310	(5,131,000)	20,914,190
Restricted	4,855,100	-	-	4,855,100
Unrestricted	(10,512,466)	6,845,493	5,131,000	1,464,027
<b>Total Net Position</b>	<b>\$ 865,514</b>	<b>\$ 26,367,803</b>	<b>\$ -</b>	<b>\$ 27,233,317</b>

  

	September 30, 2018			
	Governmental	Business-Type	Reconciliation	Total
	Activities	Activities		
Current and other assets	\$ 14,076,680	\$ 6,154,432	\$ -	\$ 20,231,112
Capital assets, net	4,633,153	30,155,800	-	34,788,953
<b>Total Assets</b>	<b>18,709,833</b>	<b>36,310,232</b>	<b>-</b>	<b>55,020,065</b>
Deferred outflows - pensions	139,109	-	-	139,109
Deferred outflows - OPEB	1,712	-	-	1,712
<b>Total Deferred Outflows of Resources</b>	<b>140,821</b>	<b>-</b>	<b>-</b>	<b>140,821</b>
Long-term liabilities	13,661,732	14,795,000	-	28,456,732
Other liabilities	936,697	403,135	-	1,339,832
<b>Total Liabilities</b>	<b>14,598,429</b>	<b>15,198,135</b>	<b>-</b>	<b>29,796,564</b>
Deferred inflows - pensions	-	-	-	-
Deferred inflows - OPEB	-	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Position:</b>				
Net investment in capital assets	4,633,153	15,360,800	(5,416,000)	14,577,953
Restricted	8,916,682	-	-	8,916,682
Unrestricted	(9,297,610)	5,751,297	5,416,000	1,869,687
<b>Total Net Position</b>	<b>\$ 4,252,225</b>	<b>\$ 21,112,097</b>	<b>\$ -</b>	<b>\$ 25,364,322</b>

**CITY OF LIBERTY HILL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

A portion of the City's net position, \$4,855,100, represents resources restricted to a specific purpose. The City's total net position increased by \$1,868,995 during the current fiscal year, an increase of 7 percent over the prior year. The overall condition of the City improved during the year primarily due to increases in business-type charges for services as a result of increased growth and development within the City.

The City has issued and repaid debt in its governmental activities for which the proceeds were used to construct capital assets for business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Outstanding debt associated with governmental activities, in the amount of \$5,131,000, is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

**CITY OF LIBERTY HILL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

**Statement of Activities**

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

	For the Year Ended September 30, 2019			For the Year Ended September 30, 2018		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,908,185	\$ 10,239,068	\$ 12,147,253	\$ 1,682,088	\$ 7,548,385	\$ 9,230,473
Capital grants and contributions	-	-	-	-	103,927	103,927
General revenues:						
Property taxes	1,922,353	-	1,922,353	1,479,222	-	1,479,222
Sales taxes	1,474,357	-	1,474,357	1,282,226	-	1,282,226
Franchise fees and local taxes	134,765	-	134,765	122,549	-	122,549
Other	1,786,628	69,934	1,856,562	1,285,368	86,342	1,371,710
<b>Total Revenues</b>	<b>7,226,288</b>	<b>10,309,002</b>	<b>17,535,290</b>	<b>5,851,453</b>	<b>7,738,654</b>	<b>13,590,107</b>
<b>Expenses</b>						
General government	6,636,894	-	6,636,894	2,370,148	-	2,370,148
Municipal court	265,923	-	265,923	209,873	-	209,873
Public safety	1,087,235	-	1,087,235	1,117,337	-	1,117,337
Public works	561,607	-	561,607	174,989	-	174,989
Water, sewer, and wastewater collections	-	5,919,988	5,919,988	-	4,391,273	4,391,273
Interest and fiscal agent fees on long-term debt	1,194,648	-	1,194,648	416,707	-	416,707
<b>Total Expenses</b>	<b>9,746,307</b>	<b>5,919,988</b>	<b>15,666,295</b>	<b>4,289,054</b>	<b>4,391,273</b>	<b>8,680,327</b>
<b>Increase (Decrease) in Net Position Before Transfers</b>	<b>(2,520,019)</b>	<b>4,389,014</b>	<b>1,868,995</b>	<b>1,562,399</b>	<b>3,347,381</b>	<b>4,909,780</b>
Transfers in (out)	(866,692)	866,692	-	505,528	(505,528)	-
<b>Change in Net Position</b>	<b>(3,386,711)</b>	<b>5,255,706</b>	<b>1,868,995</b>	<b>2,067,927</b>	<b>2,841,853</b>	<b>4,909,780</b>
Beginning net position*	4,252,225	21,112,097	25,364,322	2,184,298	18,270,244	20,454,542
<b>Ending Net Position</b>	<b>\$ 865,514</b>	<b>\$ 26,367,803</b>	<b>\$ 27,233,317</b>	<b>\$ 4,252,225</b>	<b>\$ 21,112,097</b>	<b>\$ 25,364,322</b>

\*Restated

Overall, governmental activities revenue increased. Property tax revenue increased by \$443,131 or 30 percent, as well as sales taxes revenue increased by \$192,131 or 15 percent due to an increase in activity in the City and population growth.

Revenue for business-type activities increased by \$2,570,348 or 33 percent from the prior year mainly due to increases in contracts for wastewater services within other jurisdictions. Business-type expenses increased by \$1,528,715 or 35 percent as a result of the increases in new connections related to all of the additional residential growth within the City.

**CITY OF LIBERTY HILL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

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

The City's governmental funds reflect a combined fund balance of \$10,068,713. At the end of the current year, \$5,156,076 was unassigned. Total restricted fund balance for various purposes is \$4,912,637.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$5,160,521, while total fund balance reached \$5,227,231. Of this amount, \$66,710 is restricted for communication equipment that is related to Public Education Government fees collected from cable companies. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 102 percent of total general fund expenditures, while total fund balance represents 103 percent of the same amount.

The debt service fund fund balance of \$227,157 is restricted for future debt payments of principal and interest. Fund balance in the debt service fund decreased by \$24,266.

The Liberty Parke PID reported an ending fund balance of \$1,893,218. This balance reflected a decrease of \$1,357,588 primarily due to debt service payments, as well as payments made to the developer.

The capital improvement fund reported a fund balance \$1,594,519 as of year end. The decrease in fund balance of \$2,610,720 was due to the use of bond proceeds for ongoing capital projects within the City.

The combined nonmajor governmental funds ended the year with a fund balance of \$1,126,588. This represents an increase of \$60,039 over the prior year.

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Budgeted general fund revenues exceeded actual revenues by \$2,284,002 during the year. The net positive variance is primarily due to more revenue from permit fee than anticipated due to several subdivisions starting within the City. General fund expenditures were over the final budget by \$2,209,420 mainly due to capital outlay costs related to the wastewater treatment plant expansion that were covered by the general fund but not budgeted. These costs will be reimbursed by the wastewater treatment fund after the issuance of debt in fiscal year 2020.

**CAPITAL ASSETS**

At the end of the year, the City's governmental and business-type activities had invested \$40,487,185 in capital assets and infrastructure (net of accumulated depreciation). This represents an increase of \$5,698,232 from the prior year. More detailed information about the City's capital assets is presented in note III. C. to the financial statements.

**CITY OF LIBERTY HILL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

**LONG-TERM DEBT**

At the end of the current year, the City had total certificates of obligation, tax notes, special assessment revenue bonds, and revenue bonds outstanding of \$28,816,000.

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

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Becky Wilkins, City Finance Director, City Hall, 1120 Loop 332, Liberty Hill, Texas, 78642; telephone (512) 778-5449.

