

**CITY OF IOWA COLONY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2019**



**CITY OF IOWA COLONY, TEXAS**  
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## **REPORT OF INDEPENDENT AUDITORS**

To the Honorable Mayor and  
Members of City Council of  
City of Iowa Colony, Texas

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the discretely presented component unit of City of Iowa Colony, Texas (the "City"), as of and for the year ended September 30, 2019, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

To the Honorable Mayor and  
Members of City Council of  
City of Iowa Colony, Texas

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the discretely presented component unit of the City as of September 30, 2019, and the respective changes in financial position thereof for the year then ended in conformity 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 and required supplementary pension information as listed in 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.

*Whitley Penn LLP*

Houston, Texas  
March 23, 2020

## **CITY OF IOWA COLONY, TEXAS**

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

As management of the City of Iowa Colony, we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Iowa Colony for the fiscal year ended September 30, 2019.

#### **Overview of the Financial Statements**

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and adjudicated fines).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues. The governmental activities of the City include general government, public safety, public works, municipal court, and community development.

Additionally, the City reports the activities of its sole discretely presented component unit, the Iowa Colony Development Authority in the government-wide financial statements.

The government-wide financial statements can be found on pages 10 and 11 of this report.

**CITY OF IOWA COLONY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

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 a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information 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 two individual governmental funds, both of which are considered major funds. The General Fund is the main operating fund of the City and the Crime Control District Fund accounts for the accumulation of sales tax proceeds dedicated for crime prevention and reduction programs. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for each of the major funds.

The basic governmental fund financial statements can be found on pages 12 through 15 of this report.

**Notes to the Basic Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 31 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Iowa Colony's general fund budgetary comparisons and required supplementary pension plan information. Required supplementary information can be found starting on page 33 of this report.



**CITY OF IOWA COLONY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Government-wide Financial Analysis**

Below is a condensed schedule of Net Position as of September 30, 2019 and 2018:

**City of Iowa Colony, Texas**  
**Condensed Schedule of Net Position (in thousands)**  
**September 30, 2019 and 2018**

	<b>Governmental Activities</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets	\$ 2,625	\$ 1,920
Restricted assets	3,526	4,082
Capital assets	8,651	6,446
<b>Total Assets</b>	<b>14,802</b>	<b>12,448</b>
<b>Deferred outflows of resources - pension</b>	<b>88</b>	<b>66</b>
<b>Liabilities</b>		
Current liabilities	3,663	4,070
Long term liabilities - net pension liability	181	220
<b>Total Liabilities</b>	<b>3,844</b>	<b>4,290</b>
<b>Deferred inflows of resources - pension</b>	<b>32</b>	<b>29</b>
<b>Net Position:</b>		
Net investment in capital assets	8,651	6,446
Restricted	79	132
Unrestricted	2,284	1,617
<b>Total Net Position</b>	<b>\$ 11,014</b>	<b>\$ 8,195</b>

Net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$11.0 million. Of this amount, \$8.7 million was invested in capital assets, \$2.3 million was unrestricted and the balance of \$79 thousand was restricted for economic development activities.

**CITY OF IOWA COLONY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**City of Iowa Colony, Texas**  
**Condensed Schedule of Changes in Net Position (in thousands)**  
**For the Fiscal Years Ended September 30, 2019 and 2018**

	<b>Governmental Activities</b>	
<b>Revenues</b>	<b>2019</b>	<b>2018</b>
Program Revenues:		
Charges for services:		
General government	\$ 131	\$ 78
Public Safety	177	167
Community services	2,357	2,049
Operating grants	21	4
Capital grants	2,208	1,900
General revenues:		
Property taxes	837	319
Franchise taxes	69	53
Sales taxes	279	170
Other	16	56
<b>Total Revenues</b>	<b>6,095</b>	<b>4,796</b>
<b>Expenses:</b>		
General government	635	459
Public safety	441	303
Public works	177	701
Municipal court	136	146
Community services	1,887	1,118
<b>Total Expenses</b>	<b>3,276</b>	<b>2,727</b>
Change in net position	2,819	2,069
Beginning Net Position	8,195	6,126
<b>Ending Net Position</b>	<b>\$ 11,014</b>	<b>\$ 8,195</b>

**CITY OF IOWA COLONY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Governmental activities.** The government's net position increased by approximately \$2.8 million during the current fiscal year. This increase was mostly due to contributed capital from developers in the amount of \$2.2 million for roads in the Meridiana development.

*Expenses, Program Revenues, and Net Cost of  
 Services - Governmental Activities (in thousands)  
 For the Fiscal Years Ended September 30, 2019 and 2018*

	Expenses		Program Revenues		Net (Cost) of Services	
	2019	2018	2019	2018	2019	2018
Program:						
General government	\$ 635	\$ 459	\$ 139	\$ 82	\$ (496)	\$ (377)
Public safety	441	303	177	167	(264)	(136)
Public works	177	701	-	-	(177)	(701)
Municipal court	136	146	-	-	(136)	(146)
Community services	1,887	1,118	4,579	3,949	2,692	2,831
	<u>\$ 3,276</u>	<u>\$ 2,727</u>	<u>\$ 4,895</u>	<u>\$ 4,198</u>	<u>\$ 1,619</u>	<u>\$ 1,471</u>

As indicated above, governmental program expenses were supported by program revenues including permits and developer contributions. The balance of the program expenses was supported by general revenues.

**Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the City's General Fund reported an ending fund balance of \$2,372,685, all of which is unassigned fund balance. This change represents an increase of \$465,014 from the prior year.

The Crime Control District reported an ending fund balance of \$79,172, all of which is restricted for crime prevention. This change represents an increase of \$79,172 from the prior year.

**Capital Assets.** The City's investment in capital assets for its governmental activities as of September 30, 2019 amounted to \$8,650,849 (net of accumulated depreciation). This investment in capital assets includes land, buildings, park facilities and machinery and equipment. Additions in the current year primarily consisted of roads, bridges, and police equipment.

Additional information on the City's capital assets can be found in Note 5 to the basic financial statements of this report.

**CITY OF IOWA COLONY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**General Fund Budgetary Highlights**

During the 2019 fiscal year, the City's final amended budget planned for \$2,841,991 in revenues and \$3,252,144 in expenditures. Actual revenues exceeded estimated revenues by \$949,633 and total expenditures exceeded appropriations by \$74,466 resulting in an ending fund balance of \$2,372,685 which was \$875,167 higher than expected. The primary increases in revenues came primarily from a higher than predicted building construction permit revenues and administrative fees for early plat recording. Expenditure overages were primarily related to community services projects which occurred as a direct result of the increase in permit revenues.

**Economic Factors and Next Year's Budgets and Rates**

The city has adopted a General Fund operating budget for the 2020 fiscal year as follows:

	<u>Fiscal Year</u>
	<u>2020</u>
General Fund:	
Revenues	\$ 5,060,532
Expenditures	5,039,439

The 2020 Budget includes for a property tax of \$.4892 per \$100 of value on real and personal property within the City limits, which will be used for general operations of the City. There was no change from the 2019 tax of \$.4892 per \$100 of value on real and personal property within the City limits.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF IOWA COLONY, TEXAS**  
**STATEMENT OF NET POSITION**  
*September 30, 2019*

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<b>Assets</b>		
Cash and temporary investments	\$ 2,525,823	\$ 1,198,013
Receivables, net of allowance for uncollectibles	98,549	-
Restricted Assets:		
Cash and temporary investments	3,526,324	-
Capital assets:		
Land	1,683,273	-
Buildings and equipment, net of depreciation	6,967,576	-
<b>Total Assets</b>	<b>14,801,545</b>	<b>1,198,013</b>
<b>Deferred Outflows of Resources</b>		
Deferred outflows - pension	87,979	-
<b>Total Deferred Outflows of Resources</b>	<b>87,979</b>	<b>-</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	136,454	-
Unearned revenue - retainer fees	36,532	-
Unearned revenue - other	645,000	-
Developer deposits	2,844,792	-
Accrued interest payable	-	294,006
Noncurrent liabilities:		
Net pension liability	180,833	-
Bonds payable	-	8,445,293
<b>Total Liabilities</b>	<b>3,843,611</b>	<b>8,739,299</b>
<b>Deferred Inflows of Resources</b>		
Deferred inflows - pension	32,178	-
<b>Total Deferred Inflows of Resources</b>	<b>32,178</b>	<b>-</b>
<b>Net Position</b>		
Investment in capital assets	8,650,849	-
Restricted for:		
Crime prevention	79,172	-
Economic/community development	-	(7,541,286)
Unrestricted	2,283,714	-
<b>Total Net Position</b>	<b>\$ 11,013,735</b>	<b>\$ (7,541,286)</b>

*See Notes to Financial Statements.*

**CITY OF IOWA COLONY, TEXAS**

**STATEMENT OF ACTIVITIES**

*For the Year Ended September 30, 2019*

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Discretely Presented Component Unit
Governmental Activities						
General government	\$ 634,564	\$ 131,278	\$ 7,500	\$ -	\$ (495,786)	
Public safety	441,465	176,984	-	-	(264,481)	
Public works	176,802	-	-	-	(176,802)	
Municipal court	136,359	-	-	-	(136,359)	
Community development	1,886,841	2,356,950	13,612	2,208,396	2,692,117	
<b>Total Governmental Activities</b>	<u>3,276,031</u>	<u>2,665,212</u>	<u>21,112</u>	<u>2,208,396</u>	<u>1,618,689</u>	
<b>Total Primary Government</b>	<u>\$ 3,276,031</u>	<u>\$ 2,665,212</u>	<u>\$ 21,112</u>	<u>\$ 2,208,396</u>	<u>\$ 1,618,689</u>	
<b>Component Unit</b>						
Iowa Colony Development Authority	<u>\$ 8,363,244</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		\$ (8,363,244)
<b>General revenues:</b>						
Taxes:						
Property taxes					\$ 836,902	\$ 578,673
Franchise taxes					68,740	-
Sales taxes					279,080	-
Unrestricted investment earnings					6,593	-
Miscellaneous					8,969	-
<b>Total general revenues</b>					<u>1,200,284</u>	<u>578,673</u>
Change in net position					2,818,973	(7,784,571)
Net Position - beginning					8,194,762	243,285
<b>Net Position - ending</b>					<u>\$ 11,013,735</u>	<u>\$ (7,541,286)</u>

