

CITY OF EARLY
Early, Texas

ANNUAL FINANCIAL STATEMENTS

September 30, 2020

CITY OF EARLY, TEXAS

Early, Texas

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September 30, 2020

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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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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Other Matters

Required Supplementary Information

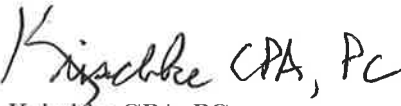
Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the schedule of changes in net pension liability and related ratios, the schedule of pension contributions, and the schedule of changes in total OPEB liability and related ratios on pages 35-41 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.


Kriskke CPA, PC
November 9, 2020

BASIC FINANCIAL STATEMENTS

CITY OF EARLY, TEXAS
Early, Texas
STATEMENT OF NET POSITION

September 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Early MDD
ASSETS:				
Pooled cash and cash equivalents	\$ 34,034	\$ 22,649	\$ 56,683	\$ (1,829)
Non pooled cash and cash equivalents	1,643,287	166,477	1,809,764	576,579
Receivables, net	838,746	183,088	1,021,834	73,501
Inventory		52,273	52,273	
Land held for development			-	1,336,429
Prepaid bond insurance		12,736	12,736	
Restricted assets	212,463	1,208,114	1,420,577	48,128
Net pension asset	95,045	36,154	131,199	
Capital assets, net	9,420,551	18,665,322	28,085,873	13,248
Total Assets	\$ 12,244,126	\$ 20,346,813	\$ 32,590,939	\$ 2,046,056
DEFERRED OUTFLOWS OF RESOURCES:				
Unamortized bond refunding charges	\$	\$ 588,507	\$ 588,507	\$
Amounts relating to pensions	33,412	17,344	50,756	
Amounts relating to other postemployment benefits	4,430	2,300	6,730	
Total Deferred Outflows of Resources	\$ 37,842	\$ 608,151	\$ 645,993	\$ -
LIABILITIES:				
Accounts payable	\$ 142,081	\$ 58,800	\$ 200,881	\$ 21,920
Accrued salaries	20,148		20,148	
Accrued interest payable	16,473	41,395	57,868	
Fees and rent received in advance		5,554	5,554	
Compensated absences	21,911	11,442	33,353	725
Internal balances	49,722	(49,722)	-	
Liabilities payable from restricted assets:				
Customer utility deposits		83,870	83,870	
Notes payable				37,958
Bonds payable	98,426	272,676	371,102	
Accrued interest payable				10,170
Noncurrent liabilities:				
Compensated absences	21,584	4,957	26,541	3,333
Other postemployment benefits liability	45,178	18,632	63,810	
Capital leases:				
Portion due or payable within one year	4,765		4,765	
Portion due or payable after one year	13,415		13,415	
Notes payable:				
Portion due or payable within one year	47,253	90,182	137,435	4,766
Portion due or payable after one year	242,135	199,141	441,276	1,110,355
Bonds payable:				
Portion due or payable within one year	231,574	42,324	273,898	
Portion due or payable after one year	2,546,008	12,659,844	15,205,852	
Total Liabilities	\$ 3,500,673	\$ 13,439,095	\$ 16,939,768	\$ 1,189,227
DEFERRED INFLOWS OF RESOURCES:				
Amounts relating to pensions	\$ 56,836	\$ 29,506	\$ 86,342	\$
Total Deferred Inflows of Resources	\$ 56,836	\$ 29,506	\$ 86,342	\$ -
NET POSITION:				
Invested in capital assets, net of related debt	\$ 6,526,363	\$ 7,151,626	\$ 13,677,989	\$ 13,248
Restricted for:				
Tourism promotion	143,082		143,082	
Other purposes	17,492		17,492	
Unrestricted	2,037,522	334,737	2,372,259	843,581
Total Net Position	\$ 8,724,459	\$ 7,486,363	\$ 16,210,822	\$ 856,829

See accompanying notes to basic financial statements

CITY OF EARLY, TEXAS
Early, Texas

STATEMENT OF ACTIVITIES

September 30, 2020

<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	\$ 869,077	\$ 255,539	\$ 32,182	\$
Police	843,146		74,820	
Fire	362,508		6,600	
Street	398,731			
Parks and recreation	252,106		2,058	1,574
Tourism promotion	149,697	8,211	15,000	10,000
Interest and fees on long-term debt	112,683			
Unallocated depreciation and amortization *	12,170			
Total Governmental Activities	<u>\$ 3,000,118</u>	<u>\$ 263,750</u>	<u>\$ 130,660</u>	<u>\$ 11,574</u>
Business-type Activities:				
Water	\$ 1,353,908	\$ 1,327,673	\$	\$
Sewer	644,696	483,270		
Sanitation	465,800	481,992		
Property management	83,778	33,324		
Interest	357,109			
Total Business-type Activities	<u>\$ 2,905,291</u>	<u>\$ 2,326,259</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 5,905,409</u>	<u>\$ 2,590,009</u>	<u>\$ 130,660</u>	<u>\$ 11,574</u>
Component Unit:				
Early Municipal Development District	<u>\$ 521,575</u>	<u>\$ 11,522</u>	<u>\$ -</u>	<u>\$ -</u>

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

See accompanying notes to basic financial statements

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component
Governmental	Business-type		Unit
Activities	Activities	Total	Early MDD
\$ (581,356)	\$	\$ (581,356)	
(768,326)		(768,326)	
(355,908)		(355,908)	
(398,731)		(398,731)	
(248,474)		(248,474)	
(116,486)		(116,486)	
(112,683)		(112,683)	
(12,170)		(12,170)	
<u>\$ (2,594,134)</u>	<u>\$ -</u>	<u>\$ (2,594,134)</u>	
\$	\$ (26,235)	\$ (26,235)	
	(161,426)	(161,426)	
	16,192	16,192	
	(50,454)	(50,454)	
	(357,109)	(357,109)	
<u>\$ -</u>	<u>\$ (579,032)</u>	<u>\$ (579,032)</u>	
<u>\$ (2,594,134)</u>	<u>\$ (579,032)</u>	<u>\$ (3,173,166)</u>	
			<u>\$ (510,053)</u>

CITY OF EARLY, TEXAS
Early, Texas

STATEMENT OF ACTIVITIES (CONT.)

