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CITY OF SUNSET VALLEY, TEXAS

Annual Financial Report

September 30, 2020

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Introductory Section

CITY OF SUNSET VALLEY, TEXAS

City Officials

Rose Cardona Mayor
Wanda Reetz Mayor Pro-Tem
Karen Medicus Council Member
Rudi Rosengarten Council Member
Phil Ellett Council Member
Melissa Gonzales Council Member
Sylvia Carrillo-Trevino City Administrator

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Financial Section

Independent Auditor's Report

To the City Council
City of Sunset Valley, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sunset Valley, Texas (the City) 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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison information on pages 53 through 58, the Schedule of Changes in Net Pension Liability and Related Ratios – Last 10 Years on page 59, and Schedule of Changes in Postemployment Benefits Other Than Pensions (OPEB) Liability and Related Ratios – Last 10 Years on page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

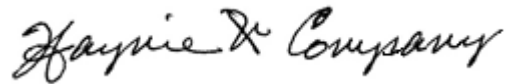
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and proprietary funds are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor 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 our opinion, the combining nonmajor fund financial statements are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



San Antonio, Texas
May 27, 2021

CITY OF SUNSET VALLEY, TEXAS
Management's Discussion and Analysis
September 30, 2020

This section of the City of Sunset Valley, Texas' (the City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2020. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's assets exceeded liabilities at September 30, 2020 by \$49,446,554 . Of this amount \$11,299,807 or 23% of net position, is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$1,098,989 during the year.
- The total cost of all the City's programs was \$6,315,468 , representing a increase from last year by \$ 331,054 or 5.2%.
- During the year, the City had revenues of \$6,131,979 for governmental activities, which was \$1,275,112 more than the \$4,856,867 operating expenses.
- During the year, the City had revenues of \$1,100,942 for business-type activities, which was \$357,659 less than the \$1,458,601 expenses.

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CITY OF SUNSET VALLEY, TEXAS
Management's Discussion and Analysis
September 30, 2020

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OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first statements are the *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activities the government operates *like businesses*, such as the utility services.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information and other supplemental information that further explain and support the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

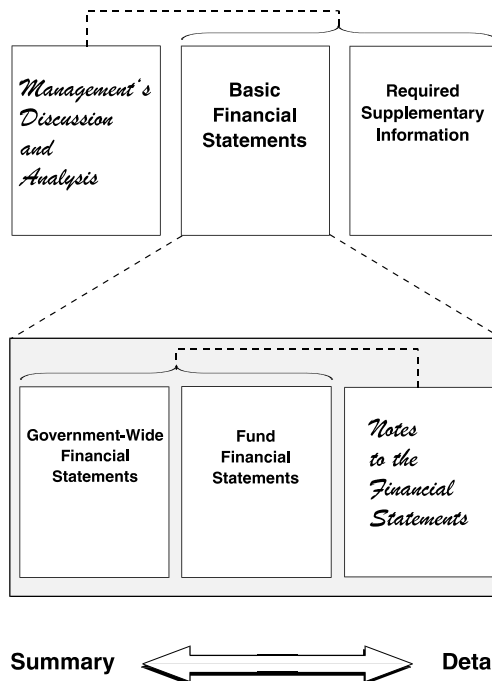


Figure A-1, Required Components of the City's Annual Financial Report

CITY OF SUNSET VALLEY, TEXAS
Management's Discussion and Analysis
September 30, 2020

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OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements

	Fund Statements		
	Government-Wide	Governmental Funds	Proprietary Funds
Scope	Entire City's government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses: self insurance
Required financial statements	Statement of net position	Balance sheet	Statement of net position
	Statement of activities	Statement of revenues, expenditures & changes in fund balance	Statement of revenues, expenditures & changes in net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Types of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide statements report the City's net position and how it has changed. Net position—the difference between the City's assets and liabilities—is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *governmental activities* and *business-type activities*. Most of the City's basic services are included here, such as personnel costs, community programs, contractual services, general improvements, general operating costs, utility revenue and utility expenditures. Sales tax revenue finances the majority of these activities.

