

CITY OF EARLY
Early, Texas

ANNUAL FINANCIAL STATEMENTS

September 30, 2019

CITY OF EARLY, TEXAS

Early, Texas

CONTENTS

September 30, 2019

INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS:	
Government – Wide Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet	7
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	8
Statement of Revenues, Expenditures and Changes in Fund Balances	9
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	10
Proprietary Funds:	
Statement of Net Position	11
Statement of Revenues, Expenses and Changes in Fund Net Position	12
Statement of Cash Flows	13
Notes to Basic Financial Statements	15
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule – General Fund	37
Note to Budgetary Comparison Schedule	38
Schedule of Changes in Net Pension Liability and Related Ratios	39
Schedule of Pension Contributions	40
Schedule of Changes in Total OPEB Liability and Related Ratios	41
SUPPLEMENTARY INFORMATION:	
Proprietary Funds:	
Combining Statements of Net Position	42
Combining Statements of Revenues, Expenses and Changes in Net Position	43
Combining Statements of Cash Flows	44

D. A. "Tony" Krischke, CPA

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Early
Early, Texas

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of City of Early, Texas as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund, of the City of Early, Texas, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the schedule of changes in net pension liability and related ratios, the schedule of pension contributions, and the schedule of changes in total OPEB liability and related ratios on pages 37-41 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Management has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. My opinion on the basic financial statements is not affected by this missing information.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Early, Texas basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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



Krischke CPA, PC

October 31, 2019

BASIC FINANCIAL STATEMENTS

CITY OF EARLY, TEXAS
Early, Texas

STATEMENT OF NET POSITION

September 30, 2019

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit Early MDD
ASSETS:				
Pooled cash and cash equivalents	\$ 39,283	\$ 31,050	\$ 70,333	\$ 210
Non pooled cash and cash equivalents	499,973	334,222	834,195	569,354
Receivables, net	755,512	183,720	939,232	60,034
Inventory		45,275	45,275	
Escrow deposit on real estate			-	19,000
Prepaid bond insurance		13,691	13,691	
Restricted assets	191,070	1,262,030	1,453,100	
Capital assets, net	9,391,110	19,101,290	28,492,400	18,547
Total Assets	\$ 10,876,948	\$ 20,971,278	\$ 31,848,226	\$ 667,145
DEFERRED OUTFLOWS OF RESOURCES:				
Unamortized bond refunding charges	\$ 21,056	\$ 632,645	\$ 653,701	\$
Amounts relating to pensions	117,160	48,907	166,067	
Amounts relating to other postemployment benefits	1,137	475	1,612	
Total Deferred Outflows of Resources	\$ 139,353	\$ 682,027	\$ 821,380	\$ -
LIABILITIES:				
Accounts payable	\$ 59,477	\$ 60,929	\$ 120,406	\$ 1,581
Accrued salaries	6,166		6,166	
Accrued interest payable	21,398	42,026	63,424	
Fees and rent received in advance		5,554	5,554	
Compensated absences	21,880	10,398	32,278	1,937
Internal balances	49,349	(49,349)	-	
Liabilities payable from restricted assets:				
Customer utility deposits		80,570	80,570	
Bonds payable	127,052	248,819	375,871	
Noncurrent liabilities:				
Compensated absences	17,052	3,660	20,712	
Net pension liability	633	13,519	14,152	
Other postemployment benefits liability	35,780	13,753	49,533	
Capital leases:				
Portion due or payable within one year	2,959		2,959	
Portion due or payable after one year	5,797		5,797	
Notes payable:				
Portion due or payable within one year	47,253	57,701	104,954	
Portion due or payable after one year	163,604	102,183	265,787	
Bonds payable:				
Portion due or payable within one year	187,948	66,181	254,129	
Portion due or payable after one year	2,844,119	13,003,707	15,847,826	
Total Liabilities	\$ 3,590,467	\$ 13,659,651	\$ 17,250,118	\$ 3,518
DEFERRED INFLOWS OF RESOURCES:				
Amounts relating to pensions	\$ 18,589	\$ 7,760	\$ 26,349	\$
Amounts relating to other postemployment benefits	3,212	1,341	4,553	
Total Deferred Inflows of Resources	\$ 21,801	\$ 9,101	\$ 30,902	\$ -
NET POSITION:				
Invested in capital assets, net of related debt	\$ 6,223,235	\$ 7,287,869	\$ 13,511,104	\$ 18,547
Restricted for:				
Tourism promotion	98,649		98,649	
Other purposes	14,522		14,522	
Unrestricted	1,067,627	696,684	1,764,311	645,080
Total Net Position	\$ 7,404,033	\$ 7,984,553	\$ 15,388,586	\$ 663,627

See accompanying notes to basic financial statements

CITY OF EARLY, TEXAS
Early, Texas

STATEMENT OF ACTIVITIES

September 30, 2019

<u>Functions/programs</u>	<u>Program Revenue</u>			
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 617,604	\$ 195,872	\$ 1,505	\$
Police	799,223		4,375	
Fire	286,325			
Street	378,747			
Parks and recreation	245,414			27,673
Tourism promotion	257,737	52,066		15,000
Interest and fees on long-term debt	128,726			
Unallocated depreciation and amortization *	12,170			
Total Governmental Activities	<u>\$ 2,725,946</u>	<u>\$ 247,938</u>	<u>\$ 5,880</u>	<u>\$ 42,673</u>
Business-type Activities:				
Water	\$ 1,123,894	\$ 1,237,552	\$	\$
Sewer	449,290	459,313		
Sanitation	368,927	474,794		
Property management	83,778	33,324		
Interest	360,124			
Total Business-type Activities	<u>\$ 2,386,013</u>	<u>\$ 2,204,983</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 5,111,959</u>	<u>\$ 2,452,921</u>	<u>\$ 5,880</u>	<u>\$ 42,673</u>
Component Unit:				
Early Municipal Development District	<u>\$ 425,948</u>	<u>\$ 11,469</u>	<u>\$ -</u>	<u>\$ -</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

Net (Expense) Revenue and Changes in Net Position

<u>Primary Government</u>			<u>Component</u>
<u>Governmental</u>	<u>Business-type</u>		<u>Unit</u>
<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Early MDD</u>

\$	(420,227)	\$		\$	(420,227)
	(794,848)				(794,848)
	(286,325)				(286,325)
	(378,747)				(378,747)
	(217,741)				(217,741)
	(190,671)				(190,671)
	(128,726)				(128,726)
	(12,170)				(12,170)
\$	(2,429,455)	\$	-	\$	(2,429,455)

\$		\$	113,658	\$	113,658
			10,023		10,023
			105,867		105,867
			(50,454)		(50,454)
			(360,124)		(360,124)
\$	-	\$	(181,030)	\$	(181,030)

\$	(2,429,455)	\$	(181,030)	\$	(2,610,485)
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\$ (414,479)

CITY OF EARLY, TEXAS
Early, Texas

STATEMENT OF ACTIVITIES (CONT.)