September 30, 2020

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Early MDD
CHANGE IN NET POSITION:				
Net (Expense) Revenue	\$ (2,594,134)	\$ (579,032)	\$ (3,173,166)	\$ (510,053)
General Revenues:				
Taxes:				
Ad valorem	\$ 1,217,407	\$	\$ 1,217,407	\$
Sales	2,301,606		2,301,606	602,283
Franchise	150,177		150,177	
Other	185,736		185,736	
Rental income				93,696
Interest on investments	9,072	8,173	17,245	3,185
Gain on disposal of capital assets	23,000		23,000	
Miscellaneous	27,562	72,669	100,231	4,091
Total General Revenue	\$ 3,914,560	\$ 80,842	\$ 3,995,402	\$ 703,255
CHANGE IN NET POSITION	\$ 1,320,426	\$ (498,190)	\$ 822,236	\$ 193,202
NET POSITION - BEGINNING	7,404,033	7,984,553	15,388,586	663,627
NET POSITION - ENDING	\$ 8,724,459	\$ 7,486,363	\$ 16,210,822	\$ 856,829

See accompanying notes to basic financial statements

CITY OF EARLY, TEXAS
Early, Texas

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2020

	General Fund	Debt Service Fund	Convention & Visitors Bureau Fund	Total Governmental Funds
<u>ASSETS</u>				
ASSETS:				
Pooled cash and cash equivalents	\$ 34,034	\$	\$	\$ 34,034
Non pooled cash and cash equivalents	1,643,287			1,643,287
Property taxes receivable, net	18,236	8,193		26,429
Other taxes receivable	226,757		76,344	303,101
Other receivables	67,783			67,783
Restricted assets	17,492	98,426	96,545	212,463
TOTAL ASSETS	<u>\$ 2,007,589</u>	<u>\$ 106,619</u>	<u>\$ 172,889</u>	<u>\$ 2,287,097</u>
<u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>				
LIABILITIES:				
Accounts payable	\$ 114,528	\$	\$ 27,553	\$ 142,081
Accrued salaries	20,148			20,148
Compensated absences	21,275		636	21,911
Internal balances	48,104		1,618	49,722
TOTAL LIABILITIES	<u>\$ 204,055</u>	<u>\$ -</u>	<u>\$ 29,807</u>	<u>\$ 233,862</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	<u>\$ 18,236</u>	<u>\$ 8,193</u>	<u>\$ -</u>	<u>\$ 26,429</u>
FUND BALANCES:				
Restricted for:				
Beautification	\$ 15,652	\$	\$	\$ 15,652
Law Enforcement	1,840			1,840
Debt service		98,426		98,426
Tourism promotion			143,082	143,082
Unassigned	1,767,806			1,767,806
TOTAL FUND BALANCES	<u>\$ 1,785,298</u>	<u>\$ 98,426</u>	<u>\$ 143,082</u>	<u>\$ 2,026,806</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,007,589</u>	<u>\$ 106,619</u>	<u>\$ 172,889</u>	<u>\$ 2,287,097</u>

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, 2020

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 2,026,806
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 \$6,887,152.	9,420,551
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	71,621
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.	26,429
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 \$136,995.	441,433
Net other postemployment benefits liability and related deferred inflows and outflows are not current financial resources and are not reported in the governmental funds balance sheet	(40,747)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet.	<u>(3,221,634)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 8,724,459</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, 2020

	General Fund	Debt Service Fund	Convention & Visitors Bureau Fund	Total Governmental Funds
REVENUES:				
Ad valorem taxes	\$ 901,385	\$ 311,004	\$	\$ 1,212,389
Penalty and interest	8,794	3,312		12,106
City sales tax	2,301,606			2,301,606
Franchise taxes	150,177			150,177
Other taxes	13,821		171,915	185,736
Municipal court revenue	123,687			123,687
Fees and permits	26,019			26,019
Interest earned	7,974	715	383	9,072
Grants and contributions	117,234		25,000	142,234
Intergovernmental	112,580			112,580
Event revenue			2,000	2,000
Visitor and Event Center fees			6,211	6,211
Other revenue	27,562			27,562
Total Revenue	<u>\$ 3,790,839</u>	<u>\$ 315,031</u>	<u>\$ 205,509</u>	<u>\$ 4,311,379</u>
EXPENDITURES:				
General government	\$ 775,955	\$	\$	\$ 775,955
Police	811,176			811,176
Fire	356,212			356,212
Street	531,694			531,694
Parks and recreation	281,608			281,608
Debt Service:				
Principal		345,000		345,000
Interest		108,664		108,664
Bond fees		12,909		12,909
Debt issuance costs		47,375		47,375
Tourism promotion			141,040	141,040
Event expenses			3,000	3,000
Visitor and Event Center expenses			17,036	17,036
Total Expenditures	<u>\$ 2,756,645</u>	<u>\$ 513,948</u>	<u>\$ 161,076</u>	<u>\$ 3,431,669</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 1,034,194</u>	<u>\$ (198,917)</u>	<u>\$ 44,433</u>	<u>\$ 879,710</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	\$	\$ 81,600	\$	\$ 81,600
Transfers out	(81,600)			(81,600)
Loan proceeds	154,625			154,625
Capital lease proceeds	13,511			13,511
Proceeds from sale of capital assets	23,000			23,000
Proceeds from refunding bonds		1,868,691		1,868,691
Debt service principal on refunding		(1,780,000)		(1,780,000)
Total Other Financing Sources (Uses)	<u>\$ 109,536</u>	<u>\$ 170,291</u>	<u>\$ -</u>	<u>\$ 279,827</u>
NET CHANGE IN FUND BALANCE	<u>\$ 1,143,730</u>	<u>\$ (28,626)</u>	<u>\$ 44,433</u>	<u>\$ 1,159,537</u>
FUND BALANCE - BEGINNING OF YEAR	<u>641,568</u>	<u>127,052</u>	<u>98,649</u>	<u>867,269</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,785,298</u>	<u>\$ 98,426</u>	<u>\$ 143,082</u>	<u>\$ 2,026,806</u>

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, 2020

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 1,159,537
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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	531,166
Depreciation and amortization expense	(501,725)

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 decreased by this amount this year.