***BASIC FINANCIAL STATEMENTS***

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# CITY OF LIBERTY HILL, TEXAS

## STATEMENT OF NET POSITION

September 30, 2019

	Primary Government			Total
	Governmental Activities	Business-Type Activities	Reconciliation	
<b>Assets</b>				
Cash and cash equivalents	\$ 10,604,844	\$ 7,403,328	\$ -	\$ 18,008,172
Receivables, net	294,677	638,101	-	932,778
Internal balances	3,852	(3,852)	-	-
	<u>10,903,373</u>	<u>8,037,577</u>	<u>-</u>	<u>18,940,950</u>
Capital assets:				
Nondepreciable capital assets	3,196,518	4,313,890	-	7,510,408
Net depreciable capital assets	3,326,362	29,650,415	-	32,976,777
	<u>6,522,880</u>	<u>33,964,305</u>	<u>-</u>	<u>40,487,185</u>
<b>Total Assets</b>	<u>17,426,253</u>	<u>42,001,882</u>	<u>-</u>	<u>59,428,135</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows - pensions	195,205	-	-	195,205
Deferred outflows - OPEB	26,689	-	-	26,689
<b>Total Deferred Outflows of Resources</b>	<u>221,894</u>	<u>-</u>	<u>-</u>	<u>221,894</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued liabilities	813,002	1,028,722	-	1,841,724
Customer deposits	-	130,325	-	130,325
Accrued interest	57,023	33,037	-	90,060
	<u>870,025</u>	<u>1,192,084</u>	<u>-</u>	<u>2,062,109</u>
Noncurrent liabilities:				
Long-term liabilities due within one year	768,730	1,116,199	-	1,884,929
Long-term liabilities due in more than one year	15,117,410	13,325,796	-	28,443,206
	<u>15,886,140</u>	<u>14,441,995</u>	<u>-</u>	<u>30,328,135</u>
<b>Total Liabilities</b>	<u>16,756,165</u>	<u>15,634,079</u>	<u>-</u>	<u>32,390,244</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows - pensions	24,629	-	-	24,629
Deferred inflows - OPEB	1,839	-	-	1,839
<b>Total Inflows of Resources</b>	<u>26,468</u>	<u>-</u>	<u>-</u>	<u>26,468</u>
<b>Net Position</b>				
Net investment in capital assets	6,522,880	19,522,310	(5,131,000)	20,914,190
Restricted	4,855,100	-	-	4,855,100
Unrestricted	(10,512,466)	6,845,493	5,131,000	1,464,027
<b>Total Net Position</b>	<u>\$ 865,514</u>	<u>\$ 26,367,803</u>	<u>\$ -</u>	<u>\$ 27,233,317</u>

See Notes to Financial Statements.

# CITY OF LIBERTY HILL, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants Grants and Contributions
<b>Primary Government:</b>			
<b>Governmental Activities</b>			
General government	\$ 6,636,894	\$ 1,643,205	\$ -
Municipal court	265,923	-	-
Public safety	1,087,235	264,980	-
Public works	561,607	-	-
Interest and fiscal agent fees on long-term debt	1,194,648	-	-
<b>Total Governmental Activities</b>	<b>9,746,307</b>	<b>1,908,185</b>	<b>-</b>
<b>Business-Type Activities</b>			
Water, sewer, and wastewater collections	5,919,988	10,239,068	-
<b>Total Business-Type Activities</b>	<b>5,919,988</b>	<b>10,239,068</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 15,666,295</b>	<b>\$ 12,147,253</b>	<b>\$ -</b>

**General Revenues:**

Taxes:

Property taxes

Sales taxes

Franchise fees and local taxes

Investment income

Other

Transfers

**Total General Revenues and Transfers**

**Change in Net Position**

Beginning net position

**Ending Net Position**

See Notes to Financial Statements.

<b>Net (Expense) Revenue and Changes in Net Position</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (4,993,689)	\$ -	\$ (4,993,689)
(265,923)	-	(265,923)
(822,255)	-	(822,255)
(561,607)	-	(561,607)
<u>(1,194,648)</u>	<u>-</u>	<u>(1,194,648)</u>
<u>(7,838,122)</u>	<u>-</u>	<u>(7,838,122)</u>
-	4,319,080	4,319,080
<u>-</u>	<u>4,319,080</u>	<u>4,319,080</u>
<u>(7,838,122)</u>	<u>4,319,080</u>	<u>(3,519,042)</u>
1,922,353	-	1,922,353
1,474,357	-	1,474,357
134,765	-	134,765
438,887	-	438,887
1,347,741	69,934	1,417,675
(866,692)	866,692	-
<u>4,451,411</u>	<u>936,626</u>	<u>5,388,037</u>
<u>(3,386,711)</u>	<u>5,255,706</u>	<u>1,868,995</u>
<u>4,252,225</u>	<u>21,112,097</u>	<u>25,364,322</u>
<u>\$ 865,514</u>	<u>\$ 26,367,803</u>	<u>\$ 27,233,317</u>

# CITY OF LIBERTY HILL, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

September 30, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Liberty Parke Public Improvement District</u>	<u>Capital Improvement</u>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 5,607,436	\$ 253,205	\$ 1,893,526	\$ 1,786,157
Receivables, net	170,064	9,376	-	-
Due from other funds	14,646	-	-	-
<b>Total Assets</b>	<b><u>\$ 5,792,146</u></b>	<b><u>\$ 262,581</u></b>	<b><u>\$ 1,893,526</u></b>	<b><u>\$ 1,786,157</u></b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 552,633	\$ -	\$ 308	\$ 191,638
Due to other funds	-	26,048	-	-
<b>Total Liabilities</b>	<b><u>552,633</u></b>	<b><u>26,048</u></b>	<b><u>308</u></b>	<b><u>191,638</u></b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue - property taxes	12,282	9,376	-	-
<b><u>Fund Balances</u></b>				
Restricted:				
Municipal court	-	-	-	-
Communication equipment	66,710	-	-	-
Capital projects	-	-	1,893,218	1,594,519
Debt service	-	227,157	-	-
Economic development	-	-	-	-
Unassigned	5,160,521	-	-	-
<b>Total Fund Balances</b>	<b><u>5,227,231</u></b>	<b><u>227,157</u></b>	<b><u>1,893,218</u></b>	<b><u>1,594,519</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 5,792,146</u></b>	<b><u>\$ 262,581</u></b>	<b><u>\$ 1,893,526</u></b>	<b><u>\$ 1,786,157</u></b>

See Notes to Financial Statements.

<b>Nonmajor Governmental</b>	<b>Total Governmental Funds</b>
\$ 1,064,520	\$ 10,604,844
115,237	294,677
42,350	56,996
<u>\$ 1,222,107</u>	<u>\$ 10,956,517</u>
\$ 68,423	\$ 813,002
27,096	53,144
<u>95,519</u>	<u>866,146</u>
<u>-</u>	<u>21,658</u>
57,537	57,537
-	66,710
-	3,487,737
-	227,157
1,073,496	1,073,496
(4,445)	5,156,076
<u>1,126,588</u>	<u>10,068,713</u>
<u>\$ 1,222,107</u>	<u>\$ 10,956,517</u>

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**CITY OF LIBERTY HILL, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**September 30, 2019**

Total fund balances for governmental funds		\$ 10,068,713
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		
Capital assets - nondepreciable	3,196,518	
Capital assets - net depreciable	3,326,362	6,522,880
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
		21,658
Deferred outflows and deferred inflows related to the net pension and total OPEB liability are not reported in the governmental funds.		
Deferred outflows-pensions	195,205	
Deferred outflows-OPEB	26,689	
Deferred inflows-pensions	(24,629)	
Deferred inflows-OPEB	(1,839)	195,426
Some liabilities, including bonds payable, compensated absences, accrued interest, and net pension and total OPEB liability, are not reported as liabilities in the governmental funds.		
Accrued interest	(57,023)	
Noncurrent liabilities due in more than one year	(768,730)	
Noncurrent liabilities due in one year	(15,117,410)	(15,943,163)
<b>Net Position of Governmental Activities</b>		<b>\$ 865,514</b>

See Notes to Financial Statements.