September 30, 2019

	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Primary Government</u>		<u>Component</u>
	<u>Governmental</u>	<u>Business-type</u>	<u>Unit</u>
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
			<u>Early MDD</u>
CHANGE IN NET POSITION:			
Net (Expense) Revenue	\$ (2,429,455)	\$ (181,030)	\$ (2,610,485)
General Revenues:			
Taxes:			
Ad valorem	\$ 1,132,564	\$	\$ 1,132,564
Sales	1,111,572		1,111,572
Franchise	155,291		155,291
Other	208,581		208,581
Rental income			94,661
Interest on investments	5,589	25,496	31,085
Gain on disposal of capital assets	9,042	29,314	38,356
Miscellaneous	41,308	70,766	112,074
Transfers	29,314	(29,314)	-
Total General Revenue	\$ 2,693,261	\$ 96,262	\$ 2,789,523
CHANGE IN NET POSITION	\$ 263,806	\$ (84,768)	\$ 179,038
NET POSITION - BEGINNING	7,140,227	8,069,321	15,209,548
NET POSITION - ENDING	\$ 7,404,033	\$ 7,984,553	\$ 15,388,586

See accompanying notes to basic financial statements

CITY OF EARLY, TEXAS
Early, Texas

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Convention & Visitors Bureau Fund	Total Governmental Funds
<u>ASSETS</u>					
ASSETS:					
Pooled cash and cash equivalents	\$ 39,283	\$	\$	\$	\$ 39,283
Non pooled cash and cash equivalents	499,973				499,973
Property taxes receivable, net	22,681	10,836			33,517
Other taxes receivable	191,196			82,280	273,476
Other receivables	339				339
Restricted assets	14,522	127,052		49,496	191,070
TOTAL ASSETS	\$ 767,994	\$ 137,888	\$ -	\$ 131,776	\$ 1,037,658
<u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>					
LIABILITIES:					
Accounts payable	\$ 28,981	\$	\$	\$ 30,496	\$ 59,477
Accrued salaries	6,166				6,166
Compensated absences	21,050			830	21,880
Internal balances	47,548			1,801	49,349
TOTAL LIABILITIES	\$ 103,745	\$ -	\$ -	\$ 33,127	\$ 136,872
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue	\$ 22,681	\$ 10,836	\$ -	\$ -	\$ 33,517
FUND BALANCES:					
Restricted for:					
Beautification	\$ 12,842	\$	\$	\$	\$ 12,842
Law Enforcement	1,680				1,680
Debt service		127,052			127,052
Tourism promotion				98,649	98,649
Unassigned	627,046				627,046
TOTAL FUND BALANCES	\$ 641,568	\$ 127,052	\$ -	\$ 98,649	\$ 867,269
TOTAL LIABILITIES AND FUND BALANCES	\$ 767,994	\$ 137,888	\$ -	\$ 131,776	\$ 1,037,658

See accompanying notes to basic financial statements

CITY OF EARLY, TEXAS
Early, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION

September 30, 2019

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 867,269
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 are not reported in the governmental funds balance sheet, net of accumulated depreciation and amortization of \$6,409,187.	9,391,110
Net pension asset/liability and related deferred inflows and outflows are not current financial resources and are not reported in the governmental funds balance sheet	97,938
Some of the City's taxes will be collected after year end, but are not available soon enough to pay for the current period's expenditures and are reported as unavailable revenue in the governmental funds.	33,517
Revenues receivable on warrants are not current financial resources and are not reported in the governmental funds balance sheet, net of allowance for uncollected warrants of \$138,491.	448,180
Unamortized bond refunding charges are not current financial resources and are not reported in the governmental funds balance sheet	21,056
Net other post employment benefits liability and related deferred inflows and outflows are not current financial resources and are not reported in the governmental funds balance sheet	(37,855)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet.	<u>(3,417,182)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 7,404,033</u>

See accompanying notes to basic financial statements

CITY OF EARLY, TEXAS
Early, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Convention & Visitors Bureau Fund	Total Governmental Funds
REVENUES:					
Ad valorem taxes	\$ 806,477	\$ 317,717	\$	\$	\$ 1,124,194
Penalty and interest	10,922	5,593			16,515
City sales tax	1,111,572				1,111,572
Franchise taxes	155,291				155,291
Other taxes	19,542			189,039	208,581
Municipal court revenue	142,097				142,097
Fees and permits	15,816				15,816
Interest earned	3,754	863	615	357	5,589
Grants and contributions	33,553			15,000	48,553
Intergovernmental	29,499				29,499
Event revenue				46,890	46,890
Visitor and Event Center fees				5,176	5,176
Other revenue	40,629			679	41,308
Total Revenue	\$ 2,369,152	\$ 324,173	\$ 615	\$ 257,141	\$ 2,951,081
EXPENDITURES:					
General government	\$ 609,833	\$	\$	\$	\$ 609,833
Police	765,107				765,107
Fire	265,113				265,113
Street	498,443				498,443
Parks and recreation	196,710				196,710
Debt Service:					
Principal		305,000			305,000
Interest		122,363			122,363
Bond fees		1,106			1,106
Capital outlay			537,144		537,144
Tourism promotion				166,523	166,523
Event expenses				75,253	75,253
Visitor and Event Center expenses				37,922	37,922
Total Expenditures	\$ 2,335,206	\$ 428,469	\$ 537,144	\$ 279,698	\$ 3,580,517
EXCESS OF REVENUES OVER EXPENDITURES	\$ 33,946	\$ (104,296)	\$ (536,529)	\$ (22,557)	\$ (629,436)
OTHER FINANCING SOURCES (USES):					
Transfers in	\$ 29,314	\$ 81,766	\$ 170,926	\$	\$ 282,006
Transfers out	(252,692)				(252,692)
Loan proceeds	150,000				150,000
Proceeds from sale of capital assets	9,042				9,042
Total Other Financing Sources (Uses)	\$ (64,336)	\$ 81,766	\$ 170,926	\$ -	\$ 188,356
NET CHANGE IN FUND BALANCE	\$ (30,390)	\$ (22,530)	\$ (365,603)	\$ (22,557)	\$ (441,080)
FUND BALANCE - BEGINNING OF YEAR	671,958	149,582	365,603	121,206	1,308,349
FUND BALANCE - END OF YEAR	\$ 641,568	\$ 127,052	\$ -	\$ 98,649	\$ 867,269

See accompanying notes to basic financial statements

CITY OF EARLY, TEXAS
Early, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ (441,080)
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Capital assets purchased	1,028,136
Depreciation and amortization expense	(458,896)

Because some property taxes will not be collected for several months after the City's fiscal year end, they are not considered available revenues and are deferred inflows in the governmental funds. Unavailable revenues increased by this amount this year.

(8,145)

Revenues received on warrants are not current financial resources and are not reported as revenues in the governmental funds.

8,460

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Change in accrued interest payable	(3,179)
Change in net pension asset/liability	(31,956)
Change in net other post employment benefits liability	(2,346)

Long-term debt is reported as financing sources in governmental funds and thus contributes to the change in fund balance. In the statement of net position however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental fund but reduces the liability in the statement of net position

Repayments in excess of proceeds on long-term debt	179,000
Increase in compensated absences.	<u>(6,188)</u>

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 263,806</u>
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See accompanying notes to basic financial statements

CITY OF EARLY, TEXAS
Early, Texas

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

September 30, 2019

	Total Proprietary Funds
CURRENT ASSETS:	
Pooled cash and cash equivalents	\$ 31,050
Non pooled cash and cash equivalents	334,222
Accounts receivable, net	183,720
Internal balances	49,349
Inventory	45,275
Prepaid bond insurance	13,691
Total Current Assets	<u>\$ 657,307</u>
NONCURRENT ASSETS:	
Restricted assets	\$ 1,262,030
Capital assets, net	19,101,290
Total Noncurrent Assets	<u>\$ 20,363,320</u>
TOTAL ASSETS	<u>\$ 21,020,627</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Unamortized bond refunding charges	\$ 632,645
Amounts related to pensions	48,907
Amounts related to other post employment benefits	475
Total Deferred Outflows of Resources	<u>\$ 682,027</u>
CURRENT LIABILITIES:	
Accounts payable	\$ 60,929
Compensated absences	10,398
Accrued interest payable	42,026
Rent received in advance	5,554
Note payable	57,701
Bonds payable	66,181
Total Current Liabilities	<u>\$ 242,789</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:	
Customer utility deposits	\$ 80,570
Bonds payable	248,819
Total Liabilities Payable from Restricted Assets	<u>\$ 329,389</u>
NONCURRENT LIABILITIES:	
Compensated absences	\$ 3,660
Net pension liability	13,519
Net other post employment benefits liability	13,753
Note payable	102,183
Bonds payable	13,003,707
Total Noncurrent Liabilities	<u>\$ 13,136,822</u>
TOTAL LIABILITIES	<u>\$ 13,709,000</u>
DEFERRED INFLOWS OF RESOURCES:	
Amount related to pensions	\$ 7,760
Amounts related to other post employment benefits	1,341
Total Deferred Inflows of Resources	<u>\$ 9,101</u>
NET POSITION:	
Invested in capital assets, net of related debt	\$ 7,287,869
Unrestricted	696,684
TOTAL NET POSITION	<u>\$ 7,984,553</u>