(7,088)

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

(6,747)

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	4,924
Change in net pension asset/liability	(26,317)
Change in net other postemployment benefits liability	(2,892)

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	174,100
Increase in compensated absences.	(4,532)

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,320,426</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, 2020

CURRENT ASSETS:	
Pooled cash and cash equivalents	\$ 22,649
Non pooled cash and cash equivalents	166,477
Accounts receivable, net	183,088
Internal balances	49,722
Inventory	52,273
Prepaid bond insurance	12,736
Total Current Assets	<u>\$ 486,945</u>
NONCURRENT ASSETS:	
Restricted assets	\$ 1,208,114
Net pension asset	36,154
Capital assets, net	18,665,322
Total Noncurrent Assets	<u>\$ 19,909,590</u>
TOTAL ASSETS	<u>\$ 20,396,535</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Unamortized bond refunding charges	\$ 588,507
Amounts related to pensions	17,344
Amounts related to other postemployment benefits	2,300
Total Deferred Outflows of Resources	<u>\$ 608,151</u>
CURRENT LIABILITIES:	
Accounts payable	\$ 58,800
Compensated absences	11,442
Accrued interest payable	41,395
Rent received in advance	5,554
Notes payable	90,182
Bonds payable	42,324
Total Current Liabilities	<u>\$ 249,697</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:	
Customer utility deposits	\$ 83,870
Bonds payable	272,676
Total Liabilities Payable from Restricted Assets	<u>\$ 356,546</u>
NONCURRENT LIABILITIES:	
Compensated absences	\$ 4,957
Net other postemployment benefits liability	18,632
Notes payable	199,141
Bonds payable	12,659,844
Total Noncurrent Liabilities	<u>\$ 12,882,574</u>
TOTAL LIABILITIES	<u>\$ 13,488,817</u>
DEFERRED INFLOWS OF RESOURCES:	
Amount related to pensions	\$ 29,506
Total Deferred Inflows of Resources	<u>\$ 29,506</u>
NET POSITION:	
Invested in capital assets, net of related debt	\$ 7,151,626
Unrestricted	334,737
TOTAL NET POSITION	<u>\$ 7,486,363</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, 2020

OPERATING REVENUES:

Charges for services	\$ 2,292,935
Rent income	33,324
Other	72,669
Total Operating Revenues	<u>\$ 2,398,928</u>

OPERATING EXPENSES:

Personnel costs	\$ 672,958
Materials, supplies and services	591,681
Maintenance and operations	366,450
Depreciation and amortization	798,960
Contractual remittances	33,324
Support services	26,900
Other	56,304
Total Operating Expenses	<u>\$ 2,546,577</u>

OPERATING INCOME (LOSS)	<u>\$ (147,649)</u>
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NON-OPERATING REVENUE AND EXPENSE:

Interest income	\$ 8,173
Interest expense	(357,109)
Other	(1,605)
Total Non-Operating Revenue and Expense	<u>\$ (350,541)</u>

CHANGES IN NET POSITION	\$ (498,190)
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NET POSITION - BEGINNING	<u>7,984,553</u>
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NET POSITION - ENDING	<u><u>\$ 7,486,363</u></u>
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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, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 2,399,560
Cash payments to suppliers for goods and services	(1,082,831)
Cash payments to employees for services	(665,268)
Internal activity-payments to other funds	(373)
	<hr/>
Net Cash Provided by Operating Activities	\$ 651,088

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Increase in customer meter deposits	\$ 3,300
	<hr/>
Net Cash Provided by Noncapital Financing Activities	\$ 3,300

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from note payable	\$ 208,707
Principal paid on notes payable	(79,268)
Interest paid on notes payable	(8,783)
Principal paid on bonds payable	(315,000)
Interest paid on bonds payable	(333,682)
Other bond costs	(1,605)
Acquisition and construction of capital assets	(362,992)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	\$ (892,623)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	\$ 8,173
	<hr/>
Net Cash Provided by Investing Activities	\$ 8,173

NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (230,062)
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CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<hr/> 1,627,302
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CASH AND CASH EQUIVALENTS - END OF YEAR	<hr/> <hr/> \$ 1,397,240
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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, 2020

RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

OPERATING INCOME (LOSS)	\$ (147,649)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation and amortization	798,960
Changes in assets and liabilities:	
Receivables	632
Inventory	(6,998)
Prepaid bond insurance	955
Net pension asset and deferred items	3,089
Accounts payable	(2,129)
Compensated absences	2,341
Net other post employment benefits liability and deferred items	2,260
Internal balances	(373)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 651,088</u>

See accompanying notes to basic financial statements

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2020

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, 2020

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.

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.

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.

CITY OF EARLY, TEXAS

Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

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

Measurement Focus/Basis of Accounting (Cont.)

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.

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.

CITY OF EARLY, TEXAS

Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

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

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 is 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.

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.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

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

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 postemployment 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 one item that qualifies for reporting in this category. Accordingly, the item, amounts related to pensions 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 Inflows/Outflows of Resources (cont.)

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.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

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

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 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, 2020, \$2,075,043 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.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2019

NOTE 3: DEPOSITS AND INVESTMENTS (CONT.)

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	\$ 22,649
Non pooled cash and cash equivalents	166,477
Restricted assets	<u>1,208,114</u>
Total	<u>\$ 1,397,240</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	\$	\$ 851,568
Restricted for debt service payments	98,426	272,676
Restricted for tourism promotion	96,545	
Restricted for beautification	15,652	
Restricted seizure funds	1,840	
Restricted for customer deposits		83,870
Total restricted assets	<u>\$ 212,463</u>	<u>\$ 1,208,114</u>

NOTE 5: RECEIVABLES

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Ad valorem taxes	\$ 29,366	\$
Hotel/Motel tax	68,244	
State of Texas sales taxes	226,757	
Warrants and citations	578,428	
Other	75,883	
Utility		198,942
	<u>\$ 978,678</u>	<u>\$ 198,942</u>
Less allowance of uncollectable accounts	(139,932)	(15,854)
Receivables, net	<u>\$ 838,746</u>	<u>\$ 183,088</u>

