

CITY OF IOWA COLONY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2020



CITY OF IOWA COLONY, TEXAS
TABLE OF CONTENTS

	<u>Page</u>
Report of Independent Auditors	1
Management’s Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements	
Balance Sheet – General Fund	12
Reconciliation of the General Fund Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of General Fund to the Statement of Activities	15
Notes to Basic Financial Statements	17
Required Supplementary Information	
General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	34
Notes to Required Supplementary Budgetary Information	35
Required Supplementary Pension Information	
Schedule of Changes in Net Pension Liability and Related Ratios	36
Schedule of Contributions	37

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, 2020, 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, 2020, 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
April 9, 2021

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, 2020.

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 17 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 34 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, 2020 and 2019:

Condensed Schedule of Net Position (in thousands)
September 30, 2020 and 2019

	Governmental Activities	
	2020	2019
Assets		
Current assets	\$ 3,708	\$ 2,625
Restricted assets	2,315	3,526
Capital assets	11,064	8,651
Total Assets	17,087	14,802
Deferred outflows of resources - pension	77	88
Liabilities		
Current liabilities	2,557	3,663
Long term liabilities - net pension liability	1,313	181
Total Liabilities	3,870	3,844
Deferred inflows of resources - pension	66	32
Net Position:		
Net investment in capital assets	9,809	8,651
Restricted	161	79
Unrestricted	3,258	2,284
Total Net Position	\$ 13,228	\$ 11,014

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 \$13.2 million. Of this amount, \$9.8 million was invested in capital assets, \$3.3 million was unrestricted and the balance of \$161 thousand was restricted for economic development activities.

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

Below is a condensed schedule of Changes in Net Position for fiscal year 2020 and 2019:

Condensed Schedule of Changes in Net Position (in thousands)
For the Fiscal Years Ended September 30, 2020 and 2019

	Governmental Activities	
	2020	2019
Revenues		
Program Revenues:		
Charges for services:		
General government	\$ 232	\$ 131
Public Safety	224	177
Community services	2,487	2,357
Operating grants	133	21
Capital grants	1,862	2,208
General revenues:		
Property taxes	947	837
Franchise taxes	83	69
Sales taxes	449	279
Other	419	16
Total Revenues	6,836	6,095
Expenses:		
General government	496	635
Public safety	859	441
Public works	615	177
Municipal court	204	136
Community services	2,448	1,887
Total Expenses	4,622	3,276
Change in net position	2,214	2,819
Beginning Net Position	11,014	8,195
Ending Net Position	\$ 13,228	\$ 11,014

The government's net position increased by approximately \$2.2 million during the current fiscal year. This increase was mostly due to contributed capital from developers in the amount of \$1.9 million for roads in the Meridiana development.

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

Expenses, Program Revenues, and Net Cost of Services – Governmental Activities (in thousands)
For the Fiscal Years Ended September 30, 2020 and 2019

	Expenses		Program Revenues		Net (Cost) of Services	
	2020	2019	2020	2019	2020	2019
Program:						
General government	\$ 496	\$ 635	\$ 262	\$ 139	\$ (234)	\$ (496)
Public safety	859	441	224	177	(635)	(264)
Public works	615	177	-	-	(615)	(177)
Municipal court	204	136	-	-	(204)	(136)
Community services	2,448	1,887	4,452	4,579	2,004	2,692
	<u>\$ 4,622</u>	<u>\$ 3,276</u>	<u>\$ 4,938</u>	<u>\$ 4,895</u>	<u>\$ 316</u>	<u>\$ 1,619</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. 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 \$3,203,900, all of which is unassigned fund balance. This change represents an increase of \$831,215 from the prior year.

The Crime Control District reported an ending fund balance of \$161,025, all of which is restricted for crime prevention. This change represents an increase of \$81,853 from the prior year.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental activities as of September 30, 2020 amounted to \$11,063,683 (net of accumulated depreciation). This investment in capital assets includes land, buildings, park facilities and machinery and equipment. Additions in the current year consisted of lands, roads, and police equipment.