CITY OF SUNSET VALLEY, TEXAS
Management's Discussion and Analysis
September 30, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following types of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

COMPONENT UNIT

Component units are legally separate entities from the City, but were organized to benefit the City. There is one component unit, the Crime Control and Prevention District, at September 30, 2020, and additional information is presented in the basic financial statements and the notes to the financial statements.

CITY OF SUNSET VALLEY, TEXAS
Management's Discussion and Analysis
September 30, 2020

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Statement of Net Position

The following reflects a comparative condensed statement of net position:

	Governmental Activities		Business-Type Activities		Totals		Component Unit	
	2020	2019	2020	2019	2020	2019	2020	2019
Current and Other Assets	\$ 8,134,341	\$ 7,102,208	\$ 5,043,249	\$ 5,536,172	\$ 13,177,590	\$ 12,638,380	\$ (78,314)	\$ -
Restricted Assets	9,033,673	8,146,513	22,307	22,060	9,055,980	8,168,573	196,983	67,684
Capital Assets, Net	27,814,557	28,042,080	1,298,517	1,257,434	29,113,074	29,299,514	-	-
Total Assets	<u>44,982,571</u>	<u>43,290,801</u>	<u>6,364,073</u>	<u>6,815,666</u>	<u>51,346,644</u>	<u>50,106,467</u>	<u>118,669</u>	<u>67,684</u>
Deferred Pension Related Outflows	57,623	398,923	-	-	57,623	398,923	-	-
Deferred OPEB Related Outflows	14,808	-	-	-	14,808	-	-	-
Total Deferred Outflows	<u>72,431</u>	<u>398,923</u>	<u>-</u>	<u>-</u>	<u>72,431</u>	<u>398,923</u>	<u>-</u>	<u>-</u>
Current Liabilities	517,667	639,678	69,194	223,684	586,861	863,362	-	-
Payable from Restricted Assets	-	-	22,307	22,060	22,307	22,060	-	-
Noncurrent Liabilities	905,281	1,258,210	63,810	3,501	969,091	1,261,711	-	-
Total Liabilities	<u>1,422,948</u>	<u>1,897,888</u>	<u>155,311</u>	<u>249,245</u>	<u>1,578,259</u>	<u>2,147,133</u>	<u>-</u>	<u>-</u>
Deferred Pension Related Inflows	394,262	-	-	-	394,262	-	-	-
Deferred OPEB Related Inflows	-	10,692	-	-	-	10,692	-	-
Total Deferred Inflows	<u>394,262</u>	<u>10,692</u>	<u>-</u>	<u>-</u>	<u>394,262</u>	<u>10,692</u>	<u>-</u>	<u>-</u>
Net Position:								
Net Investment in Capital Assets	27,814,557	28,042,080	1,298,517	1,257,434	29,113,074	29,299,514	-	-
Restricted	9,033,673	8,146,513	-	-	9,033,673	8,146,513	118,669	67,684
Unrestricted	6,389,562	5,592,551	4,910,245	5,308,987	11,299,807	10,901,538	-	-
Total Net Position	<u>\$ 43,237,792</u>	<u>\$ 41,781,144</u>	<u>\$ 6,208,762</u>	<u>\$ 6,566,421</u>	<u>\$ 49,446,554</u>	<u>\$ 48,347,565</u>	<u>\$ 118,669</u>	<u>\$ 67,684</u>

CITY OF SUNSET VALLEY, TEXAS
Management's Discussion and Analysis
September 30, 2020

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

Changes in Net Position

The following reflects a comparative statement of changes in net position of the primary government:

	Governmental Activities		Business-Type Activities		Totals		Component Unit	
	2020	2019	2020	2019	2020	2019	2020	2019
Revenues:								
Charges for Services	\$ 50,495	\$ 62,977	\$ 1,040,272	\$ 1,059,489	\$ 1,090,767	\$ 1,122,466	\$ -	\$ -
Operating Grants & Contributions	1,352	1,367	-	-	1,352	1,367	-	-
Sales Tax	5,534,537	6,076,919	-	-	5,534,537	6,076,919	365,836	398,627
Hotel Tax	129,900	248,891	-	-	129,900	248,891	-	-
Franchise Fees	111,885	122,719	-	-	111,885	122,719	-	-
Fire District Tax	61,499	34,977	-	-	61,499	34,977	-	-
Mixed Beverage Tax	35,170	40,488	-	-	35,170	40,488	-	-
Interest	177,546	351,742	60,670	124,338	238,216	476,080	2,444	4,726
Miscellaneous	22,564	97,142	-	-	22,564	97,142	-	-
Sale of Asset	7,031	-	-	-	7,031	-	-	-
Total Revenue	6,131,979	7,037,222	1,100,942	1,183,827	7,232,921	8,221,049	368,280	403,353
Expenses:								
General Government	2,431,629	2,039,228	-	-	2,431,629	2,039,228	317,195	564
Public Safety	1,280,255	1,445,903	-	-	1,280,255	1,445,903	-	-
Public Services	1,144,983	1,211,859	-	-	1,144,983	1,211,859	-	-
Improvement Programs	-	7,000	-	-	-	7,000	-	-
Utilities	-	-	1,458,601	1,280,424	1,458,601	1,280,424	-	-
Total Expenses	4,856,867	4,703,990	1,458,601	1,280,424	6,315,468	5,984,414	317,195	564
Increase (Decrease) in Net Position								
Before Transfers	1,275,112	2,333,232	(357,659)	(96,597)	917,453	2,236,635	51,085	402,789
Transfers	100	(154,701)	-	667,335	100	512,634	(100)	(512,634)
Change in Net Position	1,275,212	2,178,531	(357,659)	570,738	917,553	2,749,269	50,985	(109,845)
Net Position - Beginning	41,781,144	39,602,613	6,566,421	5,995,683	48,347,565	45,598,296	67,684	177,529
Prior Period Adjustment **	181,436	-	-	-	181,436	-	-	-
Net Position - Beginning (As Restated)	41,962,580	39,602,613	6,566,421	5,995,683	48,529,001	45,598,296	67,684	177,529
Net Position - Ending	\$ 43,237,792	\$ 41,781,144	\$ 6,208,762	\$ 6,566,421	\$ 49,446,554	\$ 48,347,565	\$ 118,669	\$ 67,684

CITY OF SUNSET VALLEY, TEXAS
Management's Discussion and Analysis
September 30, 2020

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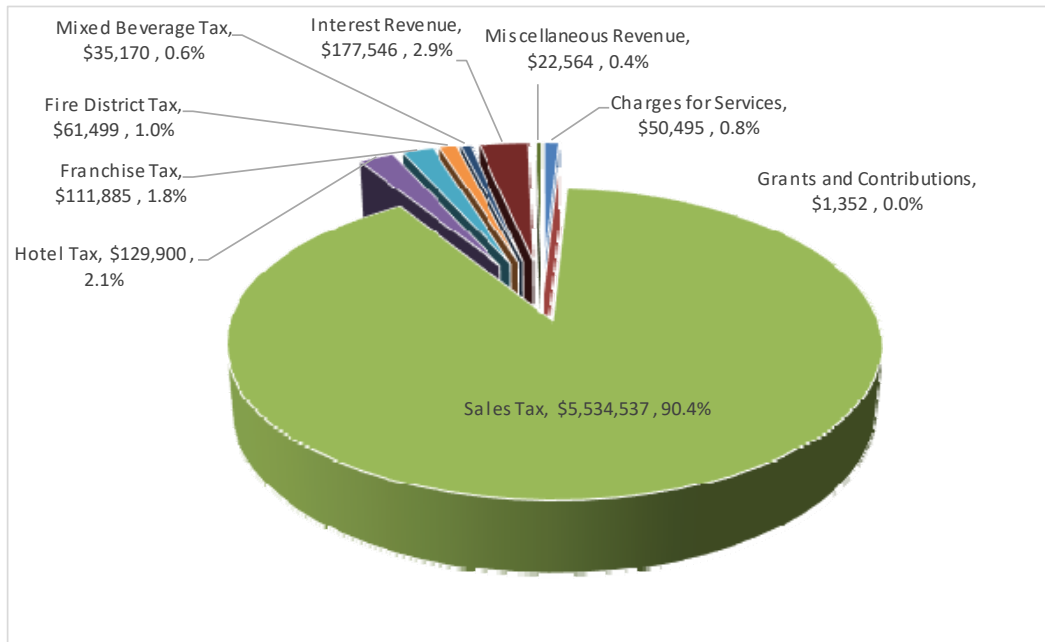
FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Changes in Net Position (Continued)