See accompanying notes to basic financial statements

CITY OF EARLY, TEXAS
Early, Texas

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

For the Year Ended September 30, 2019

	Total Proprietary Funds
OPERATING REVENUES:	
Charges for services	\$ 2,171,659
Rent income	33,324
Other	72,771
Total Operating Revenues	<u>\$ 2,277,754</u>
OPERATING EXPENSES:	
Personnel costs	\$ 557,751
Materials, supplies and services	562,715
Maintenance and operations	153,271
Depreciation and amortization	674,133
Contractual remittances	33,324
Support services	15,000
Other	29,695
Total Operating Expenses	<u>\$ 2,025,889</u>
OPERATING INCOME (LOSS)	<u>\$ 251,865</u>
NON-OPERATING REVENUE AND EXPENSE:	
Interest income	\$ 25,496
Sale of assets	29,314
Interest expense	(360,124)
Other	(2,005)
Total Non-Operating Revenue and Expense	<u>\$ (307,319)</u>
GAIN (LOSS) BEFORE TRANSFERS	<u>\$ (55,454)</u>
TRANSFERS:	
Operating transfers in	\$
Operating transfers out	(29,314)
Net Operating Transfers	<u>\$ (29,314)</u>
CHANGES IN NET POSITION	<u>\$ (84,768)</u>
NET POSITION - BEGINNING	<u>8,069,321</u>
NET POSITION - ENDING	<u>\$ 7,984,553</u>

See accompanying notes to basic financial statements

CITY OF EARLY, TEXAS
Early, Texas

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended September 30, 2019

	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 2,292,276
Cash payments to suppliers for goods and services	(1,015,625)
Cash payments to employees for services	(542,026)
Internal activity-payments to other funds	(35,456)
	<u>699,169</u>
Net Cash Provided by Operating Activities	\$ 699,169
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Increase in customer meter deposits	\$ 5,345
Operating transfers out	(29,314)
	<u>(23,969)</u>
Net Cash Used by Noncapital Financing Activities	\$ (23,969)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on note payable	\$ (82,263)
Interest paid on note payable	(5,323)
Principal paid on bonds payable	(305,000)
Interest paid on bonds payable	(340,634)
Other bond costs	(2,005)
Proceeds from sale of capital assets	29,314
Acquisition and construction of capital assets	(807,730)
	<u>(1,513,641)</u>
Net Cash Used by Capital and Related Financing Activities	\$ (1,513,641)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	\$ 25,496
	<u>25,496</u>
Net Cash Provided by Investing Activities	\$ 25,496
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (812,945)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,440,247</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,627,302</u></u>

See accompanying notes to basic financial statements

CITY OF EARLY, TEXAS
Early, Texas

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONT.)

For the Year Ended September 30, 2019

	<u>Total Proprietary Funds</u>
RECONCILIATION OF OPERATING INCOME TO <u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
OPERATING INCOME (LOSS)	\$ 251,865
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation and amortization	674,133
Changes in assets and liabilities:	
Receivables	14,522
Inventory	(1,510)
Prepaid bond insurance	956
Net pension asset and deferred items	13,365
Accounts payable	(236,066)
Compensated absences	1,400
Net other post employment benefits liability and deferred items	960
Internal balances	<u>(20,456)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 699,169</u>

See accompanying notes to basic financial statements

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Early, Texas (the "City") was incorporated under the provisions of the State of Texas. The City is a general law city and operates under a council-mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, utilities (water, sewer, sanitation), recreation, public improvements and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and interpretations). The more significant accounting policies established by GAAP and used by the City are discussed below.

Financial Reporting Entity

These financial statements present the City (primary government) and its component unit, the Early Municipal Development District (EMDD). As defined by GASB No. 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City.

EMDD is a political subdivision of the State of Texas and the City of Early and has the powers and duties given by Section 377 of the Texas Local Government Code (Act). The District was established for the purpose of developing and financing all permissible development projects prescribed by the Act. The District receives its primary funding from a local sales tax approved by the voters and rental income from properties managed by the District. The affairs of the District are managed by a Board of Directors. The Board has five members appointed by the Mayor of the City of Early, Texas with the approval of the City of Early City Council. The EMDD is reported as a component unit due to the City's power to appoint a voting majority of the Board.

Condensed statements of the discretely presented component units are shown on the Statement of Net Assets and the Statement of Activities in the separate columns titled component units.

Complete financial statements of the individual component unit can be obtained directly as follows:

Early Municipal Development District
P. O. Box 3100
Early, Texas 76802

Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of changes in net position) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has not been removed from these statements. All interfund charges are charges for goods or services provided. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Basis of Presentation (cont.)

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of the governmental funds is on the sources, uses and balances of current financial resources. The City has presented the following major governmental funds:

General Fund - General fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund - The Debt Service fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Convention & Visitors Bureau - The Convention and Visitors Bureau is used to account for the Hotel Occupancy Tax collected by the City. These revenues must be used solely for those purposes authorized by Subchapter B, Section 351.101 of the Tax Code of the State of Texas. This law limits the use of the revenues to the promotion of tourism and the convention and hotel industry and further requires that the revenues be maintained in a separate account established for that purpose and not be commingled with other funds.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary fund:

Proprietary Fund - The Proprietary Fund is used to account for the provision of water, sewer, sanitation, and property management services to the residents of the City. Activities of the fund include administration, operations and maintenance of water, sewer, sanitation, and property management and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for systems debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund and through property sales and rental.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include all cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for the proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to October 1, the City Administrator submits to the City Council the proposed operating budget for the upcoming fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds.

The Budgetary Comparison Schedule - General Fund presents a comparison of budgetary data to actual results. The general fund utilizes the cash basis for budgetary purposes. The difference between this basis and GAAP is shown in the Notes to the Budgetary Comparison Schedule -General Fund.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Cash and Investments

For the purpose of the Statement of Net Position "cash and cash equivalents" includes all demand accounts, savings accounts and certificates of deposit of the City.

Inventories

Inventories are valued at the lower of average cost or market. Inventories of the proprietary funds consist of supplies held for consumption.

Interfund Receivables and Payables

Any residual balance outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances".

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollected accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include ad valorem taxes, sales taxes and warrants. Business-type activity receivable balances are primarily from utility sales.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has been capitalized during the construction period on proprietary fund property, plant and equipment.

Assets are capitalized that have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	10-40 Years
Infrastructure	30-40 Years
Machinery and Equipment	3-20 Years

Compensated Absences

The liability for compensated absences reported in the government-wide and governmental fund statements consists of unpaid accumulated vacation leave. Only employees who are currently eligible to receive payments upon termination are included in the calculation of the liability.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Government-wide and Proprietary Net Position

Government-wide and proprietary fund net position is divided into three components:

- Net investment in capital assets – consist of historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted net position – consist of assets that are restricted by the City's creditors, by enabling legislation, by grantors and by other contributors.
- Unrestricted – all other net position is reported in this category.

Governmental fund balances

The City follows GASB No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* which provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in a spendable form or are required to be maintained intact;
- Restricted fund balance – amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

City Council establishes fund balance commitments by passage of an ordinance or resolution. Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purposes.

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net 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 and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The City has three items that qualify for reporting in this category. Accordingly, the items, unamortized bond refunding charges, amounts related to pensions and amounts related to other post employment benefits, are reported on the government wide statement of position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualifies for reporting in this category. Accordingly, the

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Deferred Inflows/Outflows of Resources (cont.)

items, amounts related to pensions and amounts related to other post employment benefits, is reported on the government wide statement of position. The City has one item that qualifies for reporting in this category which arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Deferred outflows of resources are used to report consumptions of net position by the City that are applicable to a future reporting period. Deferred inflows of resources are used to report acquisitions of net position by the City that are applicable to future reporting periods. The deferred inflow is reclassified to revenue on the government-wide financial statements.

Use of Estimates

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

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.