*See Notes to Financial Statements.*

**CITY OF IOWA COLONY, TEXAS****BALANCE SHEET****GENERAL FUND***September 30, 2019*

	<b>General Fund</b>	<b>Crime Control District</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Current assets:			
Cash and temporary investments	\$ 2,525,823	\$ -	\$ 2,525,823
Property taxes receivable	23,324	-	23,324
Sales tax receivable	40,892	17,422	58,314
Fines and forfeitures receivable, net of allowance for uncollectible	12,737	-	12,737
Due from other funds	-	61,750	61,750
Other receivables	4,174	-	4,174
Restricted assets:			
Cash and temporary investments	3,526,324	-	3,526,324
<b>Total Assets</b>	<b>\$ 6,133,274</b>	<b>\$ 79,172</b>	<b>\$ 6,212,446</b>
<b>Liabilities</b>			
Accounts payable	\$ 133,224	\$ -	\$ 133,224
Due to other funds	61,750	-	61,750
Other liabilities	3,230	-	3,230
Unearned revenue - retainer fees	36,532	-	36,532
Unearned revenue - other	645,000	-	645,000
Developer deposits	2,844,792	-	2,844,792
<b>Total Liabilities</b>	<b>3,724,528</b>	<b>-</b>	<b>3,724,528</b>
<b>Deferred Inflows of Resources</b>			
Unavailable property taxes receivable	23,324	-	23,324
Unavailable fine revenues	12,737	-	12,737
<b>Total Deferred Inflows of Resources</b>	<b>36,061</b>	<b>-</b>	<b>36,061</b>
<b>Fund Balances</b>			
Restricted			
Crime prevention	-	79,172	79,172
Unassigned	2,372,685	-	2,372,685
<b>Total Fund Balances</b>	<b>2,372,685</b>	<b>79,172</b>	<b>2,451,857</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 6,133,274</b>	<b>\$ 79,172</b>	<b>\$ 6,212,446</b>

*See Notes to Financial Statements.*



**CITY OF IOWA COLONY, TEXAS**  
**RECONCILIATION OF THE GENERAL FUND BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
*September 30, 2019*

Total fund balance, governmental funds	\$ 2,451,857
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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 this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	8,650,849
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Uncollected adjudicated fines and outstanding property taxes that are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	36,061
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Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.

Net pension liability	(180,833)
Deferred outflows related to pension activity	87,979
Deferred inflows related to pension activity	<u>(32,178)</u>

<b>Net Position of Governmental Activities</b>	<b><u>\$11,013,735</u></b>
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*See Notes to Financial Statements.*

**CITY OF IOWA COLONY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**GENERAL FUND**  
**For the Year Ended September 30, 2019**

	<b>General Fund</b>	<b>Crime Control District</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Property taxes	\$ 828,726	\$ -	\$ 828,726
Sales and use taxes	195,897	83,183	279,080
Franchise taxes	68,740	-	68,740
Licenses and permits	2,370,562	-	2,370,562
Charges for services - administrative fees	131,278	-	131,278
Fines and forfeitures	173,359	-	173,359
Earnings on investments	6,593	-	6,593
Intergovernmental	7,500	-	7,500
Other	8,969	-	8,969
<b>Total Revenues</b>	<b>3,791,624</b>	<b>83,183</b>	<b>3,874,807</b>
<b>Expenditures</b>			
Current:			
General government	669,525	-	669,525
Public safety	441,859	4,011	445,870
Public works	173,394	-	173,394
Municipal courts	140,895	-	140,895
Community development	1,543,375	-	1,543,375
Capital outlay	357,562	-	357,562
<b>Total Expenditures</b>	<b>3,326,610</b>	<b>4,011</b>	<b>3,330,621</b>
<b>Changes in Fund Balance</b>	<b>465,014</b>	<b>79,172</b>	<b>544,186</b>
Fund Balances - Beginning of Year	1,907,671	-	1,907,671
<b>Fund Balances - End of Year</b>	<b>\$ 2,372,685</b>	<b>\$ 79,172</b>	<b>\$ 2,451,857</b>

*See Notes to Financial Statements.*

**CITY OF IOWA COLONY, TEXAS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**

**IN FUND BALANCES - GENERAL FUND TO THE STATEMENT OF ACTIVITIES**

*For the Year Ended September 30, 2019*

Net change in fund balances - total governmental funds: \$ 544,186

Capital contributions from developers are not the receipt of current assets and thus not reflected in the fund based financial statements. The contribution is recognized as contributed capital in the government-wide financial statements. 2,208,396

Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities, the cost of those assets is allocated over the assets' estimated useful lives and reported as depreciation expense.