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2020 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 346,354	\$	\$	\$ 346,354
Land use rights-easements	54,785			54,785
Total capital assets not being depreciated	<u>\$ 401,139</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 401,139</u>
Capital Assets Being Depreciated and Amortized:				
Building and improvements	\$ 3,492,330	\$ 116,295	\$	\$ 3,608,625
Infrastructure	9,048,173	182,987		9,231,160
Machinery and equipment	2,349,209	218,373	(18,093)	2,549,489
Machinery under capital lease	509,447	13,511	(5,668)	517,290
Total capital assets being depreciated and amortized	<u>\$ 15,399,159</u>	<u>\$ 531,166</u>	<u>\$ (23,761)</u>	<u>\$ 15,906,564</u>
Less Accumulated Depreciation and Amortization:				
Buildings and improvements	\$ (868,812)	\$ (97,357)	\$	\$ (966,169)
Infrastructure	(3,219,631)	(229,103)		(3,448,734)
Machinery and equipment	(1,850,319)	(151,500)	18,093	(1,983,726)
Machinery under capital lease	(470,426)	(23,765)	5,668	(488,523)
Total accumulated depreciation and amortization	<u>\$ (6,409,188)</u>	<u>\$ (501,725)</u>	<u>\$ 23,761</u>	<u>\$ (6,887,152)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 8,989,971</u>	<u>\$ 29,441</u>	<u>\$ -</u>	<u>\$ 9,019,412</u>
Governmental Capital Assets, Net	<u>\$ 9,391,110</u>	<u>\$ 29,441</u>	<u>\$ -</u>	<u>\$ 9,420,551</u>
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 235,333	\$	\$	\$ 235,333
Water line easements	90,332			90,332
Construction in progress	-	77,205		77,205
Total capital assets not being depreciated	<u>\$ 325,665</u>	<u>\$ 77,205</u>	<u>\$ -</u>	<u>\$ 402,870</u>
Capital Assets Being Depreciated and Amortized:				
Building and improvements	\$ 2,018,140	\$ 12,500	\$	\$ 2,030,640
Infrastructure	20,510,182			20,510,182
Equipment	1,527,814	273,286	(33,418)	1,767,682
Machinery under capital lease	267,165			267,165
Total capital assets being depreciated and amortized	<u>\$ 24,323,301</u>	<u>\$ 285,786</u>	<u>\$ (33,418)</u>	<u>\$ 24,575,669</u>
Less Accumulated Depreciation and Amortization:				
Building and improvements	\$ (402,129)	\$ (50,610)	\$	\$ (452,739)
Infrastructure	(4,419,151)	(561,178)		(4,980,329)
Equipment	(526,395)	(168,515)	33,418	(661,492)
Machinery under capital lease	(200,001)	(18,656)		(218,657)
Total accumulated depreciation and amortization	<u>\$ (5,547,676)</u>	<u>\$ (798,959)</u>	<u>\$ 33,418</u>	<u>\$ (6,313,217)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 18,775,625</u>	<u>\$ (513,173)</u>	<u>\$ -</u>	<u>\$ 18,262,452</u>
Business-type Activities Capital Assets, Net	<u>\$ 19,101,290</u>	<u>\$ (435,968)</u>	<u>\$ -</u>	<u>\$ 18,665,322</u>

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

NOTE 6: CAPITAL ASSETS (CONT.)

Construction in progress at September 30, 2020 consists of a sewer line project still in the design stage. Total cost is expected to be \$800,000. Depreciation and amortization expense was charged to the following functions:

Governmental Activities:		
General government	\$	46,896
Police		46,363
Fire		28,768
Street		270,920
Parks and recreation		90,731
Tourism promotion		5,877
Unallocated		12,170
	\$	<u>501,725</u>
Business-type Activities:		
Water	\$	342,273
Sewer		343,734
Sanitation		62,499
Property Management		50,453
	\$	<u>798,959</u>

NOTE 7: LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds, Leases and Notes Payable:					
Certificates of obligation	\$ 1,055,000	\$	\$ (45,000)	\$ 1,010,000	\$ 45,000
General obligation bonds	2,050,000	1,805,000	(2,080,000)	1,775,000	285,000
Direct borrowings:					
Capital leases	8,756	13,511	(4,087)	18,180	4,765
Notes payable	210,857	154,625	(76,094)	289,388	49,126
	<u>\$ 3,324,613</u>	<u>\$ 1,973,136</u>	<u>\$ (2,205,181)</u>	<u>\$ 3,092,568</u>	<u>\$ 383,891</u>
Bond premiums	54,119	63,691	(26,802)	91,008	
Total Bonds, Leases and Notes Payable	<u>\$ 3,378,732</u>	<u>\$ 2,036,827</u>	<u>\$ (2,231,983)</u>	<u>\$ 3,183,576</u>	<u>\$ 383,891</u>
Compensated absences	38,932	31,892	(27,329)	43,495	21,911
Total Governmental Activities	<u>\$ 3,417,664</u>	<u>\$ 2,068,719</u>	<u>\$ (2,259,312)</u>	<u>\$ 3,227,071</u>	<u>\$ 405,802</u>
Business-type Activities:					
Bonds and Notes Payable from direct borrowing and direct placements:					
Certificates of obligation	\$ 8,135,000	\$	\$ (80,000)	\$ 8,055,000	\$ 75,000
General obligation bonds	4,770,000		(235,000)	4,535,000	240,000
Notes payable	159,884	208,707	(79,268)	289,323	90,182
	<u>\$ 13,064,884</u>	<u>\$ 208,707</u>	<u>\$ (394,268)</u>	<u>\$ 12,879,323</u>	<u>\$ 405,182</u>
Bond premiums	413,707		(28,863)	384,844	
Total Bonds, Leases and Notes Payable	<u>\$ 13,478,591</u>	<u>\$ 208,707</u>	<u>\$ (423,131)</u>	<u>\$ 13,264,167</u>	<u>\$ 405,182</u>
Compensated absences	14,058	17,652	(15,311)	16,399	11,442
Total Business-type Activities	<u>\$ 13,492,649</u>	<u>\$ 226,359</u>	<u>\$ (438,442)</u>	<u>\$ 13,280,566</u>	<u>\$ 416,624</u>
Total Primary Government	<u>\$ 16,910,313</u>	<u>\$ 2,295,078</u>	<u>\$ (2,697,754)</u>	<u>\$ 16,507,637</u>	<u>\$ 822,426</u>

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

NOTE 7: LONG TERM OBLIGATIONS (CONT.)

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.

On December 5, 2019, the City issued \$1,805,000 General Obligation Refunding Bonds, Series 2019 with an interest rate of 3.0% and a final maturity on February 15, 2027. The City issued the bonds to refund the \$1,780,000 outstanding balance of General Obligation Refunding Bonds, Series 2010 with interest rates from 3.0% to 4.0%. The refunding reduced total debt service payments over the next six years by \$64,540. This results in an economic gain (difference between present value of the debt service payments on the old and the new debt) of \$57,261.