NOTE 2: PROPERTY TAX

Property taxes are levied by October 1, in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1, of the year following the year in which imposed. On January 1, of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period or expected to be collected during the sixty day period after the close of the fiscal year.

NOTE 3: DEPOSITS AND INVESTMENTS

The City places its investable funds in investments authorized by Texas law (The Public Funds Investment Act-Government Code Chapter 2256) in accordance with investment policies approved by the City Council of the City. Both state law and the City's investment policies are subject to change. Under Texas law and City policy, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity and the quality and capability of investment management. All City funds must be invested in a manner that provides the highest investment return with the maximum security while meeting the daily cash flow demands of the City. The objectives of the City's investment policy are safety, availability, diversification and highest rate of return. The City limits its authorized investments to certificates of deposit and joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law. The Public Funds Investment Act requires the City to have independent auditors perform

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 3: DEPOSITS AND INVESTMENTS (CONT.)

test procedures related to investment practices approved by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Custodial Credit Risk - City funds are required to be deposited and invested under the terms of a depository contract and investment policy pursuant to state statute. The depository bank deposits for safekeeping and trust with its agent approved pledged securities authorized by Government Code Chapter 2257 Collateral for Public Funds in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At September 30, 2019, \$1,913,463 of the City's deposit balances were exposed to custodial credit risk by being uninsured by FDIC but collateralized by securities held by the pledging financial institution's agent not in the City's name.

Other Risks - The City does not have any investments exposed to credit risk, concentrations of credit risk, interest rate risk or foreign currency risk.

Cash for Cash Flows Statement

Total cash for the proprietary fund cash flows statement is as follows:

Pooled cash and cash equivalents	\$ 31,050
Non pooled cash and cash equivalents	334,222
Restricted assets	<u>1,262,030</u>
Total	<u>\$ 1,627,302</u>

NOTE 4: RESTRICTED ASSETS

Certain cash balances and investments are restricted by agreement or by City Council action. The following is a summary of restricted assets grouped by restriction:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Restricted for construction	\$ -	\$ 932,642
Restricted for debt service payments	127,052	248,818
Restricted for tourism promotion	49,496	
Restricted for beautification	12,842	
Restricted seizure funds	1,680	
Restricted for customer deposits		80,570
Total restricted assets	<u>\$ 191,070</u>	<u>\$ 1,262,030</u>

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 5: RECEIVABLES

A summary of the net receivables for the governmental activities and the business-type activities is as follows:

	Governmental Activities	Business-type Activities
Ad valorem taxes	\$ 37,241	\$
Hotel/Motel tax	82,280	
State of Texas sales taxes	191,196	
Warrants and citations	448,180	
Other	339	
Utility		199,573
	<u>\$ 759,236</u>	<u>\$ 199,573</u>
Less allowance of uncollectable accounts	(3,724)	(15,853)
Receivables, net	<u>\$ 755,512</u>	<u>\$ 183,720</u>

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 346,354	\$	\$	\$ 346,354
Land use rights-easements	54,785			54,785
Construction in progress	952,975	537,144	\$ (1,490,119)	-
Total capital assets not being depreciated	<u>\$ 1,354,114</u>	<u>\$ 537,144</u>	<u>\$ (1,490,119)</u>	<u>\$ 401,139</u>
Capital Assets Being Depreciated and Amortized:				
Building and improvements	\$ 1,931,065	\$ 1,561,265	\$	\$ 3,492,330
Infrastructure	8,817,982	230,191		9,048,173
Machinery and equipment	2,159,553	217,674	(28,018)	2,349,209
Machinery under capital lease	509,447			509,447
Total capital assets being depreciated and amortized	<u>\$ 13,418,047</u>	<u>\$ 2,009,130</u>	<u>\$ (28,018)</u>	<u>\$ 15,399,159</u>
Less Accumulated Depreciation and Amortization:				
Buildings and improvements	\$ (794,405)	\$ (74,407)	\$	\$ (868,812)
Infrastructure	(2,995,520)	(224,111)		(3,219,631)
Machinery and equipment	(1,722,854)	(155,483)	28,018	(1,850,319)
Machinery under capital lease	(437,512)	(32,914)		(470,426)
Total accumulated depreciation and amortization	<u>\$ (5,950,291)</u>	<u>\$ (486,915)</u>	<u>\$ 28,018</u>	<u>\$ (6,409,188)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 7,467,756</u>	<u>\$ 1,522,215</u>	<u>\$ -</u>	<u>\$ 8,989,971</u>
Governmental Capital Assets, Net	<u>\$ 8,821,870</u>	<u>\$ 2,059,359</u>	<u>\$ (1,490,119)</u>	<u>\$ 9,391,110</u>

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 6: CAPITAL ASSETS (CONT.)

Capital asset activity for the year ended September 30, 2019 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 235,333	\$	\$	\$ 235,333
Water line easements	90,332			90,332
Construction in progress	6,706,716	61,377	(6,768,093)	-
Total capital assets not being depreciated	<u>\$ 7,032,381</u>	<u>\$ 61,377</u>	<u>\$ (6,768,093)</u>	<u>\$ 325,665</u>
Capital Assets Being Depreciated and Amortized:				
Building and improvements	\$ 2,018,140	\$	\$	\$ 2,018,140
Infrastructure	13,674,939	6,835,243		20,510,182
Equipment	993,728	679,203	(145,117)	1,527,814
Machinery under capital lease	267,165			267,165
Total capital assets being depreciated and amortized	<u>\$ 16,953,972</u>	<u>\$ 7,514,446</u>	<u>\$ (145,117)</u>	<u>\$ 24,323,301</u>
Less Accumulated Depreciation and Amortization:				
Building and improvements	\$ (351,675)	\$ (50,454)	\$	\$ (402,129)
Infrastructure	(3,943,021)	(476,130)		(4,419,151)
Equipment	(542,619)	(128,893)	145,117	(526,395)
Machinery under capital lease	(181,345)	(18,656)		(200,001)
Total accumulated depreciation and amortization	<u>\$ (5,018,660)</u>	<u>\$ (674,133)</u>	<u>\$ 145,117</u>	<u>\$ (5,547,676)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 11,935,312</u>	<u>\$ 6,840,313</u>	<u>\$ -</u>	<u>\$ 18,775,625</u>
Business-type Activities Capital Assets, Net	<u>\$ 18,967,693</u>	<u>\$ 6,901,690</u>	<u>\$ (6,768,093)</u>	<u>\$ 19,101,290</u>

Depreciation and amortization expense was charged to the following functions:

Governmental Activities:	
General government	\$ 28,814
Police	54,489
Fire	43,683
Street	250,995
Parks and recreation	94,075
Tourism promotion	2,689
Unallocated	12,170
	<u>\$ 486,915</u>
Business-type Activities:	
Water	\$ 345,318
Sewer	229,089
Sanitation	49,272
Property Management	50,454
	<u>\$ 674,133</u>