Capital outlay 357,562  
Depreciation (361,147)

Property tax revenues in the statement of activities that do not provide current financial resources are deferred as revenues in the fund statements. 8,176

Fines and forfeiture revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. 3,625

Pension expense does not represent a use of current resources and is not recognized in the fund financial statements. The net difference between pension contributions made and pension expense is an increase in the net position of the City. 58,175

Change in net financial net position of governmental activities \$ 2,818,973

*See Notes to Financial Statements.*

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Organization**

The City of Iowa Colony, Texas (the “City”) is a political subdivision incorporated in 1972 through the State of Texas operating as a type B, general law city. In 2005, a resolution was passed to change to a type A, general law city. The City is governed by an elected Mayor and five-member Council.

The City provides the following services: general government, public safety, public works and community development.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the City have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**A. Reporting Entity**

The Board of Aldermen (the “Board”) is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a primary government as defined by GAAP.

In March 2010, City Council formed the City of Iowa Colony Development Authority (ICDA) and the City of Iowa Colony Tax Increment Reinvestment Zone No. 2 (TIRZ 2) to facilitate development in connection with a residential neighborhood. The objective of the Zone is to facilitate quality mixed-use development with a self-sustaining tax base for the City of Iowa Colony, Brazoria County, and any other participating taxing entity. As of September 30, all financial activity of ICDA and TIRZ 2 has been funded privately by the developer and is reflected as a discretely presented component unit under the ICDA caption.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Changes in Net Position) report information about the City as a whole. These statements include all activities of the primary government. All activities of the City are classified as governmental activities, as they are supported primarily by taxes and non-exchange revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Franchise tax and sales tax revenues are recognized, for external reporting purposes, when the underlying sales or transaction occurs. Sales tax revenues are collected by individual commercial enterprises and filed with the State of Texas. The State of Texas remits the City's and Crime Control District's portion of the sales tax on a monthly basis, two months after the sales are reported. Interest is recorded when earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 if they are collectible within the current period or soon enough to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. As a practical matter, there is no material difference in the recognition of revenues between the government-wide and governmental fund financial statements. Expenditures for governmental funds are recorded when the related liability is incurred.

The City reports the following major governmental funds:

The *General Fund* is used to account for all financial transactions that are not accounted for in another fund. The principal sources of revenue of the General Fund include local property taxes, sales and use taxes, franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general administration, public safety, public works, and economic development.

The *Crime Control District* is used to account for the accumulation and use of the half-cent sales tax proceeds dedicated for crime prevention and reduction programs.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services or privileges provided (primarily inspection and platting fees, (2) operating grants and contributions (primarily retainer or development fees from developers), and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Net Position of the City and its component units are reported under the following captions:

- Investment in capital assets - This component of Net Position consists of capital assets, including restricted capital assets, net of accumulated depreciation.
- Restricted - This component of Net Position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**C. Measurement focus, Basis of Accounting and financial Statement Presentation (continued)**

- Unrestricted Net Position - This component of Net Position consists of Net Position that do not meet the definition of “restricted” or “investment in capital assets”.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

**D. Investments**

The City’s local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*. The City categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**E. Property Taxes**

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt and all taxes not paid prior to February 1 are deemed delinquent and are subject to such penalty and interest set forth by the Property Tax Code. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Appraised values are established by the Brazoria County Central Appraisal District (the “CAD”). Taxes are levied by the City Council based on the appraised values received from the CAD. Beginning in tax year 2016, the City began making payments into the City Tax Increment Fund in the Reinvestment Zone Number Two. The City agreed to transfer all Tax Increment received to the Iowa Colony Development Authority. The Zone and the Authority agreed to pay the City an amount equal to thirty percent of each Tax Increment payment.

**F. Receivables**

All receivables are reported at their gross value, with the exception of fines and forfeitures receivables. A provision has been made for an allowance for uncollectible for fines and forfeitures.

**G. Capital Assets**

Capital assets are reported in the applicable governmental activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$5,000. All purchased fixed assets are valued at cost where historical records exist. Donated fixed assets are valued at their estimated fair value on the date received.

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**G. Capital Assets (continued)**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain, and equipment are capitalized and depreciated over the remaining useful lives of the related fixed assets using the straight-line method, as applicable. Buildings, improvements and roads have an estimated useful life of 10 – 40 years. Machinery and equipment have an estimated useful life of 5 – 7 years.

**H. Compensated Absences**

It is the City's policy to permit employees to accumulate earned personal and sick leave. Employees can earn up to a maximum amount of hours of personal leave equal to two times the employee's current accrual rate at termination and sick leave hours can accrue up to 480 hours. No amounts have been reported for accrued but unpaid compensated absences as they are not material to the financial statements.