**CITY OF LIBERTY HILL, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2019

<u>Revenues</u>	<u>General</u>	<u>Debt Service</u>	<u>Liberty Parke Public Improvement District</u>	<u>Capital Improvement</u>
Property taxes	\$ 864,648	\$ 475,121	\$ 570,256	\$ -
Sales taxes	850,076	-	-	-
Franchise fees and local taxes	134,765	-	-	-
Fines and forfeitures	241,074	-	-	-
Licenses and permits	1,643,205	-	-	-
Development agreements	40,920	-	-	-
Investment income	308,000	4,046	56,595	70,246
Other	1,268,419	-	-	488
<b>Total Revenues</b>	<b>5,351,107</b>	<b>479,167</b>	<b>626,851</b>	<b>70,734</b>
<b>Expenditures</b>				
<b>Current:</b>				
General administration	2,331,806	-	2,962,094	2,681,454
Municipal court	262,479	-	-	-
Police department	1,360,309	-	-	-
Parks and recreation and street maintenance	57,592	-	-	-
<b>Capital outlay</b>	<b>1,060,696</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Debt service:</b>				
Principal	-	465,000	-	-
Interest and fiscal charges	-	218,433	-	-
Bond issuance costs	-	-	987,345	-
<b>Total Expenditures</b>	<b>5,072,882</b>	<b>683,433</b>	<b>3,949,439</b>	<b>2,681,454</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>278,225</b>	<b>(204,266)</b>	<b>(3,322,588)</b>	<b>(2,610,720)</b>
<b>Other Financing Sources (Uses)</b>				
Issuance of debt	-	-	1,965,000	-
Proceeds from capital lease	177,361	-	-	-
Transfers in	-	180,000	-	-
<b>Total Other Financing Sources</b>	<b>177,361</b>	<b>180,000</b>	<b>1,965,000</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>455,586</b>	<b>(24,266)</b>	<b>(1,357,588)</b>	<b>(2,610,720)</b>
Beginning fund balances	4,771,645	251,423	3,250,806	4,205,239
<b>Ending Fund Balances</b>	<b>\$ 5,227,231</b>	<b>\$ 227,157</b>	<b>\$ 1,893,218</b>	<b>\$ 1,594,519</b>

See Notes to Financial Statements.

<b>Nonmajor Governmental</b>	<b>Total Governmental Funds</b>
\$ -	\$ 1,910,025
624,281	1,474,357
-	134,765
23,906	264,980
-	1,643,205
-	40,920
-	438,887
37,914	1,306,821
<u>686,101</u>	<u>7,213,960</u>
219,647	8,195,001
73	262,552
-	1,360,309
526,420	584,012
-	1,060,696
-	465,000
-	218,433
-	987,345
<u>746,140</u>	<u>13,133,348</u>
<u>(60,039)</u>	<u>(5,919,388)</u>
-	1,965,000
-	177,361
-	180,000
<u>-</u>	<u>2,322,361</u>
(60,039)	(3,597,027)
<u>1,186,627</u>	<u>13,665,740</u>
<u>\$ 1,126,588</u>	<u>\$ 10,068,713</u>

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**CITY OF LIBERTY HILL, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2019**

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

Net change in fund balances - total governmental funds	\$ (3,597,027)
--	----------------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital asset acquisitions	2,086,577
Depreciation expense	(196,850)

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

Net change in unavailable revenue - property taxes	12,328
--	--------

Changes in pension and OPEB activity does not affect fund balances on the statement of revenues, expenditures, and changes in fund balances for the governmental funds.

Changes in pension and OPEB activity that affect the City's net position are as follows:

Net pension liability	(112,377)
Total OPEB liability	(33,181)
Deferred outflows - pensions	88,494
Deferred outflows - OPEB	24,977
Deferred inflows - pensions	(57,027)
Deferred inflows - OPEB	(1,839)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal paid on long-term debt	540,000
Amortization of premium	25,529
Debt issued	(2,142,361)
Accrued interest expense	(14,399)

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 funds.

Compensated absences	<u>(9,555)</u>
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<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ (3,386,711)</u></u></b>
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See Notes to Financial Statements.

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# CITY OF LIBERTY HILL, TEXAS

## STATEMENT OF NET POSITION

### PROPRIETARY FUNDS

September 30, 2019

	<u>Sewer</u>	<u>Wastewater Treatment</u>	<u>Water</u>	<u>Total Business-Type Activities</u>
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 2,601,627	\$ 2,575,237	\$ 2,226,464	\$ 7,403,328
Receivables, net	126,612	152,760	358,729	638,101
<b>Total Current Assets</b>	<u>2,728,239</u>	<u>2,727,997</u>	<u>2,585,193</u>	<u>8,041,429</u>
<b>Noncurrent Assets</b>				
Capital assets:				
Land	521,486	393,700	129,483	1,044,669
Construction in progress	-	1,988,243	1,280,978	3,269,221
Wastewater treatment facility	-	19,125,764	-	19,125,764
Water system	-	-	5,455,047	5,455,047
Sewer system	9,057,298	-	-	9,057,298
Less accumulated depreciation	(1,678,597)	(1,742,373)	(566,724)	(3,987,694)
<b>Total Net Depreciable Assets</b>	<u>7,900,187</u>	<u>19,765,334</u>	<u>6,298,784</u>	<u>29,650,415</u>
<b>Total Noncurrent Assets</b>	<u>7,900,187</u>	<u>19,765,334</u>	<u>6,298,784</u>	<u>33,964,305</u>
<b>Total Assets</b>	<u>10,628,426</u>	<u>22,493,331</u>	<u>8,883,977</u>	<u>42,005,734</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable	27,051	894,034	107,637	1,028,722
Customer deposits	100	22,900	107,325	130,325
Due to other funds	-	3,852	-	3,852
Accrued interest	-	24,045	8,992	33,037
<b>Total Current Liabilities</b>	<u>27,151</u>	<u>944,831</u>	<u>223,954</u>	<u>1,195,936</u>
<b>Noncurrent Liabilities</b>				
Long-term liabilities due within one year	-	260,000	856,199	1,116,199
Long-term liabilities due in more than one year	-	10,240,000	3,085,796	13,325,796
<b>Total Noncurrent Liabilities</b>	<u>-</u>	<u>10,500,000</u>	<u>3,941,995</u>	<u>14,441,995</u>
<b>Total Liabilities</b>	<u>27,151</u>	<u>11,444,831</u>	<u>4,165,949</u>	<u>15,637,931</u>
<b>Net Position</b>				
Net investment in capital assets	7,900,187	9,265,334	2,356,789	19,522,310
Unrestricted	2,701,088	1,783,166	2,361,239	6,845,493
<b>Total Net Position</b>	<u>\$ 10,601,275</u>	<u>\$ 11,048,500</u>	<u>\$ 4,718,028</u>	<u>\$ 26,367,803</u>

See Notes to Financial Statements.

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# CITY OF LIBERTY HILL, TEXAS

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

For the Year Ended September 30, 2019

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
<b><u>Operating Revenues</u></b>				
Charges for services	\$ 1,531,469	\$ 4,606,767	\$ 1,987,492	\$ 8,125,728
Impact fees	-	2,113,340	-	2,113,340
<b>Total Operating Revenues</b>	1,531,469	6,720,107	1,987,492	10,239,068
<b><u>Operating Expenses</u></b>				
Water operations	-	-	891,870	891,870
Sewer operations	416,304	-	-	416,304
Wastewater collection operations	-	3,056,457	-	3,056,457
Depreciation	236,809	602,216	194,681	1,033,706
<b>Total Operating Expenses</b>	653,113	3,658,673	1,086,551	5,398,337
<b>Operating Income</b>	878,356	3,061,434	900,941	4,840,731
<b><u>Nonoperating Revenues (Expenses)</u></b>				
Interest expense and fiscal agent fees	-	(462,260)	(59,391)	(521,651)
Investment income	17	52,820	17,097	69,934
<b>Total Nonoperating Revenues (Expenses)</b>	17	(409,440)	(42,294)	(451,717)
<b>Income Before Contributions and Transfers</b>	878,373	2,651,994	858,647	4,389,014
Capital contribution	-	-	1,046,692	1,046,692
Transfers (out)	-	(180,000)	-	(180,000)
<b>Change in Net Position</b>	878,373	2,471,994	1,905,339	5,255,706
Beginning net position	9,722,902	8,576,506	2,812,689	21,112,097
<b>Ending Net Position</b>	\$ 10,601,275	\$ 11,048,500	\$ 4,718,028	\$ 26,367,803

See Notes to Financial Statements.