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 9/30/2020</u>
Combination tax and revenue certificates of obligation Series 2017	2/15/2017	\$ 1,125,000	2.0 to 4.0%	2/15/2037	\$ 1,010,000
General Obligation Refunding Bonds Series 2019	12/5/2019	1,805,000	3.0%	2/15/2027	1,775,000
					<u>\$ 2,785,000</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>
2021	\$ 330,000	\$ 85,075	\$ 415,075
2022	335,000	75,325	410,325
2023	350,000	65,050	415,050
2024	360,000	32,200	392,200
2025	365,000	30,700	395,700
2026-2030	550,000	126,925	676,925
2031-2035	340,000	66,400	406,400
2036-2037	155,000	6,300	161,300
Total	<u>\$ 2,785,000</u>	<u>\$ 487,975</u>	<u>\$ 3,272,975</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 9/30/2020</u>
Canon Financial Services	4/20/2018	10,829	3.00%	4/28/2023	\$ 5,797
Canon Financial Services	2/26/2020	5,908	3.00%	2/26/2025	5,256
Canon Financial Services	5/18/2020	7,603	3.00%	5/10/2025	7,127
					<u>\$ 18,180</u>

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

NOTE 7: LONG TERM OBLIGATIONS (CONT.)

Governmental Activities (cont.)

The following represents the future maturities on these leases:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 4,765	\$ 480	\$ 5,245
2022	4,910	335	5,245
2023	4,082	191	4,273
2024	2,816	94	2,910
2025	1,607	16	1,623
Total	<u>\$ 18,180</u>	<u>\$ 1,116</u>	<u>\$ 19,296</u>

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 Issu</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Outstanding 9/30/2020</u>
Citizens Bank of Las Cruces	10/2/2017	\$ 100,000	2.99%	3/30/2022	\$ 41,166
First Financial Bank NA	10/9/2018	150,000	3.97%	10/30/2023	122,438
Spirit of Texas Bank	10/8/2019	154,625	3.49%	10/25/2024	125,784
					<u>\$ 289,388</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	\$ 49,126	\$ 7,052	\$ 56,178
2021	80,724	9,691	90,415
2022	62,070	5,873	67,943
2023	64,386	3,557	67,943
2024	33,082	1,155	34,237
Total	<u>\$ 289,388</u>	<u>\$ 27,328</u>	<u>\$ 316,716</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 Issu</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Outstanding 9/30/2020</u>
Combination Tax and Revenue Certificates of Obligation Series 2015	4/15/2015	8,365,000	0 to 2.25%	2/15/2046	\$ 8,055,000
General Obligation Refunding Bonds Series 2016	5/1/2016	4,910,000	2.0 to 4.0%	2/15/2035	4,535,000
					<u>\$ 12,590,000</u>

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

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>
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	345,000	298,645	643,645
2026-2030	1,910,000	1,322,780	3,232,780
2031-2035	2,265,000	955,509	3,220,509
2036-2040	2,870,000	593,842	3,463,842
2041-2045	3,205,000	259,540	3,464,540
2046	685,000	7,706	692,706
Total	<u>\$ 12,590,000</u>	<u>\$ 4,713,218</u>	<u>\$ 17,303,218</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 9/30/2020</u>
Citizens Bank of Las Cruces	10/2/2017	248,223	2.99%	3/30/2022	\$ 102,183
Spirit of Texas Bank	11/12/2019	208,707	3.55%	2/28/2025	187,140
					<u>\$ 289,323</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>
2021	\$ 90,182	\$ 8,094	\$ 98,276
2022	93,125	5,151	98,276
2023	42,770	3,072	45,842
2024	44,313	1,529	45,842
2025	18,933	168	19,101
Total	<u>\$ 289,323</u>	<u>\$ 18,014</u>	<u>\$ 307,337</u>

NOTE 8: DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

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, 2019 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	16
Active employees	30

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 3.48% and 3.22% in calendar years 2019 and 2020, respectively. The city's contributions to TMRS for the year ended September 30, 2020, were \$44,687, and were equal to the required contributions.

Net Pension Liability

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

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

Inflation	2.5% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

CITY OF EARLY, TEXAS
Early, Texas
NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

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 are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, 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 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.00%	

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, 2020

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 (Asset) (a)-(b)
Balance 12/31/2018	\$ 2,470,323	\$ 2,456,171	\$ 14,152
Changes for the year:			
Service cost	\$ 112,583	\$	\$ 112,583
Interest	167,170		167,170
Difference between expected and actual experience	37,537		37,537
Change in assumptions	23,312		23,312
Contributions-employer		44,624	(44,624)
Contributions-employee		64,114	(64,114)
Net investment income		379,426	(379,426)
Benefit payments, including refunds of employee contributions	(100,034)	(100,034)	-
Administrative expense		(2,146)	2,146
Other changes		(65)	65
Net changes	\$ 240,568	\$ 385,919	\$ (145,351)
Balance 12/31/2019	\$ 2,710,891	\$ 2,842,090	\$ (131,199)

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	\$244,261	\$(131,199)	\$(444,035)

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, 2020

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, 2020, the City recognized pension expense of \$74,640. At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 17,712	\$
Difference between projected and actual investment earnings		86,342
Contributions subsequent to the measurement date	33,044	
Total	<u>\$ 50,756</u>	<u>\$ 86,342</u>

\$33,044 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending September 30,</u>	Net Deferred Outflows (Inflows) of Resources
2020	\$ (22,423)
2021	(25,407)
2022	8,476
2023	(32,610)
2024	3,334
Thereafter	-
Total	<u>\$ (68,630)</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, 2020

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, 2019 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	3
Active employees	30

Total OPEB Liability

The City's OPEB liability of \$63,810 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.5% to 11.5% including inflation
Discount rate	2.75%
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	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates – disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis with scale UMP to account for future mortality improvements subject to the floor.