**I. Fund Equity**

As of September 30, 2019, fund balances of the governmental funds are classified as follows:

*Restricted* - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Unassigned* - all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. The City has not adopted a minimum fund balance policy for the General Fund.

**J. 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 that time. The government has one item that qualifies for reporting in this category:

- Deferred outflows of resources for pension activities – Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual investment earnings and differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows relating to plan investment earnings will be amortized over a period of five year and other pension related deferred outflows will be amortized over 5.52 years or the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**J. Deferred Outflows / Inflows of Resources (continued)**

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 or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension activities - Reported in the government wide financial statement of net position, these deferred inflows reflect the results of differences between expected and actual actuarial experiences. The other pension related deferred outflows will be amortized over 5.52 years or the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

**K. Pensions**

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

**L. Other Post-Employment Benefits (OPEB)**

The City participates in a defined benefit group-term life insurance plan, both for current and retired employees, administered by the Texas Municipal Retirement System (TMRS). Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The City does not consider it necessary to record the related net OPEB liability as it is not material to the government-wide financial statements.

**M. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual amounts could vary from those estimates.



**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 3 - Cash and Temporary Investments (Cash Equivalents)**

**Authorization for Deposits and Investments**

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the City. The Council has adopted a written investment policy regarding the investment of City funds as required by the PFIA. Acceptable investments under this policy are limited to (1) fully insured or collateralized certificates of deposit from a bank in the State of Texas and under the terms of a written depository agreement with that bank; (2) obligations of the United States Government, its agencies and instrumentalities and government sponsoring enterprises; and (3) Texas Local Government Investment Pools as by the PFIA and have been authorized by the City Council. The investments of the City are in compliance with the City's investment policy as to form.

**Local Government Investment Pool**

As of September 30, 2019, the City's investments included balances in the TexSTAR Public Funds Investment Pool. The investment pool investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk. Texas Short Term Asset Reserve Program ("TexSTAR") has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools (including TexSTAR) and authorize eligible governmental entities ("Participants") to invest their public funds and funds under their control through the investment pools. J.P. Morgan Investment Management, Inc. ("JPMIM" or the "investment manager") and First Southwest Asset Management, Inc. ("FSAM") serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors (the "Board"). The value of City portions in TexSTAR are the same as the value of the shares. Unlike money market mutual funds which are registered with the Securities and Exchange Commission, TexSTAR does not operate in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940. The external pooled fund uses amortized cost rather than market value to report Net Position to compute share price, because such funds have daily liquidity.

**Deposit and Investment Amounts**

The following schedule shows the City's recorded cash and investments at year-end:

	<b>Primary Government</b>	<b>Weighted Average Maturity (days)</b>
Cash and demand deposits	\$ 5,534,412	N/A
Certificate of deposit	410,415	176
Public funds investment pools		
TexSTAR	107,320	22
Totals	\$ 6,052,147	144

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 3 - Cash and Temporary Investments (Cash Equivalents) (continued)**

At September 30, 2019, all of the cash and temporary investments of Iowa Colony Development Authority consisted of balances in demand deposit accounts.

All bank balances for demand and certificates of deposits for the primary government and the discretely presented component unit at year end was covered by FDIC insurance of \$250,000 and the remaining balance was covered by pledged collateral.

The values of certificates of deposit are determined using level 2 inputs as described in Note 2 D of the financial statements.

**Interest Rate Risk and Concentration of Credit Risk**

In accordance with the City's investment policy, the maturity of investments (to include certificates of deposit) shall not exceed one year, or with the approval of City Council, two years. For pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio shall not exceed two years. The City's investment policy does not restrict or specify levels of concentration or diversification within the City's portfolio. It does provide that *"The City shall diversify its investments in order to minimize the risk of loss resulting from a concentration of assets in a specific maturity, a specific issuer, or a specific type of investment."*

**Note 4 - Receivables**

Amounts recorded as receivables as of September 30, 2019, are as follows:

	<b>General Fund</b>	<b>Crime Control District</b>	<b>Total</b>
Receivables:			
Property taxes	\$ 23,324	\$ -	\$ 23,324
Sales taxes	40,892	17,422	58,314
Adjudicated Fines	254,734	-	254,734
Other	4,174	-	4,174
Gross receivables	323,124	17,422	340,546
Less: allowance for uncollectibles	(241,997)	-	(241,997)
Net total receivables	<u>\$ 81,127</u>	<u>\$ 17,422</u>	<u>\$ 98,549</u>

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 5 - Developer Deposits**

The City has entered into various agreements with Land Tejas Sterling Lakes (the “Developer”). The Developer is developing certain facilities within the city limits or extraterritorial jurisdiction of the City. The Developer deposits refundable funds with the City at the beginning of the agreement term with a non-refundable administrative fee. The refundable deposits will be returned to the Developer upon completion of each project. The agreements do not represent an escrow agreement and the City shall not owe any fiduciary duty to the Developer. The following is a summary of activity for developer deposits for the year ended September 30, 2019.