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# CITY OF LIBERTY HILL, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS

For the Year Ended September 30, 2019

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
<b><u>Cash Flows from Operating Activities</u></b>				
Receipts from customers	\$ 1,456,047	\$ 6,769,695	\$ 1,758,559	\$ 9,984,301
Payments to suppliers and service providers	(340,637)	(1,520,667)	(677,354)	(2,538,658)
Payments to employees for salaries and benefits	(68,643)	(806,829)	(174,875)	(1,050,347)
<b>Net Cash Provided by Operating Activities</b>	<b>1,046,767</b>	<b>4,442,199</b>	<b>906,330</b>	<b>6,395,296</b>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>				
Transfers (out) to other funds	-	(180,000)	1,046,692	866,692
<b>Net Cash (Used) by Noncapital Financing Activities</b>	<b>-</b>	<b>(180,000)</b>	<b>1,046,692</b>	<b>866,692</b>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>				
Capital purchases	(48,690)	(2,799,960)	(3,040,252)	(5,888,902)
Capital contribution	-	-	1,046,692	1,046,692
Lease proceeds	-	-	661,995	661,995
Principal paid on capital debt	-	(765,000)	(250,000)	(1,015,000)
Interest and fiscal agent fees paid	-	(462,260)	(59,391)	(521,651)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b>(48,690)</b>	<b>(4,027,220)</b>	<b>(1,640,956)</b>	<b>(5,716,866)</b>
<b><u>Cash Flows from Investing Activities</u></b>				
Interest received	16	52,820	17,097	69,934
<b>Net Cash Provided by Investing Activities</b>	<b>16</b>	<b>52,820</b>	<b>17,097</b>	<b>69,934</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>998,093</b>	<b>287,799</b>	<b>329,163</b>	<b>1,615,056</b>
Beginning cash and cash equivalents	1,603,534	2,287,438	1,897,301	5,788,273
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 2,601,627</b>	<b>\$ 2,575,237</b>	<b>\$ 2,226,464</b>	<b>\$ 7,403,329</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>				
Operating income	\$ 878,356	\$ 3,061,434	\$ 900,941	\$ 4,840,731
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	236,809	602,216	194,681	1,033,706
<b>Changes in Operating Assets and Liabilities:</b>				
<b>(Increase) Decrease in:</b>				
Accounts receivable	(75,422)	54,973	(251,493)	(271,942)
<b>Increase (Decrease) in:</b>				
Accounts payable	7,024	726,963	40,265	774,252
Accrued interest	-	(1,854)	(624)	(2,478)
Due to other funds	-	3,852	-	3,852
Customer deposits	-	(5,385)	22,560	17,175
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,046,767</b>	<b>\$ 4,442,199</b>	<b>\$ 906,330</b>	<b>\$ 6,395,296</b>

See Notes to Financial Statements.

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# **CITY OF LIBERTY HILL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2019**

### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

The City of Liberty Hill, Texas (the “City”) was incorporated under the laws of the State of Texas in January 1999. The City operates as a “General Law” City, which provides for a “Mayor-Council” form of government.

The City provides the following services: public safety, municipal court, highways and streets, sanitation, water and sewer services, and general administration.

The City is an independent political subdivision of the State of Texas 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. The component units, as listed below, although legally separate, are considered part of the 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.

#### **Blended Component Units**

##### **Liberty Hill Economic Development Corporation**

The Liberty Hill Economic Development Corporation (LHEDC) is a non-profit corporation organized under the Development Corporation Act of 1979 (the “Act”) and covered by Section 4B of the Act. The LHEDC was organized exclusively for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the City; and for the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. The LHEDC is governed by a board of directors appointed by the City Council. The LHEDC is responsible for managing a one-half percent sales tax for its economic development activities on behalf of the City. The LHEDC’s budget requires approval from City Council.

##### **Summerlyn West Public Improvement District**

The Summerlyn West Public Improvement District (PID) was created pursuant to Chapter 372 of the Texas Local Government Code. The City created the PID as a mechanism to finance public infrastructure improvements within the PID boundaries. These improvements consist of the maintenance of water lines, sanitary sewer lines, streets, sidewalks, parks, public landscaping, recreational activity amenities, contingency provisions, financing costs, and administrative and legal

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

services for the PID. The City Council found that the improvements would serve to promote the construction of single-family units and confer a special benefit to properties within the PID. Consequently, it would be necessary to apportion the costs of the improvements against the property owners in the PID by special assessments. Initially, the public improvements would be prefunded by the developers of the residential subdivisions within the PID. The developers would then be entitled to receive reimbursement of the public improvement costs, subject to limitations contained in their development agreements with the City. The City retains the right to create a board to manage the PID, but currently retains all management capacity at year end.

**Liberty Parke Public Improvement District**

The Liberty Parke Public Improvement District (PID) was created pursuant to Chapter 372 of the Texas Local Government Code. The City created the PID as a mechanism to finance public infrastructure improvements within the PID boundaries. These improvements consist of the maintenance of water lines, sanitary sewer lines, streets, sidewalks, parks, public landscaping, recreational activity amenities, contingency provisions, financing costs, and administrative and legal services for the PID. The City Council found that the improvements would serve to promote the construction of single-family units and confer a special benefit to properties within the PID. Consequently, it would be necessary to apportion the costs of the improvements against the property owners in the PID by special assessments. Initially, the public improvements would be prefunded by the developers of the residential subdivisions within the PID. The developers would then be entitled to receive reimbursement of the public improvement costs, subject to limitations contained in their development agreements with the City. The PID issued \$3,975,000 in special assessment revenue bonds during fiscal year 2017 to cover reimbursement costs to developers currently working within the boundaries of the PID. The City retains the right to create a board to manage the PID, but currently retains all management capacity at year end.

**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 and its component units. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges 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 funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and the proprietary funds.

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, wastewater, and sewer operation 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 LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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

The fund financial statements provide information about the City's funds, including the blended component units. 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 funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales taxes, and franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general administration, municipal court, police department, and parks and recreation. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *capital projects fund* is used to account for the expenditures of resources accumulated from the sale of long-term debt, as well as resources from other funds and related interest earnings for capital improvement projects. The capital improvements fund is considered a major fund for reporting purposes.

The *special revenue funds* are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds include the street maintenance, LHEDC, court fees, Summerlyn West PID, Stonewall PID, and Butler PID. The Liberty Parke PID is considered a major fund for reporting purposes. The LHEDC, street maintenance, Summerlyn West PID, Butler PID, Stonewall PID, and court fees funds are considered nonmajor for reporting purposes.

The City reports the following enterprise funds:

The *enterprise funds* are used to account for the operations that provide water, sewer operations, and wastewater treatment. The 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 sewer, wastewater treatment, and water funds are considered major funds 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 funds) 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 funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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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 transfers 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 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.