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019. The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

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

Changes in the total OPEB liability

Total OPEB liability 12/31/2018	\$ 49,533
Changes for the year:	
Service cost	\$ 2,436
Interest on total OPEB liability	1,871
Difference between expected and actual experience	(64)
Changes in assumptions or other inputs	10,675
Benefit payments	(641)
Net changes	\$ 14,277
Balance 12/31/2019	\$ 63,810

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 2.75%, 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 (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

	1% Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
Total OPEB liability	\$76,850	\$63,810	\$53,554

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

For the year ended September 30, 2020, the City recognized OPEB expense of \$5,071. At September 30, 2020, 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	\$ 5,294	\$
Contributions subsequent to the measurement date	1,436	
Total	\$ 6,730	\$ -

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

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

\$1,436 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, 2021. Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending September 30,</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2020	\$ 764
2021	764
2022	764
2023	764
2024	458
Thereafter	1,780
Total	<u>\$ 5,294</u>

NOTE 10: INTERNAL BALANCES AND TRANSFERS

Internal balances at September 30, 2020 were composed of \$49,722 owed from General Fund to Proprietary Fund for short-term cash needs.

Transfers to/from other funds during the year ended September 30, 2020 consisted of an \$81,600 transfer from the General Fund to the Debt Service Fund to fund debt service obligations.

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 \$169,397 at September 30, 2020. Lease income from the property is being applied monthly on the contract.

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 \$91,053 of economic development incentives during the current and prior years that were not yet funded at September 30, 2020. One of the incentives amounting to \$90,000 is payable over several years while the remainder are expected to be paid within the coming year.

CITY OF EARLY, TEXAS
Early, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2020

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.

During the last half of the fiscal year, the COVID-19 virus outbreak began to create economic uncertainties. Adjustments were made to operations to continue to provide essential City services. The overall financial impact on the City cannot be reasonably estimated at this time.

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, 2020, the City abated \$17,423 of property taxes.

NOTE 14: UTILITY

The Utility Department was serving the following number of customers at September 30, 2020:

Water Department	1,370
Sewer Department	1,293
Sanitation Department	1,369

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EARLY, TEXAS
Early, Texas

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended September 30, 2020

	Original Budget	Final Budget	Actual Budgetary Basis (See Note A)	Variance with Final Budget Positive (Negative)
RESOURCES (INFLOWS):				
Ad valorem taxes	\$ 914,572	\$ 914,572	\$ 901,385	\$ (13,187)
Penalty and interest	7,500	7,500	8,794	1,294
City sales tax	1,002,375	2,196,397	2,291,518	95,121
Franchise taxes	147,000	147,000	150,177	3,177
Other taxes	15,000	15,000	13,821	(1,179)
Municipal court revenue	103,000	103,000	123,687	20,687
Fees and permits	16,300	16,300	26,019	9,719
Interest earned	4,075	4,075	7,974	3,899
Grants and contributions	22,200	22,200	117,234	95,034
Intergovernmental	41,800	41,800	112,580	70,780
Other revenue	18,200	18,200	27,562	9,362
Total Revenue	\$ 2,292,022	\$ 3,486,044	\$ 3,780,751	\$ 294,707
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 734,625	\$ 850,769	\$ 857,431	\$ (6,662)
Police	824,700	824,700	804,800	19,900
Fire	371,000	380,794	351,739	29,055
Street	506,800	500,800	530,833	(30,033)
Parks and recreation	247,100	232,100	279,235	(47,135)
Total Expenditures	\$ 2,684,225	\$ 2,789,163	\$ 2,824,038	\$ (34,875)
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	\$ (392,203)	\$ 696,881	\$ 956,713	\$ 259,832
OTHER FINANCING SOURCES (USES)	-	-	177,625	177,625
NET CHANGE IN FUND BALANCE	\$ (392,203)	\$ 696,881	\$ 1,134,338	\$ 437,457
FUND BALANCE - BEGINNING OF YEAR	641,568	641,568	641,568	-
FUND BALANCE - END OF YEAR	\$ 249,365	\$ 1,338,449	\$ 1,775,906	\$ 437,457

See accompanying note to budgetary comparison schedule

CITY OF EARLY, TEXAS
Early, Texas

NOTE TO BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2020

Sources/inflows of Resources:

Actual amounts (budgetary basis) available for appropriation from the budgetary comparison schedule.	\$ 3,780,751
The City budgets for sales tax based on the amount collected rather than on the modified accrual basis.	<u>10,088</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u><u>\$ 3,790,839</u></u>

Uses/outflows of Resources:

Actual amounts (budgetary basis) of total charges to appropriations from the budgetary comparison schedule.	\$ 2,824,038
The City budgeted transfers to the Debt Service Fund as expenditures rather than as other financing uses	(81,600)
The City budgets for compensated absences on a cash basis rather than on a modified accrual basis	<u>14,207</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u><u>\$ 2,756,645</u></u>

CITY OF EARLY, TEXAS
Early, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Last Six Plan Years

	2014	2015	2016
TOTAL PENSION LIABILITY:			
Service cost	\$ 76,068	\$ 77,298	\$ 85,449
Interest (on total pension liability)	134,462	137,448	144,460
Changes in benefit terms	-	-	-
Difference between expected and actual experience	(38,443)	65,834	(17,783)
Change of assumptions	-	39,029	-
Benefit payments, including refunds of employee contributions	(104,621)	(155,478)	(138,668)
Net Change in Total Pension Liability	\$ 67,466	\$ 164,131	\$ 73,458
Total Pension Liability - Beginning	1,935,168	2,002,634	2,166,765
Total Pension Liability - Ending (a)	<u>\$ 2,002,634</u>	<u>\$ 2,166,765</u>	<u>\$ 2,240,223</u>
PLAN FIDUCIARY NET POSITION:			
Contributions - employer	\$ 24,193	\$ 26,136	\$ 22,958
Contributions - employee	45,298	45,847	49,108
Net investment income	124,591	3,344	147,478
Benefit payments, including refunds of employee contributions	(104,621)	(155,478)	(138,668)
Administrative expense	(1,301)	(2,037)	(1,667)
Other	(107)	(101)	(90)
Net Change in Plan Fiduciary Net Position	\$ 88,053	\$ (82,289)	\$ 79,119
Plan Fiduciary Net Position - Beginning	2,178,006	2,266,059	2,183,770
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,266,059</u>	<u>\$ 2,183,770</u>	<u>\$ 2,262,889</u>
NET PENSION LIABILITY - ENDING (a) - (b)	<u>\$ (263,425)</u>	<u>\$ (17,005)</u>	<u>\$ (22,666)</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	113.15%	100.78%	101.01%
COVERED EMPLOYEE PAYROLL	\$ 905,956	\$ 916,942	\$ 982,169
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	(29.08%)	(1.85%)	(2.31%)