<b>Project</b>	<b>Balance 9/30/2018</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 9/30/2019</b>
County Road 64	\$ 1,731,000	\$ -	\$ -	\$ 1,731,000
Sierra Vista Sections 1 and 2	184,025	-	(184,025)	-
Sierra Vista Section 4A	180,702	-	(180,702)	-
Sierra Vista Section 4B	1,009,801	-	(1,009,801)	-
Sierra Vista Boulevard Phase II	199,112	-	(199,112)	-
Sterling Lakes Section 13	-	2,724,154	(2,400,011)	324,143
Sierra Vista Karsten Boulevard Phase I	-	1,295,851	(1,266,818)	29,033
Sierra Vista Section 5 and Karsten Boulevard Phase II	-	2,231,945	(1,620,340)	611,605
Meridiana Section 59	-	347,914	(198,903)	149,011
	<u>\$ 3,304,640</u>	<u>\$ 6,599,864</u>	<u>\$ (7,059,712)</u>	<u>\$ 2,844,792</u>

**Note 6 - Unearned Revenue**

As of September 30, 2019, the City had \$36,532 in unearned revenue for retainer fees and \$645,000 in other unearned revenue. These other unearned revenue amounts are related to a \$295,000 road damage deposit for repairs planned to be completed at a later date and a \$350,000 advanced funded local grant received to fund the building of a park to be completed at a later date. The retainer fees are amounts advanced to the City by developers for community development project costs that will occur at a later date.

**Note 7 - Interfund Receivables and Payables**

As of September 30, 2019, interfund balances consisted of the following:

	<b>Interfund Receivable</b>	<b>Interfund Payable</b>	<b>Net Totals</b>
General Fund	\$ -	\$ 61,750	\$ (61,750)
Crime Control District	61,750	-	61,750
Totals	<u>\$ 61,750</u>	<u>\$ 61,750</u>	<u>\$ -</u>

The entire amount of the interfund balance represents the amount of sales tax proceeds collected in the General Fund that will be used for future crime control prevention.

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 8 - Capital Assets**

A summary of activity for capital assets for the year ended September 30, 2019, follows:

	<b>Balance 9/30/2018</b>	<b>Additions</b>	<b>Transfers &amp; Deletions</b>	<b>Balance 9/30/2019</b>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land and right of way	\$ 1,683,273	\$ -	\$ -	\$ 1,683,273
Total capital assets not being depreciated	<u>1,683,273</u>	<u>-</u>	<u>-</u>	<u>1,683,273</u>
Capital assets being depreciated:				
Buildings, improvements and roads	5,218,893	2,342,005	-	7,560,898
Machinery and equipment	<u>190,022</u>	<u>223,953</u>	<u>-</u>	<u>413,975</u>
Total capital assets being depreciated	<u>5,408,915</u>	<u>2,565,958</u>	<u>-</u>	<u>7,974,873</u>
Less accumulated depreciation for:				
Buildings, improvements and roads	(511,020)	(326,084)	-	(837,104)
Machinery and equipment	<u>(135,130)</u>	<u>(35,063)</u>	<u>-</u>	<u>(170,193)</u>
Total accumulated depreciation	<u>(646,150)</u>	<u>(361,147)</u>	<u>-</u>	<u>(1,007,297)</u>
Total capital assets being depreciated, net	<u>4,762,765</u>	<u>2,204,811</u>	<u>-</u>	<u>6,967,576</u>
Governmental activities capital assets, net	<u>\$ 6,446,038</u>	<u>\$ 2,204,811</u>	<u>\$ -</u>	<u>\$ 8,650,849</u>

Depreciation was charged to functions of the primary government as follows:

	<b>Depreciation Expense</b>
<b>Governmental activities:</b>	
General	\$ 15,654
Public safety	31,654
Public works	3,408
Community development	<u>310,431</u>
	<u>\$ 361,147</u>

**Note 9 - Risk Management**

**General Liability**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses various means of protecting the City against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers and from participation in a risk pool. The participation of the City in the risk pool is limited to the payment of premiums. There has not been any significant reduction in insurance coverage from the previous year.

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 9 - Risk Management (continued)**

**Worker's Compensation**

The City is a member of the Texas Municipal League (TML) Workers' Compensation Intergovernmental Risk Pool, an unincorporated association of political subdivision of the State of Texas. The company is not intended to operate as an insurance company but rather a contracting mechanism by which the City provides self-insurance benefits to its employees. The fund contracts with a third-party administrator for administration, investigation, and adjustment services in the handling of claims. Premiums are based on the estimated City payroll by risk factor and rates. The premiums are adjusted by the City's experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for by the TML Pool.

**Note 10 - Employee Retirement System**

***Texas Municipal Retirement System***

Effective October 20, 2014, City council approved the participation in the Texas Municipal Retirement System to provide pension benefits for full time employees. Subsequently, the City began making necessary contributions in accordance with the provisions of the plan.

**Plan Description**

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. 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 (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.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 actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 10 - Employee Retirement System (continued)**

**Benefits Provided (continued)**

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions.