- Expenses for all governmental activities this year were \$4,856,867 , which is a \$152,877 or 3.1% increase as compared to the prior year.
- The governmental expenses were funded by charges for services of \$50,495 , sales tax revenue of \$5,534,537 , and hotel taxes and other revenues of \$546,947 .
- Expenses for all business-type activities this year were \$1,458,601 , which is a increase of \$178,177 or approximately 13.9% as compared to the prior year. The business-type expenses for the Utility Fund were funded primarily by charges for utility services.

Governmental Activities

The City's total governmental activities revenues were \$6,131,979 . A significant portion (90.4%) of the City's governmental revenue comes from sales taxes collected in the three major retail areas of the City. In total, excess revenues over expenditures for the year was \$1,275,112 .



CITY OF SUNSET VALLEY, TEXAS
Management's Discussion and Analysis
September 30, 2020

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FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)

Business-Type Activities

The business-type activities decreased the City's net position by \$357,659 .

Of the total business-type activities' net position, \$1,298,517 is invested in capital assets, net of related debt, and \$4,910,245 is unrestricted, that is, having no legal commitment.

The business-type activities include water, sewer and solid waste operations.

The cost of all business-type activities this year increased by 13.9% to \$1,458,601 . As shown in the statement of activities, the amounts charged to users of the utility services totaled \$1,040,272 and \$60,670 in interest revenue. Due to varying weather conditions, consumption sales decreased from last year, reflecting a 2% decrease or \$19,217 in total services charged for the business-type activities. In total, excess expenditures over revenues for the year was \$357,659 .

General Fund Budgetary Highlights

The City continues to reduce expenses to rebuild reserve fund balance. Other expenses in the general fund were kept at a level to assist with this effort.

Capital Assets

At the end of fiscal year 2020, the City had invested \$38,660,650 in capital assets, including land, construction in progress, equipment, buildings, and vehicles. The following schedule summarizes the capital assets of the City:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Land	\$ 8,935,620	\$ 8,903,917	\$ -	\$ -	\$ 8,935,620	\$ 8,903,917
Construction in Progress	552,611	8,574,885	-	26,962	552,611	8,601,847
Buildings and Improvements	9,646,285	1,709,530	-	-	9,646,285	1,709,530
Infrastructure	15,311,476	15,044,521	2,065,882	2,038,920	17,377,358	17,083,441
Furniture and Equipment	1,058,668	1,090,464	110,683	110,683	1,169,351	1,201,147
Vehicles	686,164	642,815	181,853	68,985	868,017	711,800
Software	76,002	76,002	35,406	35,406	111,408	111,408
Total Capital Assets	<u>36,266,826</u>	<u>36,042,134</u>	<u>2,393,824</u>	<u>2,280,956</u>	<u>38,660,650</u>	<u>38,323,090</u>
Less:						
Accumulated Depreciation	<u>(8,452,269)</u>	<u>(8,000,054)</u>	<u>(1,095,307)</u>	<u>(1,023,522)</u>	<u>(9,547,576)</u>	<u>(9,023,576)</u>
Net Capital Assets	<u>\$ 27,814,557</u>	<u>\$ 28,042,080</u>	<u>\$ 1,298,517</u>	<u>\$ 1,257,434</u>	<u>\$ 29,113,074</u>	<u>\$ 29,299,514</u>

CITY OF SUNSET VALLEY, TEXAS
Management's Discussion and Analysis
September 30, 2020

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)

Long-Term Debt

At September 30, 2020, the City had no long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's primary sources of revenue, sales tax collection, remains affected by the COVID-19 pandemic. While the year over year percentage change in revenue collected is down less than 7%, the unknown factors of the continuance of the pandemic, coupled with any additional government mandates, make projecting sales tax a difficult picture to attempt to portray.