The City maintains a pooled cash and investments account. Each fund whose monies are deposited in the pooled cash and investment account has equity therein, and interest earned on the investment

**CITY OF LIBERTY HILL, TEXAS**  
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of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest-bearing accounts and other investments are displayed on the combined balance sheet as “cash and 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 deposits 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. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government or U.S. Government agencies
- Fully collateralized certificates of deposit
- Money market mutual funds that meet certain criteria
- Bankers’ acceptances
- Statewide investment pools

**3. Inventories and Prepaid Items**

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) and are recognized as expenditures when utilized.

**4. 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. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of four 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. 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.

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**For the Year Ended September 30, 2019**

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 years
Furniture and fixtures	4-8 years
Infrastructure	40 years
Machinery and equipment	4-8 years
Water and sewer system	20-40 years
Buildings and improvements	10-40 years

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

**6. Compensated Employee Absences**

It is the City’s policy to permit employees to accumulate earned but unused vacation. Accumulated amounts, up to certain amounts, may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

**7. Long-Term Obligations**

In the 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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund. Though a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements, as they are expected to be paid from property tax revenues instead of water system revenues.

**8. 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.

**9. 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.

**10. Fund Balance Policies**

Fund balances of governmental funds are 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).

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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 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 an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) 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.

**11. 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.

**12. Pensions**

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

**13. 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 other postemployment benefits (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 LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. 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. Penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action.

**3. 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 funds are charges to customers for sales and services and operating contributions. The enterprise funds also recognize 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 funds 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**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and the debt service fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined in the approved budget is at the department level. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended September 30, 2019.

For the year ended September 30, 2019, expenditures exceeded appropriations at the legal level of control in the following departments;

<u>Departments</u>	<u>Variance</u>
General	
General administration	\$ 1,058,571
Police department	\$ 168,288
Capital outlay	\$ 1,060,696
Debt Service	
Principal	\$ 180,000
Interest expense	\$ 59,899

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

The City reported a deficit fund balance in the street maintenance fund, Summerlyn West PID, and Stonewall PID. The overall net effect is a deficit unassigned fund balance of \$4,445 for nonmajor governmental funds.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2019, the City had the following investments:

<b>Investment Type</b>	<b>Value</b>	<b>Weighted Average Maturity (Years)</b>
Statewide investment pool (TexPool)	\$ 4,943,245	0.32
Certificate of deposit	234,149	0.09
<b>Total Investments</b>	<b>\$ 5,177,394</b>	
Portfolio Weighted Average Maturity		0.21

*Interest rate risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

*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, 2019, the City’s investments in TexPool were rated ‘AAAm’ by Standard & Poor’s.

*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. As of September 30, 2019, market values of pledged securities and FDIC exceeded bank balances with the exception of certificates of deposit held at Classic Bank.

*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 of Texas 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 LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
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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 per share, 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's authority may only impose restrictions on redemptions in the event of general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects the pool's liquidity.

**B. Receivables**

The following comprises receivable balances at year end:

	<u>General</u>	<u>Debt</u>	
		<u>Service</u>	
Property taxes	\$ 12,532	\$	9,567
Other taxes	157,783		-
Less allowance	(251)		(191)
<b>Total</b>	<u>\$ 170,064</u>	<u>\$</u>	<u>9,376</u>

  

	<u>Sewer</u>	<u>Wastewater</u>	<u>Water</u>
Accounts	\$ 130,447	\$ 169,345	\$ 359,773
Less allowance	(3,835)	(16,585)	(1,044)
<b>Total</b>	<u>\$ 126,612</u>	<u>\$ 152,760</u>	<u>\$ 358,729</u>

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2019

**C. Capital Assets**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 983,244	\$ -	\$ -	\$ 983,244
Construction in progress	1,147,046	1,844,393	(778,165)	2,213,274
	<u>2,130,290</u>	<u>1,844,393</u>	<u>(778,165)</u>	<u>3,196,518</u>
Other capital assets:				
Building and improvements	2,555,456	1,020,349	-	3,575,805
Machinery and equipment	114,782	-	-	114,782
Police equipment	629,961	-	-	629,961
	<u>3,300,199</u>	<u>1,020,349</u>	<u>-</u>	<u>4,320,548</u>
Less accumulated depreciation for:				
Building and improvements	(281,570)	(117,308)	-	(398,878)
Machinery and equipment	(42,405)	(19,981)	-	(62,386)
Police equipment	(473,361)	(59,561)	-	(532,922)
	<u>(797,336)</u>	<u>(196,850)</u>	<u>-</u>	<u>(994,186)</u>
Other capital assets, net	<u>2,502,863</u>	<u>823,499</u>	<u>-</u>	<u>3,326,362</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 4,633,153</u>	<u>\$ 2,667,892</u>	<u>\$ (778,165)</u>	<u>\$ 6,522,880</u>
		<b>Net Investment in Capital Assets</b>		<u>\$ 6,522,880</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 114,173
Public safety	29,528
Public works	<u>53,150</u>
<b>Total Governmental Activities Depreciation Expense</b>	<u>\$ 196,850</u>

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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

	<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	\$ 1,044,669	\$ -	\$ -	\$ 1,044,669
Construction in progress	106,421	3,678,145	(515,345)	3,269,221
	<u>1,151,090</u>	<u>3,678,145</u>	<u>(515,345)</u>	<u>4,313,890</u>
Other capital assets:				
Water system*	4,742,465	712,582	-	5,455,047
Wastewater treatment facility*	18,207,626	918,138	-	19,125,764
Sewer system	9,008,608	48,690	-	9,057,298
	<u>31,958,699</u>	<u>1,679,410</u>	<u>-</u>	<u>33,638,109</u>
Less accumulated depreciation for:				
Wastewater treatment facility	(1,123,554)	(618,819)	-	(1,742,373)
Water system	(388,669)	(178,055)	-	(566,724)
Sewer system	(1,441,766)	(236,831)	-	(1,678,597)
	<u>(2,953,989)</u>	<u>(1,033,705)</u>	<u>-</u>	<u>(3,987,694)</u>
Other capital assets, net	<u>29,004,710</u>	<u>645,705</u>	<u>-</u>	<u>29,650,415</u>
<b>Business-Type Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 30,155,800</u>	<u>\$ 4,323,850</u>	<u>\$ (515,345)</u>	<u>33,964,305</u>
			Less associated debt	<u>(14,441,995)</u>
			<b>Net Investment in Capital Assets</b>	<u>\$ 19,522,310</u>

\*Beginning balances reclassified

Depreciation was charged to business-type functions as follows:

Water operations	\$ 618,819
Sewer operations	236,831
Wastewater collection operations	178,055
<b>Total Business-Type Activities Depreciation Expense</b>	<u>\$ 1,033,705</u>

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

**D. Long-Term Debt**

The following is a summary of changes in the City's total governmental activities long-term liabilities for the year. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
2016 tax notes	\$ 814,000	\$ -	\$ (159,000)	\$ 655,000	* \$ 160,000
2017 special assessment revenue bonds	3,970,000	-	(75,000)	3,895,000	75,000
2018 tax notes	1,727,000	-	(126,000)	1,601,000	* 129,000
2018 certificates of obligation	2,875,000	-	-	2,875,000	* 100,000
2018 general obligation refunding bonds	4,225,000	-	(180,000)	4,045,000	175,000
2019 special assessment revenue bonds	-	1,965,000	-	1,965,000	40,000
Premium on long-term debt	479,369	-	(25,529)	453,840	-
Capital leases	-	177,361	-	177,361	35,472
Net pension liability (asset)	(11,018)	112,377	-	101,359	-
Total OPEB liability	24,112	33,181	-	57,293	-
Compensated absences	50,732	55,214	(45,659)	60,287	54,258
<b>Total Governmental Activities</b>	<u>\$ 14,154,195</u>	<u>\$ 2,343,133</u>	<u>\$ (611,188)</u>	<u>\$ 15,886,140</u>	<u>\$ 768,730</u>
<b>Long-term liabilities due in more than one year</b>				<u>\$ 15,117,410</u>	
<b>*Debt associated with business-type activities capital assets</b>				<u>\$ 5,131,000</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 funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The following is a summary of changes in the City's total business-type long-term liabilities for the year. The City uses the water and wastewater service revenues to liquidate business-type long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Business-Type Activities:</b>					
2012 water revenue bonds	\$ 1,605,000	\$ -	\$ (100,000)	\$ 1,505,000	\$ 105,000
2012 wastewater treatment facility revenue bonds	2,945,000	-	(165,000)	2,780,000	170,000
2014 water system revenue bonds	1,925,000	-	(150,000)	1,775,000	155,000
2015 wastewater treatment facility revenue bonds	8,320,000	-	(600,000)	7,720,000	620,000
Capital lease	-	661,995	-	661,995	66,199
<b>Total Business-Type Activities</b>	<u>\$ 14,795,000</u>	<u>\$ 661,995</u>	<u>\$ (1,015,000)</u>	<u>\$ 14,441,995</u>	<u>\$ 1,116,199</u>
<b>Long-term liabilities due in more than one year</b>				<u>\$ 13,325,796</u>	