A summary of plan provisions for the City are as follows:

Employee deposit rate	5%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	None
Annuity Increase to retirees	Ad Hoc

The City participates in Social Security.

**Employees Covered by Benefit Terms**

At the December 31, 2018, valuation and measurement date, 8 active City employees were covered by the benefit terms and 4 inactive employees was entitled to but not yet receiving benefits. There were no inactive employees or beneficiaries currently receiving benefits as of that date.

**Contributions**

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. For fiscal year 2019, the City made contributions of 20.50% of the employees' annual gross income.

**Net Pension Liability**

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

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 10 - Employee Retirement System (continued)**

**Actuarial Assumptions**

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

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5% including inflation
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. This experience study was for the period January 1, 2010 through December 31, 2014, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 10 - Employee Retirement System (continued)**

**Actuarial Assumptions (continued)**

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

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

**Discount Rate**

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7% 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 plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

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



**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 10 - Employee Retirement System (continued)**

**Sensitivity of the net pension liability to changes in the discount rate**

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

	<b>1% Decrease</b>	<b>Current Discount Rate (6.75%)</b>	<b>1% Increase</b>
City's net pension liability	\$ 221,402	\$ 180,833	\$ 145,387

**Changes in the Net Pension Liability**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
	(a)	(b)	(a) - (b)
Balance at 12/31/2017	\$ 510,635	\$ 290,655	\$ 219,980
Changes for the year:			
Service Cost	35,822	-	35,822
Interest	35,677	-	35,677
Difference between expected and actual experience	(21,411)	-	(21,411)
Contributions - employer	-	80,321	(80,321)
Contributions - employee	-	17,857	(17,857)
Net Investment income	-	(8,765)	8,765
Administrative expense	-	(168)	168
Other changes	-	(10)	10
Net changes	50,088	89,235	(39,147)
Balance at 12/31/2018	\$ 560,723	\$ 379,890	\$ 180,833

**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.tmrs.com](http://www.tmrs.com).

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 10 - Employee Retirement System (continued)**

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

For the year ended September 30, 2019, the City recognized pension expense of \$31,775.

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between actuarial assumptions and actual experience	\$ -	\$ 32,178
Changes in actuarial assumptions used	6,245	-
Differences between projects and actual investment earnings	15,087	-
Contributions subsequent to the measurement date	66,647	-
Total	<u>\$ 87,979</u>	<u>\$ 32,178</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2019 (i.e., recognized in the city's financial statements 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</b>	<b>Net Deferred Outflows (Inflows) of Resources</b>
2020	\$ (2,423)
2021	(2,579)
2022	(1,799)
2023	1,621
2024	(3,149)
Thereafter	(2,517)
Total	<u>\$ (10,846)</u>

**CITY OF IOWA COLONY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note 11 - Post-employment Benefits Other Than Pensions (OPEB)**

***TMRS Supplemental Death Benefits Fund***

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (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 City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate 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.

The City's contributions to the TMRS SDBF for the fiscal year 2019 was \$2,050 which equaled the required contribution amount.

Based on calculations of the plan's actuary under the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the city has a total OPEB liability of \$7,853. Management has determined the effects of implementing this pronouncement on the City's government wide net position are not material to the financial statements and no provision for this liability or activity, other than cash paid as part the TMRS contribution of \$2,050 have been recorded in the City's financial statements.

**Note 12 - Subsequent Events**

In December 2019, the Iowa Colony Development Authority issued \$4,105,000 Tax Increment Contract Revenue Bonds, Series 2019. The bonds will be used for the purpose of (1) financing certain project costs in accordance with the plan, (2) funding the reserve requirement for the debt service reserve fund, and (3) paying costs of issuance.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF IOWA COLONY, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**For the Year Ended September 30, 2019**

	2019				2018
	Budgeted				
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive / (Negative)	Actual
Revenues					
Property taxes	\$ 672,270	\$ 984,065	\$ 828,726	\$ (155,339)	\$ 314,330
Sales and use taxes	100,000	100,000	195,897	95,897	169,489
Franchise taxes	105,000	105,000	68,740	(36,260)	52,715
Licenses and permits	1,284,800	1,284,800	2,370,562	1,085,762	2,074,337
Fines and forfeitures	198,500	198,500	173,359	(25,141)	170,312
Earnings on investments	1,000	1,000	6,593	5,593	2,533
Administrative fees	133,626	133,626	131,278	(2,348)	77,888
Intergovernmental	-	-	7,500	7,500	4,105
Other	35,000	35,000	8,969	(26,031)	53,222
Total Revenues	2,530,196	2,841,991	3,791,624	949,633	2,918,931
Expenditures					
Current:					
General government	575,490	673,067	669,525	3,542	504,485
Public safety	367,850	558,022	441,859	116,163	285,499
Public works	401,000	366,916	173,394	193,522	525,524
Municipal courts	156,100	160,260	140,895	19,365	145,606
Community services	834,500	1,146,295	1,543,375	(397,080)	1,143,073
Capital outlay	188,500	347,584	357,562	(9,978)	73,337
Total Expenditures	2,523,440	3,252,144	3,326,610	(74,466)	2,677,524
Changes in Fund Balance	6,756	(410,153)	465,014	875,167	241,407
Fund Balances - Beginning of Year	1,907,671	1,907,671	1,907,671	-	1,666,264
Fund Balances - End of Year	\$ 1,914,427	\$ 1,497,518	\$ 2,372,685	\$ 875,167	\$ 1,907,671