The Council and City Administrator have taken a fiscally conservative approach to the budget, and instead using this time to plan and reprioritize projects while continuing to maintain a healthy reserve balance among all the funds. Any new projects or services will now be reviewed from a cost to provide the service perspective to ensure that the resources exist or if adding resources will be required, the City will clearly understand the cost/expense impact.

The Crime Control and Prevention tax is currently up for reelection and if not approved, will greatly impact General Fund expenses in the amount of \$400,000. Additionally, the Street Tax is up for reelection but the City does not foresee any issues with this tax being approved once again.

Overall, the City is optimistic that the growth in Central Texas will continue to drive the sales tax revenue and the City can continue to operate from a debt free perspective.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Department at City Hall.

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Financial Statements

CITY OF SUNSET VALLEY, TEXAS
Statements of Net Position
As of September 30, 2020

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	PRIMARY GOVERNMENT			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 8,001,588	\$ 4,934,159	\$ 12,935,747	\$ -
Receivables, Net	4,199	159,330	163,529	-
Internal Balances	128,554	(50,240)	78,314	(78,314)
Total Current Assets	<u>8,134,341</u>	<u>5,043,249</u>	<u>13,177,590</u>	<u>(78,314)</u>
Noncurrent Assets				
Cash and Cash Equivalents, Restricted	9,033,673	22,307	9,055,980	196,983
Land	8,935,620	-	8,935,620	-
Construction in Progress	552,611	-	552,611	-
Buildings and Improvements, Net of Depreciation	8,147,878	-	8,147,878	-
Furniture and Equipment, Net of Depreciation	120,986	28,120	149,106	-
Infrastructure, Net of Depreciation	9,829,773	1,108,494	10,938,267	-
Vehicles, Net of Depreciation	227,689	161,903	389,592	-
Total Noncurrent Assets	<u>36,848,230</u>	<u>1,320,824</u>	<u>38,169,054</u>	<u>196,983</u>
Total Assets	<u>44,982,571</u>	<u>6,364,073</u>	<u>51,346,644</u>	<u>118,669</u>
DEFERRED OUTFLOWS				
Deferred Pension Related Outflows	57,623	-	57,623	-
Deferred Other Postemployment Benefit Related Outflows	14,808	-	14,808	-
Total Deferred Outflows	<u>72,431</u>	<u>-</u>	<u>72,431</u>	<u>-</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	120,410	59,272	179,682	-
Accrued Liabilities	41,732	9,922	51,654	-
Retainage Payable	351,730	-	351,730	-
Other Deposits and Surety Bonds	3,204	-	3,204	-
Customer Deposits	-	22,307	22,307	-
Deferred Revenue	591	-	591	-
Total Current Liabilities	<u>517,667</u>	<u>91,501</u>	<u>609,168</u>	<u>-</u>
Noncurrent Liabilities				
Net Pension Liability	743,302	53,347	796,649	-
Other Postemployment Benefit Liability	73,636	-	73,636	-
Accrued Compensated Absences	88,343	10,463	98,806	-
Total Noncurrent Liabilities	<u>905,281</u>	<u>63,810</u>	<u>969,091</u>	<u>-</u>
Total Liabilities	<u>1,422,948</u>	<u>155,311</u>	<u>1,578,259</u>	<u>-</u>
DEFERRED INFLOWS				
Deferred Pension Related Inflows	394,262	-	394,262	-
Total Deferred Inflows	<u>394,262</u>	<u>-</u>	<u>394,262</u>	<u>-</u>
NET POSITION				
Net Investment in Capital Assets	27,814,557	1,298,517	29,113,074	-
Restricted	9,033,673	-	9,033,673	118,669
Unrestricted	6,389,562	4,910,245	11,299,807	-
Total Net Position	<u>\$ 43,237,792</u>	<u>\$ 6,208,762</u>	<u>\$ 49,446,554</u>	<u>\$ 118,669</u>

The accompanying notes are an integral part of the financial statements.