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

Governmental activities long-term debt at year end was comprised of the following debt issues:

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
<b>Certificates of Obligation</b>		
2018 Certificates of Obligation	3.00-3.65%	\$ 2,875,000
<b>Tax Notes</b>		
Tax notes 2016	1.56-1.65%	655,000
Tax notes 2018	2.25-3.50%	1,601,000
<b>Special Assessment Revenue Bonds</b>		
Series 2017 MIA	5.13-6.00%	2,770,000
Series 2017 NIA	5.38%	1,125,000
Series 2019 MIA	3.38-4.13%	1,965,000
<b>General Obligation</b>		
Series 2018 Refunding	2.25-4.20%	4,045,000
<b>Total Governmental Activities Long-Term Debt</b>		<u><u>\$ 15,036,000</u></u>

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

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
<b>Revenue Bonds</b>		
2012 Water Revenue Bond	1.00-4.85%	\$ 1,505,000
2012 Wastewater Treatment Facility	3.85%	2,780,000
2014 Water System Revenue Bond	3.01%	1,775,000
2015 Wastewater Treatment Facility	2.52%	7,720,000
<b>Total Revenue Bonds</b>		<u>13,780,000</u>
<b>Total Business-Type Activities Long-Term Debt</b>		<u><u>\$ 13,780,000</u></u>

Capital Leases

The City has entered into lease agreements as a lessee for financing the acquisition of equipment, principally consisting of vehicles and equipment. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. Capital leases bear interest rates between 2 and 5 percent and have maturity dates ranging from 2021 to 2030.

Annual requirements to satisfy these obligations are as follows:

<u>Year Ending Sep. 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 35,472	\$ 4,350
2021	35,472	4,350
2022	35,472	4,350
2023	35,472	4,350
2024	35,473	4,350
<b>Total</b>	<u><u>\$ 177,361</u></u>	<u><u>\$ 21,750</u></u>

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

Year Ending Sep. 30	Business-Type Activities	
	Principal	Interest
	2020	\$ 66,199
2021	66,199	12,771
2022	66,199	12,771
2023	66,199	12,771
2024	66,199	12,771
2025-2029	330,996	63,853
<b>Total</b>	<b>\$ 661,991</b>	<b>\$ 127,708</b>

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ending Sep. 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
	2020	\$ 679,000	\$ 608,004	\$ 1,050,000
2021	780,000	588,942	1,075,000	414,671
2022	797,000	570,323	1,105,000	384,773
2023	815,000	550,560	1,135,000	353,943
2024	840,000	527,519	1,165,000	322,072
2025-2029	2,705,000	2,322,525	6,385,000	10,909,441
2030-2034	3,320,000	1,686,681	1,865,000	206,757
2035-2039	2,795,000	936,594	-	-
2040-2044	1,565,000	448,438	-	-
2045-2049	740,000	58,692	-	-
<b>Total</b>	<b>\$ 15,036,000</b>	<b>\$ 8,298,276</b>	<b>\$ 13,780,000</b>	<b>\$ 13,034,983</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 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 IRS rules and regulations.

**E. Interfund Transactions**

Transfers between the primary government funds during the year were as follows:

Transfer In	Transfer Out	Amount
Debt service fund	Wastewater fund	180,000
	<b>Total</b>	<b>\$ 180,000</b>

Amounts transferred between funds were related to debt service.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

The composition of interfund balances as of yearend was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Stonewall PID	\$ 7,273
	Butler PID	188
	Street maintenance	19,635
Court fees	Debt service	26,048
	Wastewater	3,852
	<b>Total</b>	<u>\$ 56,996</u>

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

**F. Fund Equity**

Funds restricted by enabling legislation are \$66,710, which are related to municipal court security and technology fees and Public Education Government fees.

**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 Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three 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 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by TMRS. TMRS is an agency created by the State of Texas and

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the “TMRS Act”) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of 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 of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at [www.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 payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member’s deposits and interest.

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

	<b>2019</b>	<b>2018</b>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 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	0% Repeating, Transfers	0% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI Repeating	0% of CPI Repeating

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to, but not yet receiving, benefits	12
Active employees	31
<b>Total</b>	<b>44</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

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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 seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.55 percent and 7.08 percent in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2019 were \$121,117, which were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

The TPL in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

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

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and annuity purchase rate are based on the mortality experience investigation study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the EAN actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well 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)

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.30%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.39%
Real Return	10.00%	3.78%
Real Estate	10.00%	4.44%
Absolute Return	10.00%	3.56%
Private Equity	5.00%	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.

Changes in the NPL

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	<u>(A)</u>	<u>(B)</u>	<u>(A) - (B)</u>
Changes for the year:			
Service cost	\$ 255,759	\$ -	\$ 255,759
Interest	54,920	-	54,920
Change in current period benefits	-	-	-
Difference between expected and actual experience	41,657	-	41,657
Changes in assumptions	-	-	-
Contributions - employer	-	131,520	(131,520)
Contributions - employee	-	129,921	(129,921)
Net investment income	-	(21,056)	21,056
Benefit payments, including refunds of employee contributions	(6,230)	(6,230)	-
Administrative expense	-	(405)	405
Other changes	-	(21)	21
<b>Net Changes</b>	<b>346,106</b>	<b>233,729</b>	<b>112,377</b>
Balance at December 31, 2018	688,861	699,879	(11,018)
<b>Balance at December 31, 2019</b>	<b>\$ 1,034,967</b>	<b>\$ 933,608</b>	<b>\$ 101,359</b>

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of 6.75 percent, as well as what the City's NPL 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:

	<b>1% Decrease in Discount Rate (5.75%)</b>	<b>Discount Rate (6.75%)</b>	<b>1% Increase in Discount Rate (7.75%)</b>
Net Pension Liability (Asset)	\$ 254,159	\$ 101,359	\$ (24,544)

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2019, the City recognized pension expense of \$149,897.

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ 34,350	\$ 24,629
Changes in actuarial assumptions	3,077	-
Difference between projected and actual investment earnings	37,686	-
Contributions subsequent to the measurement date	120,092	-
<b>Total</b>	<b>\$ 195,205</b>	<b>\$ 24,629</b>

\$120,092 is reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL 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:

<b>Fiscal Year Ended September 30:</b>	<b>Pension Expense</b>
2020	\$ 11,943
2021	7,836
2022	7,795
2023	17,792
2024	5,118
<b>Total</b>	<b>\$ 50,484</b>

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2019

**D. Other Postemployment Benefits**

**TMRS – Supplemental Death Benefits**

Plan Description

The City participates in a defined benefit 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.