NOTES TO SCHEDULE:

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

2017	2018	2019
\$ 97,848	\$ 102,859	\$ 112,583
150,437	159,644	167,170
-	-	-
946	(50,962)	37,537
-	-	23,312
(120,905)	(109,767)	(100,034)
\$ 128,326	\$ 101,774	\$ 240,568
2,240,223	2,368,549	2,470,323
\$ 2,368,549	\$ 2,470,323	\$ 2,710,891

\$ 36,808	\$ 39,566	\$ 44,624
55,596	58,047	64,114
313,403	(76,207)	379,426
(120,905)	(109,767)	(100,034)
(1,625)	(1,474)	(2,146)
(83)	(77)	(65)
\$ 283,194	\$ (89,912)	\$ 385,919
2,262,889	2,546,083	2,456,171
\$ 2,546,083	\$ 2,456,171	\$ 2,842,090
\$ (177,534)	\$ 14,152	\$ (131,199)

107.50% 99.43% 104.84%

\$ 1,111,910 \$ 1,160,934 \$ 1,282,271

(15.97%) 1.22% (10.23%)

CITY OF EARLY, TEXAS
Early, Texas

SCHEDULE OF PENSION CONTRIBUTIONS

Last Six Fiscal Years

	2015	2016	2017
Actuarially determined contribution	\$ 25,624	\$ 24,454	\$ 33,384
Contributions in relation to the actuarially determined contribution	25,628	24,458	33,388
Contribution deficiency (excess)	(4)	(4)	(4)
Covered employee payroll	915,231	989,030	1,081,889
Contributions as a percentage of covered employee payroll	2.80%	2.47%	3.09%

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	N/A
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale

Other information:

Notes

There were no benefit changes during the year.

2018	2019	2020
\$ 38,965	\$ 42,877	\$ 44,687
38,940	42,879	44,687
25	(2)	-
1,150,884	1,237,931	1,360,777
3.38%	3.46%	3.28%

CITY OF EARLY, TEXAS
Early, Texas

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

Last Three Plan Years

	2017	2018	2019
TOTAL OPEB LIABILITY - BEGINNING	\$ 46,341	\$ 54,056	\$ 49,533
CHANGES FOR THE YEAR:			
Service cost	\$ 2,446	\$ 2,902	\$ 2,436
Interest on total OPEB liability	1,787	1,828	1,871
Changes of benefit terms	-	-	-
Difference between expected and actual experience	-	(5,080)	(64)
Changes in assumptions or other inputs	4,038	(3,593)	10,675
Benefit payments	(556)	(580)	(641)
Net Change in Total OPEB Liability	\$ 7,715	\$ (4,523)	\$ 14,277
TOTAL OPEB LIABILITY - ENDING	<u>\$ 54,056</u>	<u>\$ 49,533</u>	<u>\$ 63,810</u>
COVERED EMPLOYEE PAYROLL	\$ 1,111,910	\$ 1,160,934	\$ 1,282,271
TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	4.86%	4.27%	4.98%

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, 2020

	Water	Sewer	Sanitation	Property Management	Total Proprietary Funds
CURRENT ASSETS:					
Pooled cash and cash equivalents	\$ 10,712	\$ 3,858	\$ 8,079	\$	\$ 22,649
Non pooled cash and cash equivalents	1,649	82,413	68,995	13,420	166,477
Accounts receivable, net	102,289	42,229	38,570		183,088
Internal balances	25,737	(10,202)	34,187		49,722
Inventory	40,332	11,941			52,273
Prepaid bond insurance	12,736				12,736
Total Current Assets	\$ 193,455	\$ 130,239	\$ 149,831	\$ 13,420	\$ 486,945
NONCURRENT ASSETS:					
Restricted assets	\$ 290,699	\$ 917,415	\$	\$	\$ 1,208,114
Net pension asset	18,911	7,388	9,855		36,154
Capital assets, net	7,508,854	8,899,568	493,822	1,763,078	18,665,322
Total Noncurrent Assets	\$ 7,818,464	\$ 9,824,371	\$ 503,677	\$ 1,763,078	\$ 19,909,590
TOTAL ASSETS	\$ 8,011,919	\$ 9,954,610	\$ 653,508	\$ 1,776,498	\$ 20,396,535
DEFERRED OUTFLOWS OF RESOURCES:					
Unamortized bond refunding charges	\$ 588,507	\$	\$	\$	\$ 588,507
Amount related to pensions	10,056	2,742	4,546		17,344
Amount related to other post employment benefits	1,333	302	665		2,300
Total Deferred Outflows of Resources	\$ 599,896	\$ 3,044	\$ 5,211	\$ -	\$ 608,151
CURRENT LIABILITIES:					
Accounts payable	\$ 39,297	\$ 7,829	\$ 11,674	\$	\$ 58,800
Compensated absences	10,085	1,113	244		11,442
Accrued interest payable	20,150	21,245			41,395
Rent received in advance				5,554	5,554
Notes payable			90,182		90,182
Bonds payable	33,171	9,153			42,324
Total Current Liabilities	\$ 102,703	\$ 39,340	\$ 102,100	\$ 5,554	\$ 249,697
LIABILITIES PAYABLE FROM RESTRICTED RESOURCES:					
Customer utility deposits	\$ 83,870	\$	\$	\$	\$ 83,870
Bonds payable	206,829	65,847			272,676
Total Liabilities Payable from Restricted Assets	\$ 290,699	\$ 65,847	\$ -	\$ -	\$ 356,546
NONCURRENT LIABILITIES:					
Compensated absences	\$ 4,957	\$	\$	\$	\$ 4,957
Net other postemployment benefits liability	13,181	1,105	4,346		18,632
Notes payable			199,141		199,141
Bonds payable	4,679,844	7,980,000			12,659,844
Total Noncurrent Liabilities	\$ 4,697,982	\$ 7,981,105	\$ 203,487	\$ -	\$ 12,882,574
TOTAL LIABILITIES	\$ 5,091,384	\$ 8,086,292	\$ 305,587	\$ 5,554	\$ 13,488,817
DEFERRED INFLOWS OF RESOURCES:					
Amount related to pensions	\$ 17,106	\$ 3,487	\$ 8,913	\$	\$ 29,506
Total Deferred Outflows of Resources	\$ 17,106	\$ 3,487	\$ 8,913	\$ -	\$ 29,506
NET POSITION:					
Invested in capital assets, net of related debt	\$ 3,177,517	\$ 1,717,209	\$ 493,822	\$ 1,763,078	\$ 7,151,626
Unrestricted	325,808	150,666	(149,603)	7,866	334,737
TOTAL NET POSITION	\$ 3,503,325	\$ 1,867,875	\$ 344,219	\$ 1,770,944	\$ 7,486,363