Additional information on the City's capital assets can be found in Note 8 to the basic financial statements of this report.

Debt Administration. At the end of the current fiscal year, the City had total certificates of obligation debt outstanding of \$1,255,000.

During the current fiscal year, the City issued private placement certificates of obligation in the amount of \$1,255,000 to purchase land near the City Hall.

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

General Fund Budgetary Highlights

During the 2020 fiscal year, the City's final amended budget planned for \$4,129,054 in revenues and \$5,010,079 in expenditures. Actual revenues exceeded estimated revenues by \$639,088 and total expenditures exceeded appropriations by \$504,204 resulting in an ending fund balance of \$3,203,900 which was \$1,387,240 higher than expected. The increases in revenues came primarily from a higher than expected 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, as well as higher than expected capital outlay costs.

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:

	Fiscal Year
	2021
General Fund:	
Revenues	\$ 4,762,666
Expenditures	\$ 4,727,185

The 2021 Budget includes property tax rates of \$0.449322 for maintenance and operations (M&O) and \$0.019887 for the interest and sinking fund (I&S) per \$100 of value on real and personal property within the City limits, for a total tax rate of \$0.469209. This was a 4% decrease from the 2020 fiscal year tax rate of \$.489209 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, 2020

	Primary Government Governmental Activities	Discretely Presented Component Unit
Assets		
Cash and temporary investments	\$ 3,522,699	\$ 1,846,043
Receivables, net of allowance for uncollectibles	185,376	-
Due from primary government	-	10,148
Restricted Assets:		
Cash and temporary investments	2,315,296	-
Capital assets:		
Land	3,626,990	-
Buildings and equipment, net of depreciation	7,436,693	-
Total Assets	<u>17,087,054</u>	<u>1,856,191</u>
Deferred Outflows of Resources		
Deferred outflows - pension	77,351	-
Total Deferred Outflows of Resources	<u>77,351</u>	<u>-</u>
Liabilities		
Accounts payable and accrued expenses	232,227	11,786
Due to component unit	10,148	-
Unearned revenue - retainer fees	48,894	-
Unearned revenue - road damage deposits	475,000	-
Developer deposits	1,791,402	-
Accrued interest payable	-	290,052
Noncurrent liabilities:		
Due within one year	80,000	165,000
Net pension liability	58,045	-
Bonds payable	1,175,000	16,187,574
Total Liabilities	<u>3,870,716</u>	<u>16,654,412</u>
Deferred Inflows of Resources		
Deferred inflows - pension	65,953	-
Total Deferred Inflows of Resources	<u>65,953</u>	<u>-</u>
Net Position		
Investment in capital assets	9,808,683	-
Restricted for:		
Crime prevention	161,025	-
Economic/community development	-	-
Unrestricted	3,258,028	(14,798,221)
Total Net Position	<u>\$ 13,227,736</u>	<u>\$ (14,798,221)</u>

CITY OF IOWA COLONY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2020

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
Primary Government:						
Governmental Activities:						
General government	\$ 496,397	\$ 231,937	\$ 29,723	\$ -	\$ (234,737)	\$ -
Public safety	858,642	223,968	-	-	(634,674)	-
Public works	615,068	-	-	-	(615,068)	-
Municipal court	203,796	-	-	-	(203,796)	-
Community development	2,448,532	2,487,111	103,557	1,862,302	2,004,438	-
Total Governmental Activities	4,622,435	2,943,016	133,280	1,862,302	316,163	-
Total Primary Government	\$ 4,622,435	\$ 2,943,016	\$ 133,280	\$ 1,862,302	316,163	-
Component Unit						
Iowa Colony Development Authority	\$ 8,247,464	\$ -	\$ -	\$ -		(8,247,464)
General revenues:						
Taxes:						
Property taxes					946,890	988,424
Franchise taxes					82,938	-
Sales taxes					449,280	-
Unrestricted investment earnings					2,943	-
Miscellaneous					415,787	2,105
Total general revenues					1,897,838	990,529
Change in net position					2,214,001	(7,256,935)
Net Position - beginning					11,013,735	(7,541,286)
Net Position - ending					\$ 13,227,736	\$ (14,798,221)