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, 2018 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	1
Active employees	31
Total	34

Total OPEB Liability

The City's total OPEB liability of \$57,293 was measured as of December 31, 2018 and was determined by an actuarial valuation as of that date.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2018 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 10.50% including inflation
Discount rate	3.71%*
Retirees' share of benefit-related costs	Zero
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates-service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projects on a fully generational basis with scale BB.
Mortality rates-disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rate are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

\* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Changes in the Total OPEB Liability

	<b>Total OPEB Liability</b>
Changes for the year:	
Service cost	\$ 5,754
Interest	893
Difference between expected and actual experience	28,636
Changes of assumptions	<u>(2,102)</u>
<b>Net Changes</b>	33,181
Beginning balance	<u>24,112</u>
<b>Ending Balance</b>	<u><u>\$ 57,293</u></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 benefit terms that affected measurement of the total OPEB liability during the measurement period.

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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:

	<b>1% Decrease in Discount Rate (2.71%)</b>	<b>Discount Rate (3.71%)</b>	<b>1% Increase in Discount Rate (4.71%)</b>
City's Total OPEB Liability	\$ 63,189	\$ 57,293	\$ 52,684

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

For the year ended September 30, 2019, the City recognized OPEB expense of \$10,217. 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>
Differences between expected and actual economic experience	\$ 25,048	\$ -
Changes in actuarial assumptions	1,467	1,839
Contributions subsequent to the measurement date	174	-
<b>Total</b>	<b>\$ 26,689</b>	<b>\$ 1,839</b>

\$174 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, 2020. Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year Ended September 30</b>	<b>OPEB Expense Amount</b>
2020	\$ 3,570
2021	3,570
2022	3,570
2023	3,570
2024	3,570
Thereafter	6,826
<b>Total</b>	<b>\$ 24,676</b>

**E. Restatement of Net Position**

Governmental activities net position was restated for the inclusion of the total OPEB liability and premium on debt issued in the prior year. The restatement was as follows:

	<b>Governmental Activities</b>
<b>Prior year ending net position as reported</b>	\$ 4,753,994
Restatement - Total OPEB Liability	(24,112)
Restatement - Deferred outflows OPEB	1,712
Restatement - Premium on long-term debt	(479,369)
<b>Restated beginning net position</b>	<b>\$ 4,252,225</b>

**CITY OF LIBERTY HILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

**F. Subsequent Events**

In November 2019, the City issued Wastewater Treatment Facility Revenue bonds Series 2019 (the “Bonds”) in the amount of \$7,710,000. Proceeds from the sale of the Bonds will be used for continued expansion and renovation of the wastewater treatment facility. The Bonds will mature in February of 2039. The interest rate of the Bonds is 2.75%.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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

For the Year Ended September 30, 2019

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b><u>Revenues</u></b>				
Property taxes	\$ 806,805	\$ 806,805	\$ 864,648	\$ 57,843
Sales taxes	669,500	669,500	850,076	180,576
Franchise fees and local taxes	116,250	116,250	134,765	18,515
Fines and forfeitures	205,000	205,500	241,074	35,574
Licenses and permits	622,350	622,350	1,643,205	1,020,855
Development agreements	475,000	475,000	40,920	(434,080)
Investment income	25,000	25,000	308,000	283,000
Other	61,200	146,700	1,268,419	1,121,719
<b>Total Revenues</b>	<u>2,981,105</u>	<u>3,067,105</u>	<u>5,351,107</u>	<u>2,284,002</u>
<b><u>Expenditures</u></b>				
General administration	1,138,085	1,273,235	2,331,806	(1,058,571) *
Municipal court	311,856	306,206	262,479	43,727
Police department	1,210,020	1,192,021	1,360,309	(168,288) *
Parks and recreation	305,800	92,000	57,592	34,408
Capital outlay	-	-	1,060,696	(1,060,696) *
<b>Total Expenditures</b>	<u>2,965,761</u>	<u>2,863,462</u>	<u>5,072,882</u>	<u>(2,209,420)</u>
<b>Excess of Revenues Over Expenditures</b>	<u>15,344</u>	<u>203,643</u>	<u>278,225</u>	<u>74,582</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Proceeds from capital lease	-	-	177,361	177,361
<b>Total Other Financing Sources</b>	<u>-</u>	<u>-</u>	<u>177,361</u>	<u>177,361</u>
<b>Net Change in Fund Balance</b>	<u>\$ 15,344</u>	<u>\$ 203,643</u>	<u>455,586</u>	<u>\$ 251,943</u>
Beginning fund balance			<u>4,771,645</u>	
<b>Ending Fund Balance</b>			<u>\$ 5,227,231</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

\* Expenditures exceeded appropriations at the legal level of control

# CITY OF LIBERTY HILL, TEXAS

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2019

	Measurement Year*			
	2014	2015	2016	2017
<b>Total Pension Liability</b>				
Service cost	\$ 40,516	\$ 74,045	\$ 131,717	\$ 160,122
Interest	17,896	24,957	31,221	40,642
Changes in benefit terms	-	26,977	-	-
Difference between expected and actual experience	21,818	(9,369)	(16,343)	(20,255)
Changes of assumptions	-	9,730	-	-
Benefit payments, including refunds of employee contributions	(16,899)	(29,298)	(15,090)	(27,369)
<b>Net Change in Total Pension Liability</b>	<u>63,331</u>	<u>97,042</u>	<u>131,505</u>	<u>153,140</u>
Beginning total pension liability	<u>243,843</u>	<u>307,174</u>	<u>404,216</u>	<u>535,721</u>
<b>Ending Total Pension Liability</b>	<u>\$ 307,174</u>	<u>\$ 404,216</u>	<u>\$ 535,721</u>	<u>\$ 688,861</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	\$ 12,443	\$ 19,891	\$ 69,655	\$ 87,582
Contributions - employee	39,026	54,387	68,385	81,398
Net investment income	14,346	442	23,326	68,151
Benefit payments, including refunds of employee contributions	(16,899)	(29,298)	(15,090)	(27,369)
Administrative expense	(150)	(269)	(263)	(352)
Other	(12)	(13)	(14)	(18)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>48,754</u>	<u>45,140</u>	<u>145,999</u>	<u>209,392</u>
Beginning plan fiduciary net position	<u>250,594</u>	<u>299,348</u>	<u>344,488</u>	<u>490,487</u>
<b>Ending Plan Fiduciary Net Position</b>	<u>\$ 299,348</u>	<u>\$ 344,488</u>	<u>\$ 490,487</u>	<u>\$ 699,879</u>
<b>Net Pension Liability (Asset)</b>	<u>\$ 7,826</u>	<u>\$ 59,728</u>	<u>\$ 45,234</u>	<u>\$ (11,018)</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	97.45%	85.22%	91.56%	101.60%
<b>Covered Payroll</b>	\$ 557,512	\$ 776,963	\$ 938,822	\$ 1,162,831
<b>Net Pension Liability (Asset) as a Percentage of Covered Payroll</b>	1.40%	7.69%	4.82%	-0.95%

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

**Measurement**  
**Year\***  
**2018**

\$ 255,759  
54,920  
-  
41,657  
-  
(6,230)  
346,106  
688,861  
\$ 1,034,967

\$ 131,520  
129,921  
(21,056)  
(6,230)  
(405)  
(21)  
233,729  
699,879

\$ 933,608

\$ 101,359

90.21%

\$ 1,856,014

5.46%

# CITY OF LIBERTY HILL, TEXAS

## SCHEDULE OF CONTRIBUTIONS

### TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2019

	Fiscal Year*			
	2015	2016	2017	2018
Actuarially determined contribution	\$ 18,067	\$ 55,391	\$ 83,387	\$ 121,117
Contributions in relation to the actuarially determined contribution	18,067	55,391	83,387	121,117
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
 Covered payroll	 \$ 733,664	 \$ 910,042	 \$ 1,115,988	 \$ 1,700,459
 Contributions as a percentage of covered payroll	 2.46%	 6.09%	 7.47%	 7.12%

\*Only five years of information is currently available. The City will build this schedule over the next five-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	25 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
Salary increases	3.5% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

**Fiscal  
Year\***

**2019**

\$ 152,581

152,581

\$ -

\$ 2,184,060

6.99%

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**CITY OF LIBERTY HILL, TEXAS**  
**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**For the Year Ended September 30, 2019**

	Measurement	
	Year*	
	2017	2018
<b>Total OPEB Liability</b>		
Service cost	\$ 3,256	\$ 5,754
Interest (on the total OPEB liability)	748	893
Differences between expected and actual experience	-	28,636
Change in assumptions	1,957	(2,102)
<b>Net Change in Total OPEB Liability</b>	5,961	33,181
Beginning total OPEB liability	18,151	24,112
<b>Ending Total OPEB Liability</b>	\$ 24,112	\$ 57,293
<b>Covered Payroll</b>	\$ 1,162,831	\$ 1,856,014
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	2.07%	3.09%

\* Only two years of information is currently available. The City will build this schedule over the next eight-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:**

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

Valuation Date:

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Discount rate	3.31%
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB 68.
Mortality - service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% 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, 2018.