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 7: LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds, Leases and Notes Payable:					
Certificates of obligation	\$ 1,100,000	\$	\$ (45,000)	\$ 1,055,000	\$ 45,000
General obligation bonds	2,310,000		(260,000)	2,050,000	270,000
Direct borrowings:					
Capital leases	12,021		(3,265)	8,756	2,959
Notes payable	79,976	150,000	(19,119)	210,857	47,253
	<u>\$ 3,501,997</u>	<u>\$ 150,000</u>	<u>\$ (327,384)</u>	<u>\$ 3,324,613</u>	<u>\$ 365,212</u>
Bond premiums	58,542		(4,423)	54,119	
Total Bonds, Leases and Notes Payable	<u>\$ 3,560,539</u>	<u>\$ 150,000</u>	<u>\$ (331,807)</u>	<u>\$ 3,378,732</u>	<u>\$ 365,212</u>
Compensated absences	26,465	28,068	(15,601)	38,932	21,880
Total Governmental Activities	<u>\$ 3,587,004</u>	<u>\$ 178,068</u>	<u>\$ (347,408)</u>	<u>\$ 3,417,664</u>	<u>\$ 387,092</u>
Business-type Activities:					
Bonds and Notes Payable from direct borrowing and direct placements:					
Certificates of obligation	\$ 8,390,000	\$	\$ (255,000)	\$ 8,135,000	\$ 80,000
General obligation bonds	4,820,000		(50,000)	4,770,000	235,000
Notes payable	242,147		(82,263)	159,884	57,701
	<u>\$ 13,452,147</u>	<u>\$</u>	<u>\$ (387,263)</u>	<u>\$ 13,064,884</u>	<u>\$ 372,701</u>
Bond premiums	442,571		(28,864)	413,707	
Total Bonds, Leases and Notes Payable	<u>\$ 13,894,718</u>	<u>\$</u>	<u>\$ (416,127)</u>	<u>\$ 13,478,591</u>	<u>\$ 372,701</u>
Compensated absences	12,658	6,710	(5,310)	14,058	10,398
Total Business-type Activities	<u>\$ 13,907,376</u>	<u>\$ 6,710</u>	<u>\$ (421,437)</u>	<u>\$ 13,492,649</u>	<u>\$ 383,099</u>
Total Primary Government	<u><u>\$ 17,494,380</u></u>	<u><u>\$ 184,778</u></u>	<u><u>\$ (768,845)</u></u>	<u><u>\$ 16,910,313</u></u>	<u><u>\$ 770,191</u></u>

General obligation bonds are direct obligations issued on a pledge of the general taxing powers for the payment of debt obligations of the City. General obligation bonds require the City to set aside each year a portion of the taxes levied in a fund to pay interest and principal at maturity. The City is in compliance with this requirement. Combination tax and revenue bonds are payable from either ad valorem taxes levied, with the limits prescribed by laws, or payable from and secured by the surplus net revenues of the City's water and sewer system as provided in the ordinances authorizing their issuance.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 7: LONG TERM OBLIGATIONS (CONT.)

Governmental Activities

A summary of the bonds follows:

	<u>Date of Issue</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Outstanding 9/30/2019</u>
Combination tax and revenue certificates of obligation					
Series 2017	2/15/2017	\$ 1,125,000	2.0 to 4.0%	2/15/2037	\$ 1,055,000
General Obligation Refunding Bonds					
Series 2010	3/9/2010	4,130,000	3.0 to 4.0%	2/15/2027	2,050,000
					<u>\$ 3,105,000</u>

The following represents the future maturities on these bonds:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 315,000	\$ 111,850	\$ 426,850
2021	325,000	100,667	425,667
2022	330,000	88,919	418,919
2023	345,000	76,225	421,225
2024	360,000	62,600	422,600
2025-2029	875,000	165,925	1,040,925
2030-2034	325,000	79,700	404,700
2035-2037	230,000	14,000	244,000
Total	<u>\$ 3,105,000</u>	<u>\$ 699,886</u>	<u>\$ 3,804,886</u>

Capital leases are used to acquire equipment needed in the governmental operations of the City. A summary of the capital leases follows:

	<u>Date of Issue</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Outstanding 9/30/2019</u>
Canon Financial Services	6/14/2015	5,668	4.79%	6/14/2020	\$ 833
Canon Financial Services	4/20/2018	10,829	3.00%	4/28/2023	7,923
					<u>\$ 8,756</u>

The following represents the future maturities on these leases:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 2,959	\$ 224	\$ 3,183
2021	2,191	144	2,335
2022	2,258	77	2,335
2023	1,348	13	1,361
Total	<u>\$ 8,756</u>	<u>\$ 458</u>	<u>\$ 9,214</u>

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 7: LONG TERM OBLIGATIONS (CONT.)

Governmental Activities (cont.)

Notes payable are used to finance asset acquisitions and improvements needed in the governmental operations of the City. A summary of notes payable follows:

	<u>Date of Issue</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Outstanding 9/30/2019</u>
Citizens Bank of Las Cruces	10/2/2017	\$ 100,000	2.99%	3/30/2022	\$ 60,857
First Financial Bank NA	10/9/2018	150,000	3.97%	10/30/2023	150,000
					<u>\$ 210,857</u>

The following represents the future maturities on these notes:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 47,253	\$ 8,924	\$ 56,177
2021	49,126	7,053	56,179
2022	50,877	5,301	56,178
2023	31,182	2,525	33,707
2024	32,419	1,287	33,706
Total	<u>\$ 210,857</u>	<u>\$ 25,090</u>	<u>\$ 235,947</u>

Business-type activities

The City makes use of general obligation bonds and certificates of obligation in the business-type activities.

A summary of the bonds follows:

	<u>Date of Issue</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Outstanding 9/30/2019</u>
Combination Tax and Revenue Certificates of Obligation Series 2015	4/15/2015	8,365,000	0 to 2.25%	2/15/2046	\$ 8,135,000
General Obligation Refunding Bonds Series 2016	5/1/2016	4,910,000	2.0 to 4.0%	2/15/2035	4,770,000
					<u>\$ 12,905,000</u>

CITY OF EARLY, TEXAS

Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 7: LONG TERM OBLIGATIONS (CONT.)

Business-type activities (cont.)

The following represents the future maturities on these bonds:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 315,000	\$ 333,682	\$ 648,682
2021	315,000	328,520	643,520
2022	325,000	323,070	648,070
2023	330,000	316,082	646,082
2024	340,000	307,524	647,524
2025-2029	1,845,000	1,383,713	3,228,713
2030-2034	2,190,000	1,035,281	3,225,281
2035-2039	2,755,000	658,283	3,413,283
2040-2044	3,135,000	330,088	3,465,088
2045-2046	1,355,000	30,656	1,385,656
Total	<u>\$ 12,905,000</u>	<u>\$ 5,046,899</u>	<u>\$ 17,951,899</u>

Notes payable are used to acquire equipment needed in the utility operations of the City. A summary of notes payable follows:

	<u>Date of Issu</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Outstanding 9/30/2019</u>
Citizens Bank of Las Cruces	10/11/2016	100,000	3.60%	12/30/2019	\$ 8,823
Citizens Bank of Las Cruces	10/2/2017	248,223	2.99%	3/30/2022	151,061
					<u>\$ 159,884</u>

The following represents the future maturities on these notes:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 57,701	\$ 3,609	\$ 61,310
2021	50,339	2,094	52,433
2022	51,844	589	52,433
Total	<u>\$ 159,884</u>	<u>\$ 6,292</u>	<u>\$ 166,176</u>

NOTE 8: DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Early 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 8: DEFINED BENEFIT PENSION PLAN (CONT.)

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Plan provisions for the City include an employee deposit rate of 5%, a matching ratio (city to employee) of 1.5 to 1 and five years of participation for vesting. Employees with five years of continuous service are eligible to retire at age 60. Employees may retire at any age after 20 years of continuous service.

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

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	15
Active employees	27

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 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 of Early were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 3.41% and 3.48% in calendar years 2018 and 2019, respectively. The city's contributions to TMRS for the year ended September 30, 2019, were \$42,879, and were \$2 over the required contributions.

Net Pension Liability

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

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	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 8: DEFINED BENEFIT PENSION PLAN (CONT.)

Net Pension Liability (cont.)

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 Blue Collar Adjustment, 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used, with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
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	100.00%	

Discount Rate. The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 8: DEFINED BENEFIT PENSION PLAN (CONT.)

Net Pension Liability (cont.)

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance 12/31/2017	\$ 2,368,549	\$ 2,546,083	\$ (177,534)
Changes for the year:			
Service cost	\$ 102,859	\$	\$ 102,859
Interest	159,644		159,644
Difference between expected and actual experience	(50,962)		(50,962)
Contributions-employer		39,566	(39,566)
Contributions-employee		58,047	(58,047)
Net investment income		(76,207)	76,207
Benefit payments, including refunds of employee contributions	(109,767)	(109,767)	-
Administrative expense		(1,474)	1,474
Other changes		(77)	77
Net changes	\$ 101,774	\$ (89,912)	\$ 191,686
Balance 12/31/2018	\$ 2,470,323	\$ 2,456,171	\$ 14,152

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$352,692	\$14,152	\$(267,916)

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.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 8: DEFINED BENEFIT PENSION PLAN (CONT.)