CITY OF IOWA COLONY, TEXAS**BALANCE SHEET - GENERAL FUND***September 30, 2020*

	General Fund	Crime Control District	Total Governmental Funds
Assets			
Current assets:			
Cash	\$ 3,004,020	\$ -	\$ 3,004,020
Temporary investments	518,679	-	518,679
Property taxes receivable	40,696	-	40,696
Sales tax receivable	57,743	26,858	84,601
Fines and forfeitures receivable, net of allowance for uncollectible	60,079	-	60,079
Due from other funds	-	161,222	161,222
Restricted assets:			
Cash and temporary investments	2,315,296	-	2,315,296
Total Assets	5,996,513	188,080	6,184,593
Liabilities			
Accounts payable	182,514	27,055	209,569
Due to other funds	161,222	-	161,222
Due to component unit	10,148	-	10,148
Other liabilities	22,658	-	22,658
Unearned revenue - retainer fees and other deposits	48,894	-	48,894
Unearned revenue - road damage deposits	475,000	-	475,000
Developer deposits	1,791,402	-	1,791,402
Total Liabilities	2,691,838	27,055	2,718,893
Deferred Inflows of Resources			
Unavailable property taxes receivable	40,696	-	40,696
Unavailable fine revenues	60,079	-	60,079
Total Deferred Inflows of Resources	100,775	-	100,775
Fund Balances			
Restricted - crime prevention	-	161,025	161,025
Unassigned	3,203,900	-	3,203,900
Total Fund Balances	3,203,900	161,025	3,364,925
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,996,513	\$ 188,080	\$ 6,184,593

CITY OF IOWA COLONY, TEXAS
RECONCILIATION OF THE GENERAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2020

Total fund balance, governmental funds	\$ 3,364,925
--	--------------

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.	11,063,683
---	------------

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.	100,775
---	---------

Long-term liabilities that are not due and payable in the current period, and therefore, are not reported in the funds.

Certificates of obligation	(1,255,000)
Net pension liability	(58,045)

net

differences between projected and actual earnings and contributions subsequent to the measurement date for the postretirement benefits (pension and OPEB) are recognized as deferred outflows of resources and deferred inflows of resources on the statement of net position.

Deferred outflows - pension related	77,351
Deferred inflows - pension related	(65,953)

Net Position of Governmental Activities

<u>\$ 13,227,736</u>

CITY OF IOWA COLONY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GENERAL FUND
For the Year Ended September 30, 2020

	General Fund	Crime Control District	Total Governmental Funds
Revenues			
Property taxes	\$ 929,518	\$ -	\$ 929,518
Sales and use taxes	309,073	141,278	450,351
Franchise taxes	81,867	-	81,867
Licenses and permits	2,590,668	-	2,590,668
Charges for services - administrative fees	231,937	-	231,937
Fines and forfeitures	176,426	-	176,426
Earnings on investments	2,943	-	2,943
Intergovernmental	29,723	-	29,723
Other	415,987	-	415,987
Total Revenues	<u>4,768,142</u>	<u>141,278</u>	<u>4,909,420</u>
Expenditures			
Current:			
General government	531,064	-	531,064
Public safety	902,228	59,425	961,653
Public works	557,379	-	557,379
Municipal courts	207,723	-	207,723
Community development	1,825,874	-	1,825,874
Debt service:			
Bond issuance costs	52,275	-	52,275
Capital outlay	1,437,740	-	1,437,740
Total Expenditures	<u>5,514,283</u>	<u>59,425</u>	<u>5,573,708</u>
Revenues Over (Under) Expenditures	(746,141)	81,853	(664,288)
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	322,356	-	322,356
Proceeds from issuance of long-term debt	1,255,000	-	1,255,000
Total Other Financing Sources (Uses)	<u>1,577,356</u>	<u>-</u>	<u>1,577,356</u>
Changes in Fund Balance	831,215	81,853	913,068
Fund Balances - Beginning of Year	<u>2,372,685</u>	<u>79,172</u>	<u>2,451,857</u>
Fund Balances - End of Year	<u>\$ 3,203,900</u>	<u>\$ 161,025</u>	<u>\$ 3,364,925</u>

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, 2020

Net change in fund balances - total governmental funds: \$ 913,068

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase/(decrease) net position.