Change in assumptions is the annual change in the municipal bond index rate.

There were no benefit changes during the year.

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# **CITY OF LIBERTY HILL, TEXAS**

## ***NONMAJOR GOVERNMENTAL FUNDS***

**For the Year Ended September 30, 2019**

### **SPECIAL REVENUE FUNDS**

**Special Revenue Funds** are used to account for and report specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

#### **Street and Maintenance**

This fund is used to account for capital repairs and maintenance on streets within the City limits.

#### **Liberty Hill Economic Development Corporation**

This fund is used to track the activity of the Economic Development Corporation.

#### **Court Fees Restricted**

This fund is used to track the activity and expenditures of restricted court fees collected.

#### **Summerlyn West Public Improvement District (PID)**

This fund is used to track the special assessment revenue and development expenses in the Summerlyn West PID.

#### **Stonewall Public Improvement District (PID)**

This fund is used to track the special assessment revenue and development expenses in the Stonewall PID.

#### **Butler Public Improvement District (PID)**

This fund is used to track the special assessment revenue and development expenses in the Butler PID.

# CITY OF LIBERTY HILL, TEXAS

## COMBINING BALANCE SHEET

### NONMAJOR GOVERNMENTAL FUNDS

September 30, 2019

	Special Revenue Funds			
	Street and Maintenance	Liberty Hill Economic Development Corporation	Court Fees Restricted	Summerlyn West Public Improvement District
<b><u>Assets</u></b>				
Current assets:				
Cash and cash equivalents	\$ -	\$ 1,000,444	\$ 15,187	\$ 21,046
Receivables, net	38,412	76,825	-	-
Due from other funds	-	-	42,350	-
<b>Total Assets</b>	<b>\$ 38,412</b>	<b>\$ 1,077,269</b>	<b>\$ 57,537</b>	<b>\$ 21,046</b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 39,650	\$ 3,773	\$ -	\$ 25,000
Due to other funds	19,635	-	-	-
<b>Total Liabilities</b>	<b>59,285</b>	<b>3,773</b>	<b>-</b>	<b>25,000</b>
<b><u>Fund Balances</u></b>				
Restricted:				
Municipal court	-	-	57,537	-
Economic development	-	1,073,496	-	-
Unassigned	(20,873)	-	-	(3,954)
<b>Total Fund Balances</b>	<b>(20,873)</b>	<b>1,073,496</b>	<b>57,537</b>	<b>(3,954)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 38,412</b>	<b>\$ 1,077,269</b>	<b>\$ 57,537</b>	<b>\$ 21,046</b>

<b>Special Revenue Funds</b>		
<b>Stonewall Public Improvement District</b>	<b>Butler Public Improvement District</b>	<b>Total Nonmajor Governmental Funds</b>
\$ -	\$ 27,843	\$ 1,064,520
-	-	115,237
-	-	42,350
<u>\$ -</u>	<u>\$ 27,843</u>	<u>\$ 1,222,107</u>
\$ -	\$ -	\$ 68,423
<u>7,273</u>	<u>188</u>	<u>27,096</u>
<u>7,273</u>	<u>188</u>	<u>95,519</u>
-	-	57,537
-	-	1,073,496
<u>(7,273)</u>	<u>27,655</u>	<u>(4,445)</u>
<u>(7,273)</u>	<u>27,655</u>	<u>1,126,588</u>
<u>\$ -</u>	<u>\$ 27,843</u>	<u>\$ 1,222,107</u>

**CITY OF LIBERTY HILL, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2019**

	<b>Special Revenue Funds</b>			
	<b>Street and Maintenance</b>	<b>Liberty Hill Economic Development Corporation</b>	<b>Court Fees Restricted</b>	<b>Summerlyn West Public Improvement District</b>
<b>Revenues</b>				
Sales taxes	\$ 208,047	\$ 416,234	\$ -	\$ -
Investment earnings	9,640	14,266	-	-
Other revenue	-	-	9,232	-
<b>Total Revenues</b>	<b>217,687</b>	<b>430,500</b>	<b>9,232</b>	<b>-</b>
<b>Expenditures</b>				
<b>Current:</b>				
General administration	-	215,602	-	-
Municipal court	-	-	73	-
Parks and recreation and street maintenance	522,466	-	-	3,954
<b>Total Expenditures</b>	<b>522,466</b>	<b>215,602</b>	<b>73</b>	<b>3,954</b>
<b>Net Change in Fund Balances</b>	<b>(304,779)</b>	<b>214,898</b>	<b>9,159</b>	<b>(3,954)</b>
Beginning fund balances	283,906	858,598	48,378	-
<b>Ending Fund Balances</b>	<b>\$ (20,873)</b>	<b>\$ 1,073,496</b>	<b>\$ 57,537</b>	<b>\$ (3,954)</b>

<b>Special Revenue Funds</b>		
<b>Stonewall Public Improvement District</b>	<b>Butler Public Improvement District</b>	<b>Total Nonmajor Governmental Funds</b>
\$ -	\$ -	\$ 624,281
-	-	23,906
-	28,682	37,914
<u>-</u>	<u>28,682</u>	<u>686,101</u>
3,206	839	219,647
-	-	73
-	-	526,420
<u>3,206</u>	<u>839</u>	<u>746,140</u>
(3,206)	27,843	(60,039)
<u>(4,067)</u>	<u>(188)</u>	<u>1,186,627</u>
<u>\$ (7,273)</u>	<u>\$ 27,655</u>	<u>\$ 1,126,588</u>

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***SUPPLEMENTARY INFORMATION***

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**CITY OF LIBERTY HILL, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**  
**For the Year Ended September 30, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b><u>Revenues</u></b>				
Property taxes	\$ 458,534	\$ 458,534	\$ 475,121	\$ 16,587
Other	3,500	3,500	4,046	546
<b>Total Revenues</b>	<u>462,034</u>	<u>462,034</u>	<u>479,167</u>	<u>17,133</u>
<b><u>Expenditures</u></b>				
Principal	285,000	285,000	465,000	(180,000) *
Interest expense	158,534	158,534	218,433	(59,899) *
<b>Total Expenditures</b>	<u>443,534</u>	<u>443,534</u>	<u>683,433</u>	<u>(239,899)</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers in	-	-	180,000	180,000
<b>Total Other Financing Sources</b>	<u>-</u>	<u>-</u>	<u>180,000</u>	<u>180,000</u>
<b>Net Change in Fund Balance</b>	<u>\$ 18,500</u>	<u>\$ 18,500</u>	<u>(24,266)</u>	<u>\$ (42,766)</u>
Beginning fund balance			<u>251,423</u>	
<b>Ending Fund Balance</b>			<u>\$ 227,157</u>	

\* Expenditures exceeded appropriations at the legal level of control

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