CITY OF SUNSET VALLEY, TEXAS
Statements of Activities
For the Year Ended September 30, 2020

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Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Total Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental Activities								
General Government	\$ 2,431,629	\$ 26,815	\$ -	\$ -	\$ (2,404,814)	\$ -	\$ (2,404,814)	\$ -
Public Safety	1,280,255	-	1,352	-	(1,278,903)	-	(1,278,903)	-
Public Services	1,144,983	23,680	-	-	(1,121,303)	-	(1,121,303)	-
Total Governmental Activities	<u>4,856,867</u>	<u>50,495</u>	<u>1,352</u>	<u>-</u>	<u>(4,805,020)</u>	<u>-</u>	<u>(4,805,020)</u>	<u>-</u>
Business-Type Activities								
Utilities	1,458,601	1,040,272	-	-	-	(418,329)	(418,329)	-
Total Business-Type Activities	<u>1,458,601</u>	<u>1,040,272</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(418,329)</u>	<u>(418,329)</u>	<u>-</u>
Total Component Unit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(317,195)</u>
Total Government	<u>\$ 6,315,468</u>	<u>\$ 1,090,767</u>	<u>\$ 1,352</u>	<u>\$ -</u>	<u>(4,805,020)</u>	<u>(418,329)</u>	<u>(5,223,349)</u>	<u>(317,195)</u>
General Revenues								
Sales Taxes					5,534,537	-	5,534,537	365,836
Hotel Taxes					129,900	-	129,900	-
Franchise Fees					111,885	-	111,885	-
Fire District Taxes					61,499	-	61,499	-
Mixed Beverage Taxes					35,170	-	35,170	-
Interest Revenue					177,546	60,670	238,216	2,444
Miscellaneous Revenue					22,564	-	22,564	-
Gain (Loss) on Sale of Asset					7,031	-	7,031	-
Transfers					100	-	100	(100)
Total General Revenues, Special Items, and Transfers					<u>6,080,232</u>	<u>60,670</u>	<u>6,140,902</u>	<u>368,180</u>
Change in Net Position					1,275,212	(357,659)	917,553	50,985
Net Position - Beginning					41,781,144	6,566,421	48,347,565	67,684
Prior Period Adjustment (Note 17)					181,436	-	181,436	-
Net Position - Beginning (As Restated)					41,962,580	6,566,421	48,529,001	67,684
Net Position - Ending					<u>\$ 43,237,792</u>	<u>\$ 6,208,762</u>	<u>\$ 49,446,554</u>	<u>\$ 118,669</u>

The accompanying notes are an integral part of the financial statements.

CITY OF SUNSET VALLEY, TEXAS
Balance Sheets
Governmental Funds
As of September 30, 2020