Donation of capital assets	1,862,302
Sale or disposal of capital assets	(409,030)

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	1,433,559
Depreciation	(473,997)

Property tax revenues in the statement of activities that do not provide current financial resources are deferred as revenues in the fund statements.	17,372
---	--------

Fines and forfeiture revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	47,342
--	--------

Governmental funds report proceeds from the issuance of long-term debt as current financial resources. In contrast, the Statement of Activities treats the issuance of debt as a liability.	(1,255,000)
---	-------------

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.	78,385
---	--------

Change in net financial net position of governmental activities	<u>\$ 2,214,001</u>
---	---------------------



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. Separate financial statements are available for the ICDA through the City Secretary’s office.

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.

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.
- 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".

Note 2 - Summary of Significant Accounting Policies (continued)

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

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.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

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 number 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, 2020, 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 includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category, which is the deferred amounts related to pension. This amount represents the differences between estimated and actual investment earnings, changes in actuarial assumptions, and other pension changes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. The City has three items that qualify for reporting in this category. Unavailable revenue is reported only in the governmental funds balance sheet from two sources: property taxes and fines. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In the government-wide financial statements the District reports deferred amounts related to pension.

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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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, 2020, 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.

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

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

Deposit and Investment Amounts

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

	<u>Primary Government</u>	<u>Weighted Average Maturity (days)</u>
Cash and demand deposits	\$ 5,319,316	N/A
Certificate of deposit	410,415	140
Public funds investment pools		
TexSTAR	<u>108,264</u>	44
Totals	<u>\$ 5,837,995</u>	120

At September 30, 2020, 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.

Certain amounts of cash and temporary investments were restricted for amounts related to retainer fees, road damage deposits, and developer deposits. The amounts are as follows:

	<u>Amount</u>
Unrestricted	\$ 3,522,699
Restricted	<u>2,315,296</u>
Total Cash and Temporary Investments	<u>\$ 5,837,995</u>

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."*

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

Note 4 - Receivables

Amounts recorded as receivables as of September 30, 2020, are as follows:

	General Fund	Crime Control District	Total
Receivables:			
Property taxes	\$ 31,243	\$ -	\$ 31,243
Sales taxes	57,743	26,858	84,601
Adjudicated Fines	1,201,583	-	1,201,583
Other	-	-	-
Gross receivables	1,290,569	26,858	1,317,427
Less: allowance for uncollectibles	(1,132,051)	-	(1,132,051)
Net total receivables	<u>\$ 158,518</u>	<u>\$ 26,858</u>	<u>\$ 185,376</u>

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, 2020.

Project	Balance 9/30/2019	Additions	Deductions	Balance 9/30/2020
County Road 64	\$ 1,731,000	\$ -	\$ -	\$ 1,731,000
Sterling Lakes Section 13	324,143	-	(324,143)	-
Sierra Vista Karsten Boulevard Phase I	29,033	-	(29,033)	-
Sierra Vista Section 5 and Karsten Boulevard Phase II	611,605	-	(611,605)	-
Meridiana Section 59	149,011	-	(149,011)	-
Sierra Vista Section 6	-	2,181,175	(2,120,773)	60,402
	<u>\$2,844,792</u>	<u>\$2,181,175</u>	<u>\$ (3,234,565)</u>	<u>\$ 1,791,402</u>

Note 6 - Unearned Revenue

As of September 30, 2020, the City had \$48,894 in unearned revenue for retainer fees and \$475,000 in other unearned revenue. These other unearned revenue amounts are related to a \$445,000 road damage deposit for potential repairs that may be required to be completed at a later. The retainer fees are amounts advanced to the City by developers for community development project costs that will occur at a later date.