**CITY OF IOWA COLONY, TEXAS**  
***NOTES TO REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION***

**Legal Compliance - Budgets**

Typically, prior to September 1, the departments and agencies of the City transmit their estimates of their budgetary requirements to the Mayor. The Council may revise, alter, increase or decrease the items of the budget, provided that when it shall increase the total proposed expenditures, it shall also increase the total anticipated income. The Council approves the budget plan prior to September 30. One or more public hearings are conducted to obtain taxpayer comments. City Council members may transfer unencumbered appropriated balances, or portion thereof, from one department to another. During the year, Council made no amendments to the original budget.

The City's expenditures exceeded appropriations by \$74,466 for the year ended September 30, 2019. The expenditures exceeded appropriations in community services by \$397,080 due to higher than expected costs for engineering and planning services. The expenditures exceeded appropriations in capital outlay by \$9,978 due to certain costs budgeted in public safety being reclassified to capital outlay for presentation purposes.

**CITY OF IOWA COLONY, TEXAS**  
**REQUIRED SUPPLEMENTARY PENSION INFORMATION**

**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
*Last Four Measurement Years Ended December 31*

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total pension liability:</b>					
Service cost	\$ 35,822	\$ 27,020	\$ 25,040	\$ 18,263	\$ 2,931
Interest	35,677	32,084	28,720	26,581	24,149
Difference between expected and actual experience	(21,411)	(8,477)	(3,118)	(18,632)	343,523
Change in assumptions	-	-	-	16,153	-
Benefit payments, including refunds of employee contributions	-	(3,602)	-	-	-
Net change in total pension liability	50,088	47,025	50,642	42,365	370,603
Total pension liability - beginning	510,635	463,610	412,968	370,603	-
Total pension liability - ending (a)	560,723	510,635	463,610	412,968	370,603
<b>Plan fiduciary net position:</b>					
Contributions - employer	80,321	75,643	81,768	61,097	9,799
Contributions - employee	17,857	13,403	12,004	8,730	1,401
Net investment income	(8,765)	25,102	5,506	17	-
Benefit payments, including refunds of employee contributions	-	(3,602)	-	-	-
Administrative expense	(168)	(129)	(65)	(11)	-
Other	(10)	(8)	-	-	-
Net change in plan fiduciary net position	89,235	110,409	99,213	69,833	11,200
Plan fiduciary net position - beginning	290,655	180,246	81,033	11,200	-
Plan fiduciary net position - ending (b)	379,890	290,655	180,246	81,033	11,200
Net pension liability - ending (a) - (b)	<u>\$ 180,833</u>	<u>\$ 219,980</u>	<u>\$ 283,364</u>	<u>\$ 331,935</u>	<u>\$ 359,403</u>
Plan fiduciary net position as a percentage of total pension liability	67.75%	56.92%	38.88%	19.62%	3.02%
Covered payroll (measurement year)	\$ 357,145	\$ 268,052	\$ 240,075	\$ 174,599	\$ 28,020
Net pension liability as a percentage of covered payroll	50.63%	82.07%	118.03%	190.11%	1282.67%

Note: The City began participating in TMRS during the 2014 calendar year.



**CITY OF IOWA COLONY, TEXAS**  
**REQUIRED SUPPLEMENTARY PENSION INFORMATION**

**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**SCHEDULE OF CONTRIBUTIONS**  
*Last Five Fiscal Years*

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Actuarially determined contribution	\$ 92,000	\$ 81,648	\$ 75,874	\$ 76,809	\$ 52,491
Contribution in relation of the actuarially determined contribution	92,000	81,648	75,874	76,809	52,491
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll (fiscal year)	\$ 448,754	\$ 335,852	\$ 253,819	\$ 224,351	\$ 149,040
Contributions as a percentage of covered payroll	20.50%	24.31%	29.89%	34.24%	35.22%

Note: The City began participating in TMRS during the 2015 fiscal year.

**Notes to Required Supplementary Pension Information:**

Valuation Date: Actuarial determined contribution rates are calculated as of December 31 each year and become effective in January, 12 months and a day later.

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

Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percentage of Payroll, Closed
Remaining Amortization Period:	7 years
Asset Valuation Method:	10 Year smoothed market; 15% soft corridor
Inflation:	2.5%
Salary Increases:	3.50% to 10.50% including inflation
Investment Rate of Return:	6.75%
Retirement Age:	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 – 2014.
Mortality:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information:	There were no benefit changes during the year.