CITY OF EARLY, TEXAS
Early, Texas

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

September 30, 2020

	Water	Sewer	Sanitation	Property Management	Total Proprietary Funds
OPERATING REVENUES:					
Charges for services	\$ 1,327,673	\$ 483,270	\$ 481,992	\$	\$ 2,292,935
Rent income				33,324	33,324
Other	30,218	41,795	656		72,669
Total Operating Revenues	<u>\$ 1,357,891</u>	<u>\$ 525,065</u>	<u>\$ 482,648</u>	<u>\$ 33,324</u>	<u>\$ 2,398,928</u>
OPERATING EXPENSES:					
Personnel costs	\$ 371,077	\$ 122,000	\$ 179,881	\$	\$ 672,958
Materials, supplies and services	376,689	56,767	158,225		591,681
Maintenance and operations	214,321	101,588	50,541		366,450
Depreciation and amortization	342,273	343,734	62,499	50,454	798,960
Contractual remittances				33,324	33,324
Support services	15,150	6,100	5,650		26,900
Other	33,143	14,157	9,004		56,304
Total Operating Expenses	<u>\$ 1,352,653</u>	<u>\$ 644,346</u>	<u>\$ 465,800</u>	<u>\$ 83,778</u>	<u>\$ 2,546,577</u>
OPERATING GAIN (LOSS)	<u>\$ 5,238</u>	<u>\$ (119,281)</u>	<u>\$ 16,848</u>	<u>\$ (50,454)</u>	<u>\$ (147,649)</u>
NON-OPERATING REVENUE AND EXPENSE:					
Interest income	\$ 1,589	\$ 6,235	\$ 267	\$ 82	\$ 8,173
Interest expense	(178,237)	(170,089)	(8,783)		(357,109)
Other	(1,255)	(350)			(1,605)
Total Non-Operating Revenue and Expense	<u>\$ (177,903)</u>	<u>\$ (164,204)</u>	<u>\$ (8,516)</u>	<u>\$ 82</u>	<u>\$ (350,541)</u>
CHANGES IN NET POSITION	<u>\$ (172,665)</u>	<u>\$ (283,485)</u>	<u>\$ 8,332</u>	<u>\$ (50,372)</u>	<u>\$ (498,190)</u>
NET POSITION - BEGINNING	<u>3,675,990</u>	<u>2,151,360</u>	<u>335,887</u>	<u>1,821,316</u>	<u>7,984,553</u>
NET POSITION - ENDING	<u><u>\$ 3,503,325</u></u>	<u><u>\$ 1,867,875</u></u>	<u><u>\$ 344,219</u></u>	<u><u>\$ 1,770,944</u></u>	<u><u>\$ 7,486,363</u></u>

CITY OF EARLY, TEXAS
Early, Texas

**COMBINING STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS**

For the Year Ended September 30, 2020

	Water	Sewer	Sanitation	Property Management	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 1,358,700	\$ 524,731	\$ 482,805	\$ 33,324	\$ 2,399,560
Cash payments to suppliers for goods and services	(641,803)	(178,966)	(228,738)	(33,324)	(1,082,831)
Cash payments to employees for services	(366,075)	(122,895)	(176,298)		(665,268)
Internal activity-payments to other funds	(19,619)	22,704	(3,458)		(373)
Net Cash Provided by Operating Activities	\$ 331,203	\$ 245,574	\$ 74,311	\$ -	\$ 651,088
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Increase in customer meter deposits	\$ 3,300	\$ -	\$ -	\$ -	\$ 3,300
Net Cash Provided by Noncapital Financing Activities	\$ 3,300	\$ -	\$ -	\$ -	\$ 3,300
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from note payable	\$ -	\$ -	\$ 208,707	\$ -	\$ 208,707
Principal paid on notes payable			(79,268)		(79,268)
Interest paid on notes payable			(8,783)		(8,783)
Principal paid on bonds payable	(235,000)	(80,000)			(315,000)
Interest paid on bonds payable	(163,550)	(170,132)			(333,682)
Other bond costs	(1,255)	(350)			(1,605)
Acquisition and construction of capital assets	(49,167)	(77,205)	(236,620)		(362,992)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (448,972)	\$ (327,687)	\$ (115,964)	\$ -	\$ (892,623)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest income	\$ 1,589	\$ 6,235	\$ 267	\$ 82	\$ 8,173
Total Cash Provided by Investing Activities	\$ 1,589	\$ 6,235	\$ 267	\$ 82	\$ 8,173
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (112,880)	\$ (75,878)	\$ (41,386)	\$ 82	\$ (230,062)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	415,940	1,079,564	118,460	13,338	1,627,302
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 303,060	\$ 1,003,686	\$ 77,074	\$ 13,420	\$ 1,397,240

CITY OF EARLY, TEXAS
Early, Texas

COMBINING STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS (CONT.)

For the Year Ended September 30, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Property Management</u>	<u>Total Proprietary Funds</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
OPERATING INCOME (LOSS)	\$ 5,238	\$ (119,281)	\$ 16,848	\$ (50,454)	\$ (147,649)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Depreciation and amortization	342,273	343,734	62,499	50,454	798,960
Change in assets and liabilities:					
Receivables	809	(334)	157		632
Inventory	(4,680)	(2,318)			(6,998)
Prepaid bond insurance	955				955
Net pension asset and deferred items	2,145	(1,605)	2,549		3,089
Accounts payable	1,225	1,964	(5,318)		(2,129)
Compensated absences	1,865	232	244		2,341
Net other postemployment benefits liability deferred items	992	478	790		2,260
Internal balances	(19,619)	22,704	(3,458)		(373)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 331,203	\$ 245,574	\$ 74,311	\$ -	\$ 651,088