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

Note 7 - Interfund Receivables and Payables

As of September 30, 2020, interfund balances consisted of the following:

	Interfund Receivable	Interfund Payable	Net Totals
General Fund	\$ -	\$ 161,222	\$ (161,222)
Crime Control District	161,222	-	161,222
Totals	<u>\$ 161,222</u>	<u>\$ 161,222</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.

Note 8 - Capital Assets

A summary of activity for capital assets for the year ended September 30, 2020, follows:

	Balance 9/30/2019	Additions	Transfers / Deletions	Balance 9/30/2020
Governmental activities:				
Capital assets not being depreciated:				
Land and right of way	\$ 1,683,273	\$ 2,352,747	\$ (409,030)	\$ 3,626,990
Total capital assets not being depreciated	<u>1,683,273</u>	<u>2,352,747</u>	<u>(409,030)</u>	<u>3,626,990</u>
Capital assets being depreciated:				
Buildings, improvements and roads	7,560,898	832,093	-	8,392,991
Machinery and equipment	413,975	111,021	-	524,996
Total capital assets being depreciated	<u>7,974,873</u>	<u>943,114</u>	<u>-</u>	<u>8,917,987</u>
Less accumulated depreciation for:				
Buildings, improvements and roads	(837,104)	(405,437)	-	(1,242,541)
Machinery and equipment	(170,193)	(68,560)	-	(238,753)
Total accumulated depreciation	<u>(1,007,297)</u>	<u>(473,997)</u>	<u>-</u>	<u>(1,481,294)</u>
Total capital assets being depreciated, net	<u>6,967,576</u>	<u>469,117</u>	<u>-</u>	<u>7,436,693</u>
Governmental activities capital assets, net	<u>\$ 8,650,849</u>	<u>\$ 2,821,864</u>	<u>\$ (409,030)</u>	<u>\$ 11,063,683</u>

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

Governmental activities:	Depreciation Expense
General	\$ 21,403
Public safety	62,398
Public works	6,983
Community development	383,213
	<u>\$ 473,997</u>

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

Note 9 - Long-term Debt

Private Placement Certificates of Obligation

During the current fiscal year, the City issued private placement certificates of obligation in the amount of \$1,255,000. The principal is payable annually on April 1 and the interest is payable semiannually on October 1 and April 1 at an interest rate of 2.040%. The proceeds were used for the purchase of land next to the City Hall. Additional information for the year ended September 30, 2020 is as follows:

	<u>Original Borrowing</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Outstanding at Year-end</u>
Governmental activities:				
Certificates of Obligation, Series 2020	\$ 1,255,000	2.040%	2035	\$ 1,255,000

Debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 80,000	\$ 18,277	\$ 98,277
2022	75,000	23,970	98,970
2023	75,000	22,440	97,440
2024	75,000	20,910	95,910
2025	80,000	19,380	99,380
2026-2030	410,000	72,318	482,318
2031-2035	460,000	28,458	488,458
	<u>\$ 1,255,000</u>	<u>\$ 205,753</u>	<u>\$ 1,460,753</u>

Changes in Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended September 30, 2020:

	<u>Balance 9/30/2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2020</u>	<u>Due Within One Year</u>
Governmental activities:					
Certificates of Obligation	\$ -	\$ 1,255,000	\$ -	\$ 1,255,000	\$ 80,000
Total	<u>\$ -</u>	<u>\$ 1,255,000</u>	<u>\$ -</u>	<u>\$ 1,255,000</u>	<u>\$ 80,000</u>

Note 10 - 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.

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 11 - 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.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.

Note 11 - Employee Retirement System (continued)

Benefits Provided (continued)

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.