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 \$88,175. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 26,349
Difference between projected and actual investment earnings	133,087	
Contributions subsequent to the measurement date	32,980	
Total	<u>\$ 166,067</u>	<u>\$ 26,349</u>

\$32,980 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net Deferred Outflows (Inflows) of Resources
2019	\$ 53,807
2020	8,801
2021	5,817
2022	39,700
2023	(1,387)
Thereafter	-
Total	<u>\$ 106,738</u>

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This single-employer plan is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated) and doesn't meet the definition of a trust under GASB No. 75, Paragraph 4b. The member 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.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONT.)

Benefits Provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit ("OPEB") and is a fixed amount of \$7,500.

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

Inactive employees currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	2
Active employees	27

Total OPEB Liability

The City's OPEB liability of \$49,533 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.5% to 10.5% including inflation
Discount rate	3.71%
Retiree's share of benefit-related costs	\$0
Administration expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates – disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018. The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

CITY OF EARLY, TEXAS

Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONT.)

Changes in the total OPEB liability

Total OPEB liability 12/31/2017	\$ 54,056
Changes for the year:	
Service cost	\$ 2,902
Interest on total OPEB liability	1,828
Difference between expected and actual experience	(5,080)
Changes in assumptions or other inputs	(3,593)
Benefit payments	(580)
Net changes	\$ (4,523)
Balance 12/31/2018	\$ 49,533

Sensitivity of the net pension liability to changes in the discount rate. The following presents the total OPEB liability of the City, calculated using the discount rate of 3.71%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.71%) or 1-percentage-point higher (4.71%) than the current rate:

	1% Decrease in Discount Rate (2.71%)	Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
Total OPEB liability	\$58,995	\$49,533	\$42,038

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

For the year ended September 30, 2019, the City recognized OPEB expense of \$4,105. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$ 4,396
Changes in assumptions and other inputs		157
Contributions subsequent to the measurement date	1,612	
Total	\$ 1,612	\$ 4,553

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONT.)

\$1,612 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2020. Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Net Deferred Outflows (Inflows) of Resources
2019	\$ (625)
2020	(625)
2021	(625)
2022	(625)
2023	(625)
Thereafter	(1,428)
Total	<u>\$ (4,553)</u>

NOTE 10: INTERNAL BALANCES AND TRANSFERS

Internal balances at September 30, 2019 were composed of \$49,349 owed from General Fund to Proprietary Fund for short term cash needs.

Transfers to/from other funds during the year ended September 30, 2019 consist of the following:

From General Fund to Debt Service Fund to fund debt service obligations	\$ 1,766
From General Fund to Capital Projects Fund to fund building improvements	170,926
From Water Fund to General Fund to transfer equipment sale proceeds	22,814
From Sewer Fund to General Fund to transfer equipment sale proceeds	6,500

NOTE 11: CONTINGENCIES AND COMMITMENTS

The City is contingently liable to the State of Texas on a Texas Capital Fund Contract entered into in 2002. The City assumed this contingent liability when it purchased the property formerly owned by Johnson Ross CMI. This contract requires that the City repay the grant to the extent there is any program income (as defined in the contract) from the property. The contract has a balance of \$194,390 at September 30, 2019. Lease income from the property is being applied monthly on the contract.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 11: CONTINGENCIES AND COMMITMENTS (CONT.)

As part of the agreement to purchase water, the City of Early has a liability for payment of a portion of the principal and interest on Revenue Bonds issued by Brown County Water Improvement District #1. Payments are made monthly by the City as a debt service charge on the statement to the City for water purchases. The payments are prorated among all contracting parties who purchase treated water from Brown County Water Improvement District #1. The exact amount of the City of Early portion of the debt service is determined based on the level of water purchases for both the City and Zephyr Water System. The City of Brownwood, City of Bangs and Brookesmith Special Utility District also purchase water directly from Brown County Water Improvement District #1.

The Early Municipal Development District Board awarded \$272,572 of economic development incentives during the current and prior years that were not yet funded at September 30, 2019. One of the incentives amounting to \$120,000 is payable over several years while the remainder are expected to be paid within the coming year.

At September 30, 2019, the Early MDD had an open real estate contract to purchase real estate for \$625,000. An escrow deposit of \$19,000 on this contract was included in assets at year end. The purchase was completed subsequent to year end.

NOTE 12: RISK MANAGEMENT

The City and its component unit are 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 liability, professional liability, and worker's compensation insurance coverage is provided through the purchase of commercial insurance. They retain risk on only a small deductible amount. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage. The employee health care is also provided by commercial insurance with no risk retained by the City. Management has not been notified and is not aware of any significant claims not covered by insurance.

NOTE 13: TAX ABATEMENT AGREEMENTS

The City has a property tax abatement agreement with one local business who constructed new facilities within the city limits in a prior year. The agreement is structured in accordance with the Texas Property Redevelopment and Tax Abatement Act, Texas Tax Code, Chapter 2303 as amended. Under these provisions, local governments may grant tax abatements for property taxes. The terms of the agreement provide for abatement of ad valorem taxes on eligible property during construction and then for seven full years beginning in 2014. The abatement was 100% during construction and then began to decline 10% a year for each year of the seven year period ending with a 30% reduction in 2020. The abatement is applied to the added value of eligible real property improvements as a result of the construction of a new facility. For the fiscal year ended September 30, 2019, the City abated \$21,778 of property taxes.

NOTE 14: UTILITY

The Utility Department was serving the following number of customers at September 30, 2019:

Water Department	1,370
Sewer Department	1,264
Sanitation Department	1,318

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 15: SUBSEQUENT EVENTS

Subsequent to year end, Early City Council passed an ordinance authorizing issuance of City of Early, Texas General Obligation Refunding Bonds, Series 2019 to refinance the City of Early, Texas General Obligation Refunding Bonds, Series 2010. Amount, maturity, savings and interest rate parameters were set that must be met in order issue the bonds. Negotiations were in process as of the date of issuance of this report.

Subsequent to September 30, 2019, the Early MDD borrowed \$675,000 through Government Capital Corporation to the fund the real estate purchase discussed in Note 11.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EARLY, TEXAS
Early, Texas

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended September 30, 2019

	Original and Final Budget	Actual Budgetary Basis (See Note A)	Variance with Final Budget Positive (Negative)
REVENUES:			
Ad valorem taxes	\$ 821,350	\$ 806,477	\$ (14,873)
Penalty and interest	7,500	10,922	3,422
City sales tax	975,375	1,139,421	164,046
Franchise taxes	147,000	155,291	8,291
Other taxes	15,000	19,542	4,542
Municipal court revenue	103,000	142,097	39,097
Fees and permits	16,300	15,816	(484)
Interest earned	4,075	3,754	(321)
Grants and contributions	116,200	33,553	(82,647)
Intergovernmental	27,500	29,499	1,999
Other revenue	20,900	40,629	19,729
Total Revenue	\$ 2,254,200	\$ 2,397,001	\$ 142,801
EXPENDITURES:			
General government	\$ 813,175	\$ 776,811	\$ 36,364
Police	791,850	764,903	26,947
Fire	245,100	265,113	(20,013)
Street	643,100	497,762	145,338
Parks and recreation	179,450	195,611	(16,161)
Total Expenditures	\$ 2,672,675	\$ 2,500,200	\$ 172,475
EXCESS REVENUE OVER EXPENDITURES	\$ (418,475)	\$ (103,199)	\$ 315,276
OTHER FINANCING SOURCES (USES)	\$ 150,000	\$ 106,590	\$ (43,410)
NET CHANGE IN FUND BALANCE	\$ (268,475)	\$ 3,391	\$ 271,866
FUND BALANCE - BEGINNING OF YEAR	671,958	671,958	-
FUND BALANCE - END OF YEAR	\$ 403,483	\$ 675,349	\$ 271,866