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		General Fund	Special Revenue Funds Street Repair and Replacement Fund	Special Revenue Funds Hotel Occupancy Tax Fund	Special Revenue Funds Green Sales Tax Fund	Special Revenue Funds City Facilities Fund	Total Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$	7,800,866	\$ 6,672,585	\$ 689,546	\$ 1,639,690	\$ 232,574	\$ 17,035,261
Receivables, Net							
Accounts		3,675	-	-	-	-	3,675
Property Taxes		524	-	-	-	-	524
Due from Other Funds		177,826	-	-	-	-	177,826
TOTAL ASSETS	\$	<u>7,982,891</u>	<u>\$ 6,672,585</u>	<u>\$ 689,546</u>	<u>\$ 1,639,690</u>	<u>\$ 232,574</u>	<u>\$ 17,217,286</u>
LIABILITIES							
Accounts Payable	\$	120,410	-	-	-	-	\$ 120,410
Accrued Liabilities		41,732	-	-	-	-	41,732
Retainage Payable		3,982	-	-	-	347,748	351,730
Due to Other Funds		25,213	3,986	-	20,073	-	49,272
Other Deposits and Surety Bonds		3,204	-	-	-	-	3,204
Total Liabilities		<u>194,541</u>	<u>3,986</u>	<u>-</u>	<u>20,073</u>	<u>347,748</u>	<u>566,348</u>
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue		1,114	-	-	-	-	1,114
FUND BALANCES							
Restricted		55,911	6,668,599	689,546	1,619,617	-	9,033,673
Committed		675,614	-	-	-	(115,174)	560,440
Unassigned		7,055,711	-	-	-	-	7,055,711
Total Fund Balances		<u>7,787,236</u>	<u>6,668,599</u>	<u>689,546</u>	<u>1,619,617</u>	<u>(115,174)</u>	<u>16,649,824</u>
TOTAL LIABILITIES AND FUND BALANCES	\$	<u>7,982,891</u>	<u>\$ 6,672,585</u>	<u>\$ 689,546</u>	<u>\$ 1,639,690</u>	<u>\$ 232,574</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$8,452,269.	27,814,557
Net pension liabilities (and related deferred outflows of resources) do not provide current financial resources and are not reported in the funds.	
Deferred Pension Related Outflows	57,623
Deferred Pension Related Inflows	(394,262)
Deferred Other Postemployment Benefit Related Outflows	14,808
Net Pension Liability	(743,302)
Other Postemployment Benefits Liability	(73,636)
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds.	523
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accrued Compensated Absences	<u>(88,343)</u>
Net Position of Governmental Activities	<u>\$ 43,237,792</u>

The accompanying notes are an integral part of the financial statements.

CITY OF SUNSET VALLEY, TEXAS
Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2020

	General Fund	Special Revenue Funds		Special Revenue Funds		Total Governmental Funds
		Street Repair and Replacement Fund	Hotel Occupancy Tax Fund	Green Sales Tax Fund	City Facilities Fund	
REVENUES						
Permits, Licenses, Fees and Fines	\$ 50,495	\$ -	\$ -	\$ -	\$ -	\$ 50,495
Sales Taxes	4,427,629	737,920	-	368,988	-	5,534,537
Hotel Taxes	-	-	129,900	-	-	129,900
Franchise Fees	111,885	-	-	-	-	111,885
Fire District Taxes	61,499	-	-	-	-	61,499
Mixed Beverage Taxes	35,170	-	-	-	-	35,170
Grant Revenues	1,352	-	-	-	-	1,352
Interest Income	77,324	72,423	7,945	17,174	2,680	177,546
Miscellaneous Revenue	22,564	-	-	-	-	22,564
Total Revenues	4,787,918	810,343	137,845	386,162	2,680	6,124,948
EXPENDITURES						
Current						
General Government	1,593,224	262,657	97,834	71,989	30,351	2,056,055
Public Safety	1,197,900	-	-	-	-	1,197,900
Public Services	686,752	-	-	-	-	686,752
Capital Outlay	150,068	-	-	-	-	150,068
Total Expenditures	3,627,944	262,657	97,834	71,989	30,351	4,090,775
Excess of Revenues Over (Under) Expenditures	1,159,974	547,686	40,011	314,173	(27,671)	2,034,173
OTHER FINANCING SOURCES (USES)						
Proceeds from Sale of Assets	7,031	-	-	-	-	7,031
Transfers In	33,955	-	2,933	7,590	24,706	69,184
Transfers Out	(14,634)	(22,747)	-	(31,703)	-	(69,084)
Total Other Financing Sources and Uses	26,352	(22,747)	2,933	(24,113)	24,706	7,131
Net Changes in Fund Balances	1,186,326	524,939	42,944	290,060	(2,965)	2,041,304
Fund Balances - Beginning of Year	6,600,910	6,143,660	646,602	1,329,557	(112,209)	14,608,520
Fund Balances - End of Year	\$ 7,787,236	\$ 6,668,599	\$ 689,546	\$ 1,619,617	\$ (115,174)	\$ 16,649,824

The accompanying notes are an integral part of the financial statements.