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, 2019, valuation and measurement date, 11 active City employees were covered by the benefit terms and 5 inactive employees was entitled to but not yet receiving benefits. There were 2 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 2020, the City made contributions of 15.28% of the employees’ annual gross income.

Net Pension Liability

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

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

Note 11 - Employee Retirement System (continued)

Actuarial Assumptions

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

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5% 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 2019 Municipal Retirees of Texas mortality tables, with rates multiplied by an additional factor of 93.0%. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements. For disabled annuitants, the mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

Actuarial assumptions used in the December 31, 2019, valuation were based on the results of actuarial experience studies. This experience study was for the period January 1, 2014 through December 31, 2018, first used in the December 31, 2019 valuation. 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.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

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

Note 11 - Employee Retirement System (continued)

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.

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

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

	1% Decrease	Current Discount Rate (6.75%)	1% Increase
City's net pension liability	\$ 103,764	\$ 58,045	\$ 19,276

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2018	\$ 560,723	\$ 379,890	\$ 180,833
Changes for the year:			
Service Cost	51,130	-	51,130
Interest	38,226	-	38,226
Difference between expected and actual experience	(3,796)	-	(3,796)
Changes in assumptions	(30,309)	-	(30,309)
Contributions - employer	-	94,661	(94,661)
Contributions - employee	-	24,511	(24,511)
Net Investment income	-	59,208	(59,208)
Administrative expense	-	(332)	332
Other changes	-	(9)	9
Net changes	15,284	138,072	(122,788)
Balance at 12/31/2019	<u>\$ 576,007</u>	<u>\$ 517,962</u>	<u>\$ 58,045</u>

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

Note 11 - Employee Retirement System (continued)

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.

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

For the year ended September 30, 2020, the City recognized pension expense of \$23,213.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual experience	\$ -	\$ 27,035
Change in assumptions	3,768	23,915
Difference in projected and actual earnings on pension plan investments	-	15,003
Contributions subsequent to measurement date	73,583	-
Total	<u>\$ 77,351</u>	<u>\$ 65,953</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$73,583 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2020 (i.e., recognized in the city's financial statements September 30, 2021). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2021	\$ (16,487)
2022	(15,707)
2023	(12,287)
2024	(15,187)
2025	(2,517)
Total	<u>\$ (62,185)</u>

Note 12 - 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 2020 was \$3,201 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 \$11,603. 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 \$3,201 have been recorded in the City's financial statements.

Note 13 – COVID-19 Pandemic

On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the COVID-19, which disaster declaration he has subsequently extended. In addition, certain local officials, including the County Judge of Brazoria County, also declared a local state of disaster.

The full extent of the ongoing impact of COVID-19 on the City's fiscal year 2021 and longer-term operational and financial performance will depend on future developments, many of which are outside of its control, including the effectiveness of the mitigation strategies related to COVID-19, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted.



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, 2020

	2020			2019	
	Budgeted Amounts				
	Original	Final	Actual	Variance with Final Budget	Actual
Revenues					
Property taxes	\$ 790,278	\$ 790,278	\$ 929,518	\$ 139,240	\$ 828,726
Sales and use taxes	176,000	176,000	309,073	133,073	196,397
Franchise taxes	135,000	135,000	81,867	(53,133)	68,240
Licenses and permits	1,724,500	1,724,500	2,590,668	866,168	2,370,562
Administrative fees	227,776	227,776	231,937	4,161	131,278
Fines and forfeitures	189,500	189,500	176,426	(13,074)	173,359
Earnings on investments	1,000	1,000	2,943	1,943	6,593
Intergovernmental	-	-	29,723	29,723	7,500
Other	885,000	885,000	415,987	(469,013)	8,969
Total Revenues	4,129,054	4,129,054	4,768,142	639,088	3,791,624
Expenditures					
Current:					
General government	537,421	504,541	531,064	(26,523)	669,525
Public safety	1,005,550	1,021,256	902,228	119,028	441,859
Public works	532,220	532,220	557,379	(25,159)	173,394
Municipal courts	185,830	191,710	207,723	(16,013)	140,895
Community development	1,653,418	1,615,352	1,825,874	(210,522)	1,543,375
Debt service:					
Bond issuance costs	-	-	52,275	(52,275)	-
Capital outlay	1,125,000	1,145,000	1,437,740	(292,740)	357,562
Total Expenditures	5,039,439	5,010,079	5,514,283	(504,204)	3,326,610
Revenues Over (Under) Expenditures	(910,385)	(881,025)	(746,141)	134,884	465,014
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	325,000	325,000	322,356	(2,644)	-
Proceeds from issuance of long-term debt	-	-	1,255,000	1,255,000	-
Total Other Financing Sources (Uses)	325,000	325,000	1,577,356	1,252,356	-
Changes in Fund Balance	(585,385)	(556,025)	831,215	1,387,240	465,014
Fund Balances - Beginning of Year	2,372,685	2,372,685	2,372,685	-	1,907,671
Fund Balances - End of Year	\$ 1,787,300	\$ 1,816,660	\$ 3,203,900	\$ 1,387,240	\$ 2,372,685