See accompanying note to budgetary comparison schedule

CITY OF EARLY, TEXAS

Early, Texas

NOTE TO BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2019

NOTE A: EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS
AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES:

Sources/inflows of Resources:

Actual amounts (budgetary basis) available for appropriation from the budgetary comparison schedule.	\$ 2,397,001
The City budgets for sales tax based on the amount collected rather than on the modified accrual basis.	<u>(27,849)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 2,369,152</u>

Uses/outflows of Resources:

Actual amounts (budgetary basis) of total charges to appropriations from the budgetary comparison schedule.	\$ 2,500,200
The City budgeted transfers to the Capital Projects Fund as expenditures rather than as other financing uses	(170,926)
The City budgets for compensated absences on a cash basis rather than on a modified accrual basis	<u>5,932</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 2,335,206</u>

CITY OF EARLY, TEXAS
Early, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Last Five Plan Years

	2014	2015	2016	2017	2018
TOTAL PENSION LIABILITY:					
Service cost	\$ 76,068	\$ 77,298	\$ 85,449	\$ 97,848	\$ 102,859
Interest (on total pension liability)	134,462	137,448	144,460	150,437	159,644
Changes in benefit terms	-	-	-	-	-
Difference between expected and actual experience	(38,443)	65,834	(17,783)	946	(50,962)
Change of assumptions	-	39,029	-	-	-
Benefit payments, including refunds of employee contributions	(104,621)	(155,478)	(138,668)	(120,905)	(109,767)
Net Change in Total Pension Liability	\$ 67,466	\$ 164,131	\$ 73,458	\$ 128,326	\$ 101,774
Total Pension Liability - Beginning	1,935,168	<u>2,002,634</u>	2,166,765	2,240,223	2,368,549
Total Pension Liability - Ending (a)	<u>\$ 2,002,634</u>	<u>\$ 2,166,765</u>	<u>\$ 2,240,223</u>	<u>\$ 2,368,549</u>	<u>\$ 2,470,323</u>
PLAN FIDUCIARY NET POSITION:					
Contributions - employer	\$ 24,193	\$ 26,136	\$ 22,958	\$ 36,808	\$ 39,566
Contributions - employee	45,298	45,847	49,108	55,596	58,047
Net investment income	124,591	3,344	147,478	313,403	(76,207)
Benefit payments, including refunds of employee contributions	(104,621)	(155,478)	(138,668)	(120,905)	(109,767)
Administrative expense	(1,301)	(2,037)	(1,667)	(1,625)	(1,474)
Other	(107)	(101)	(90)	(83)	(77)
Net Change in Plan Fiduciary Net Position	\$ 88,053	\$ (82,289)	\$ 79,119	\$ 283,194	\$ (89,912)
Plan Fiduciary Net Position - Beginning	2,178,006	2,266,059	2,183,770	2,262,889	<u>2,546,083</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,266,059</u>	<u>\$ 2,183,770</u>	<u>\$ 2,262,889</u>	<u>\$ 2,546,083</u>	<u>\$ 2,456,171</u>
NET PENSION LIABILITY - ENDING (a) - (b)	<u>\$ (263,425)</u>	<u>\$ (17,005)</u>	<u>\$ (22,666)</u>	<u>\$ (177,534)</u>	<u>\$ 14,152</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	113.15%	100.78%	101.01%	107.50%	99.43%
COVERED EMPLOYEE PAYROLL	\$ 905,956	\$ 916,942	\$ 982,169	\$ 1,111,910	\$ 1,160,934
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	(29.08%)	(1.85%)	(2.31%)	(15.97%)	1.22%

NOTES TO SCHEDULE:

A full ten year schedule will be presented as it becomes available

CITY OF EARLY, TEXAS
Early, Texas

SCHEDULE OF PENSION CONTRIBUTIONS

Last Five Fiscal Years

	2015	2016	2017	2018	2019
Actuarially determined contribution	\$ 25,624	\$ 24,454	\$ 33,384	\$ 38,965	\$ 42,877
Contributions in relation to the actuarially determined contribution	25,628	24,458	33,388	38,940	42,879
Contribution deficiency (excess)	(4)	(4)	(4)	25	(2)
Covered employee payroll	915,231	989,030	1,081,889	1,150,884	1,237,931
Contributions as a percentage of covered employee payroll	2.80%	2.47%	3.09%	3.38%	3.46%

NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS:

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January thirteen months 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	25 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3% in 2015, 2.5% in 2016 through 2019
Salary Increases	3.5% to 12.00% including inflation in 2015, 3.5% to 10.5% including inflation in 2016 through 2019
Investment Rate of Return	7% in 2015, 6.75% in 2016 through 2019
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 multiplies by 103% and projected on a fully generational basis with scale BB

Other information:

Notes

There were no benefit changes during 2015 through 2019.

CITY OF EARLY, TEXAS
Early, Texas

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

Last Two Plan Years

	2017	2018
TOTAL OPEB LIABILITY - BEGINNING	\$ 46,341	\$ 54,056
CHANGES FOR THE YEAR:		
Service cost	\$ 2,446	\$ 2,902
Interest on total OPEB liability	1,787	1,828
Changes of benefit terms	-	-
Difference between expected and actual experience	-	(5,080)
Changes in assumptions or other inputs	4,038	(3,593)
Benefit payments	(556)	(580)
Net Change in Total OPEB Liability	\$ 7,715	\$ (4,523)
TOTAL OPEB LIABILITY - ENDING	\$ 54,056	\$ 49,533
COVERED EMPLOYEE PAYROLL	\$ 1,111,910	\$ 1,160,934
TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	4.86%	4.27%

NOTES TO SCHEDULE:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay benefits.

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

A full ten year schedule will be presented as it becomes available

SUPPLEMENTARY INFORMATION

CITY OF EARLY, TEXAS
Early, Texas

**COMBINING STATEMENTS OF NET POSITION
PROPRIETARY FUNDS**

September 30, 2019

	Water	Sewer	Sanitation	Property Management	Total Proprietary Funds
CURRENT ASSETS:					
Pooled cash and cash equivalents	\$ 13,434	\$ 3,867	\$ 13,749	\$	\$ 31,050
Non pooled cash and cash equivalents	137,129	79,044	104,711	13,338	334,222
Accounts receivable, net	103,098	41,895	38,727		183,720
Internal balances	6,118	12,502	30,729		49,349
Inventory	35,652	9,623			45,275
Prepaid bond insurance	13,691				13,691
Total Current Assets	\$ 309,122	\$ 146,931	\$ 187,916	\$ 13,338	\$ 657,307
NONCURRENT ASSETS:					
Restricted assets	\$ 265,377	\$ 996,653	\$	\$	\$ 1,262,030
Capital assets, net	7,801,960	9,166,097	319,701	1,813,532	19,101,290
Total Noncurrent Assets	\$ 8,067,337	\$ 10,162,750	\$ 319,701	\$ 1,813,532	\$ 20,363,320
TOTAL ASSETS	\$ 8,376,459	\$ 10,309,681	\$ 507,617	\$ 1,826,870	\$ 21,020,627
DEFERRED OUTFLOWS OF RESOURCES:					
Unamortized bond refunding charges	\$ 632,645	\$	\$	\$	\$ 632,645
Amount related to pensions	28,399	7,696	12,812		48,907
Amount related to other post employment benefits	276	98	101		475
Total Deferred Outflows of Resources	\$ 661,320	\$ 7,794	\$ 12,913	\$ -	\$ 682,027
CURRENT LIABILITIES:					
Accounts payable	\$ 38,072	\$ 5,865	\$ 16,992	\$	\$ 60,929
Compensated absences	9,517	881			10,398
Accrued interest payable	20,738	21,288			42,026
Rent received in advance				5,554	5,554
Note payable			57,701		57,701
Bonds payable	50,193	15,988			66,181
Total Current Liabilities	\$ 118,520	\$ 44,022	\$ 74,693	\$ 5,554	\$ 242,789
LIABILITIES PAYABLE FROM RESTRICTED RESOURCES:					
Customer utility deposits	\$ 80,570	\$	\$	\$	\$ 80,570
Bonds payable	184,807	64,012			248,819
Total Liabilities Payable from Restricted Assets	\$ 265,377	\$ 64,012	\$ -	\$ -	\$ 329,389
NONCURRENT LIABILITIES:					
Compensated absences	\$ 3,660	\$	\$	\$	\$ 3,660
Net pension liability	9,887	1,530	2,102		13,519
Net other post employment benefits liability	10,353	228	3,172		13,753
Note payable			102,183		102,183
Bonds payable	4,948,707	8,055,000			13,003,707
Total Noncurrent Liabilities	\$ 4,972,607	\$ 8,056,758	\$ 107,457	\$ -	\$ 13,136,822
TOTAL LIABILITIES	\$ 5,356,504	\$ 8,164,792	\$ 182,150	\$ 5,554	\$ 13,709,000
DEFERRED INFLOWS OF RESOURCES:					
Amount related to pensions	\$ 4,506	\$ 1,128	\$ 2,126	\$	\$ 7,760
Amount related to other post employment benefits	779	195	367		1,341
Total Deferred Outflows of Resources	\$ 5,285	\$ 1,323	\$ 2,493	\$ -	\$ 9,101
NET POSITION:					
Invested in capital assets, net of related debt	\$ 3,250,898	\$ 1,903,738	\$ 319,701	\$ 1,813,532	\$ 7,287,869
Unrestricted	425,092	247,622	16,186	7,784	696,684
TOTAL NET POSITION	\$ 3,675,990	\$ 2,151,360	\$ 335,887	\$ 1,821,316	\$ 7,984,553