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 \$504,204 for the year ended September 30, 2020. The overages were caused by the City experiencing significant growth as the total revenue exceeded anticipated amounts by \$639,088.

CITY OF IOWA COLONY, TEXAS
REQUIRED SUPPLEMENTARY PENSION INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Six Measurement Years Ended December 31

	2019	2018	2017	2016	2015	2014
Total pension liability:						
Service cost	\$ 51,130	\$ 35,822	\$ 27,020	\$ 25,040	\$ 18,263	\$ 2,931
Interest	38,226	35,677	32,084	28,720	26,581	24,149
Difference between expected and actual experience	(3,796)	(21,411)	(8,477)	(3,118)	(18,632)	343,523
Change in assumptions	(30,309)	-	-	-	16,153	-
Benefit payments, including refunds of employee contributions	(39,967)	-	(3,602)	-	-	-
Net change in total pension liability	15,284	50,088	47,025	50,642	42,365	370,603
Total pension liability - beginning	560,723	510,635	463,610	412,968	370,603	-
Total pension liability - ending (a)	576,007	560,723	510,635	463,610	412,968	370,603
Plan fiduciary net position:						
Contributions - employer	94,661	80,321	75,643	81,768	61,097	9,799
Contributions - employee	24,511	17,857	13,403	12,004	8,730	1,401
Net investment income	59,208	(8,765)	25,102	5,506	17	-
Benefit payments, including refunds of employee contributions	(39,967)	-	(3,602)	-	-	-
Administrative expense	(332)	(168)	(129)	(65)	(11)	-
Other	(9)	(10)	(8)	-	-	-
Net change in plan fiduciary net position	138,072	89,235	110,409	99,213	69,833	11,200
Plan fiduciary net position - beginning	379,890	290,655	180,246	81,033	11,200	-
Plan fiduciary net position - ending (b)	517,962	379,890	290,655	180,246	81,033	11,200
Net pension liability - ending (a) - (b)	<u>\$ 58,045</u>	<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 % of total pension liability	89.92%	67.75%	56.92%	38.88%	19.62%	3.02%
Covered payroll (measurement year)	\$ 490,220	\$ 357,145	\$ 268,052	\$ 240,075	\$ 174,599	\$ 28,020
Net pension liability as a percentage of covered payroll	11.84%	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 Six Fiscal Years

	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 101,598	\$ 92,000	\$ 81,648	\$ 75,874	\$ 76,809	\$ 52,491
Contribution in relation of the actuarially determined contribution	101,598	92,000	81,648	75,874	76,809	52,491
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll (fiscal year)	\$ 665,101	\$ 448,754	\$ 335,852	\$ 253,819	\$ 224,351	\$ 149,040
Contributions as a percentage of covered payroll	15.28%	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: 6 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: Age Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 – 2018.
Mortality: Post-retirement - 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement - PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information: There were no benefit changes during the year.