CITY OF EARLY, TEXAS
Early, Texas

COMBINING STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

September 30, 2019

	Water	Sewer	Sanitation	Property Management	Total Proprietary Funds
OPERATING REVENUES:					
Charges for services	\$ 1,237,552	\$ 459,313	\$ 474,794	\$	\$ 2,171,659
Rent income				33,324	33,324
Other	<u>34,608</u>	<u>38,003</u>	<u>160</u>		<u>72,771</u>
Total Operating Revenues	<u>\$ 1,272,160</u>	<u>\$ 497,316</u>	<u>\$ 474,954</u>	<u>\$ 33,324</u>	<u>\$ 2,277,754</u>
OPERATING EXPENSES:					
Personnel costs	\$ 331,217	\$ 104,698	\$ 121,836	\$	\$ 557,751
Materials, supplies and services	379,754	31,293	151,668		562,715
Maintenance and operations	48,301	66,589	38,381		153,271
Depreciation and amortization	345,318	229,089	49,272	50,454	674,133
Contractual remittances				33,324	33,324
Support services	5,000	5,000	5,000		15,000
Other	<u>14,304</u>	<u>12,621</u>	<u>2,770</u>		<u>29,695</u>
Total Operating Expenses	<u>\$ 1,123,894</u>	<u>\$ 449,290</u>	<u>\$ 368,927</u>	<u>\$ 83,778</u>	<u>\$ 2,025,889</u>
OPERATING GAIN (LOSS)	<u>\$ 148,266</u>	<u>\$ 48,026</u>	<u>\$ 106,027</u>	<u>\$ (50,454)</u>	<u>\$ 251,865</u>
NON-OPERATING REVENUE AND EXPENSE:					
Interest income	\$ 2,600	\$ 22,523	\$ 304	\$ 69	\$ 25,496
Sale of assets	22,814	6,500			29,314
Interest expense	(184,437)	(170,364)	(5,323)		(360,124)
Other	<u>(1,655)</u>	<u>(350)</u>			<u>(2,005)</u>
Total Non-Operating Revenue and Expense	<u>\$ (160,678)</u>	<u>\$ (141,691)</u>	<u>\$ (5,019)</u>	<u>\$ 69</u>	<u>\$ (307,319)</u>
GAIN (LOSS) BEFORE TRANSFERS	<u>\$ (12,412)</u>	<u>\$ (93,665)</u>	<u>\$ 101,008</u>	<u>\$ (50,385)</u>	<u>\$ (55,454)</u>
TRANSFERS:					
Operating transfers in	\$	\$	\$	\$	\$
Operating transfers out	<u>(22,814)</u>	<u>(6,500)</u>			<u>(29,314)</u>
Net Operating Transfers	<u>\$ (22,814)</u>	<u>\$ (6,500)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (29,314)</u>
CHANGES IN NET POSITION	<u>\$ (35,226)</u>	<u>\$ (100,165)</u>	<u>\$ 101,008</u>	<u>\$ (50,385)</u>	<u>\$ (84,768)</u>
NET POSITION - BEGINNING	<u>3,711,216</u>	<u>2,251,525</u>	<u>234,879</u>	<u>1,871,701</u>	<u>8,069,321</u>
NET POSITION - ENDING	<u>\$ 3,675,990</u>	<u>\$ 2,151,360</u>	<u>\$ 335,887</u>	<u>\$ 1,821,316</u>	<u>\$ 7,984,553</u>

CITY OF EARLY, TEXAS
Early, Texas

**COMBINING STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS**

For the Year Ended September 30, 2019

	Water	Sewer	Sanitation	Property Management	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 1,282,101	\$ 500,524	\$ 476,327	\$ 33,324	\$ 2,292,276
Cash payments to suppliers for goods and services	(469,603)	(321,078)	(191,620)	(33,324)	(1,015,625)
Cash payments to employees for services	(319,968)	(98,821)	(123,237)		(542,026)
Internal activity-payments to other funds	(22,458)	(4,918)	(8,080)		(35,456)
Net Cash Provided (Used) by Operating Activities	\$ 470,072	\$ 75,707	\$ 153,390	\$ -	\$ 699,169
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Increase in customer meter deposits	\$ 5,345	\$ -	\$ -	\$ -	\$ 5,345
Operating transfers out	(22,814)	(6,500)			(29,314)
Net Cash Provided (Used) by Noncapital Financing Activities	\$ (17,469)	\$ (6,500)	\$ -	\$ -	\$ (23,969)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal paid on note payable	\$ -	\$ -	\$ (82,263)	\$ -	\$ (82,263)
Interest paid on note payable			(5,323)		(5,323)
Principal paid on bonds payable	(225,000)	(80,000)			(305,000)
Interest paid on bonds payable	(170,250)	(170,384)			(340,634)
Other bond costs	(1,655)	(350)			(2,005)
Proceeds from sale of capital assets	22,814	6,500			29,314
Acquisition and construction of capital assets	(117,001)	(690,729)			(807,730)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (491,092)	\$ (934,963)	\$ (87,586)	\$ -	\$ (1,513,641)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest income	\$ 2,600	\$ 22,523	\$ 304	\$ 69	\$ 25,496
Total Cash Provided by Investing Activities	\$ 2,600	\$ 22,523	\$ 304	\$ 69	\$ 25,496
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (35,889)	\$ (843,233)	\$ 66,108	\$ 69	\$ (812,945)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	451,829	1,922,797	52,352	13,269	2,440,247
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 415,940	\$ 1,079,564	\$ 118,460	\$ 13,338	\$ 1,627,302

CITY OF EARLY, TEXAS
Early, Texas

COMBINING STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS (CONT.)

For the Year Ended September 30, 2019

	Water	Sewer	Sanitation	Property Management	Total Proprietary Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
OPERATING INCOME (LOSS)	\$ 148,266	\$ 48,026	\$ 106,027	\$ (50,454)	\$ 251,865
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Depreciation and amortization	345,318	229,089	49,272	50,454	674,133
Change in assets and liabilities:					
Receivables	9,941	3,208	1,373		14,522
Inventory	623	(2,133)			(1,510)
Prepaid bond insurance	956				956
Net pension asset and deferred items	7,708	5,318	339		13,365
Accounts payable	(28,823)	(208,442)	1,199		(236,066)
Compensated absences	2,944	485	(2,029)		1,400
Net other post employment benefits liability deferred items	597	74	289		960
Internal balances	(17,458)	82	(3,080)		(20,456)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 470,072	\$ 75,707	\$ 153,390	\$ -	\$ 699,169