CITY OF SUNSET VALLEY, TEXAS
Statements of Revenues, Expenditures, and Changes in Fund Balances
(Continued)
Governmental Funds
For the Year Ended September 30, 2020

Reconciliation of the change in fund balances - total governmental funds to the change in net position of governmental activities:

Net change in fund balances - governmental funds	\$ 2,041,304
<p>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:</p>	
Capital Outlay	150,068
Depreciation Expense	(559,028)
<p>The change in net position liability and deferred outflows related to the City's TMRS pension liability:</p>	
	(347,839)
<p>The change in other postemployment benefits liability and deferred outflows related to the City's TMRS other postemployment benefits liability:</p>	
	3,144
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:</p>	
Accrued Compensated Absences	<u>(12,437)</u>
Change in net position of governmental activities	<u>\$ 1,275,212</u>

The accompanying notes are an integral part of the financial statements.

CITY OF SUNSET VALLEY, TEXAS
Statement of Net Position
Proprietary Fund
As of September 30, 2020

	<u>Proprietary Fund</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 4,934,159
Accounts Receivable, Net	159,330
Total Current Assets	5,093,489
Noncurrent Assets	
Cash and Cash Equivalents, Restricted	22,307
Infrastructure	2,065,882
Equipment	110,683
Software	35,406
Vehicles	181,853
Accumulated Depreciation	(1,095,307)
Total Noncurrent Assets	1,320,824
Total Assets	6,414,313
LIABILITIES	
Current Liabilities	
Accounts Payable	59,272
Accrued Liabilities	9,922
Customer Deposits	22,307
Due to Other Funds	50,240
Total Current Liabilities	141,741
Noncurrent Liabilities	
Net Pension Liability	53,347
Accrued Compensated Absences	10,463
Total Noncurrent Liabilities	63,810
Total Liabilities	205,551
NET POSITION	
Net Position, Net Investment in Capital Assets	1,298,517
Restricted	-
Unrestricted Net Assets	4,910,245
Total Net Position	\$ 6,208,762

The accompanying notes are an integral part of the financial statements.

CITY OF SUNSET VALLEY, TEXAS
Statements of Revenues, Expenditures, and Changes in Net Position
Proprietary Fund
For the Year Ended September 30, 2020

	<u>Proprietary Fund</u>
OPERATING REVENUES	
Charges for Services	\$ 1,039,997
Other Revenue	275
Total Operating Revenues	1,040,272
OPERATING EXPENSES	
Utilities	373,259
Public Works	17,503
Contractual Services	996,054
Depreciation	71,785
Total Operating Expenses	1,458,601
Operating Income (Loss)	(418,329)
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	60,670
Total Non-Operating Revenues (Expenses)	60,670
Change in Net Position	(357,659)
Net Position - Beginning	6,566,421
Net Position - Ending	\$ 6,208,762

The accompanying notes are an integral part of the financial statements.

CITY OF SUNSET VALLEY, TEXAS
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2020

	<u>Proprietary Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 1,016,386
Payments to Suppliers	(1,273,426)
Payments to Employees for Services	(214,534)
Payments for Employee Benefits	6,962
Receipts (Refunds) of Customer Deposits	247
Net Cash Provided (Used) By Operating Activities	(464,365)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Internal Activity - Loans from (to) Other Funds	49,590
Net Cash Provided By Noncapital Financing Activities	49,590
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Capital Assets	(112,868)
Interest and Dividends	60,670
Net Cash Provided (Used) By Investing Activities	(52,198)
Net Increase (Decrease) In Cash & Cash Equivalents	(466,973)
Cash and Cash Equivalents - Beginning of the Year	5,423,439
Cash and Cash Equivalents - End of the Year	\$ 4,956,466
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (418,329)
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	71,785
Decrease (Increase) Assets:	
Accounts Receivable	(23,887)
Increase (Decrease) Liabilities:	
Accounts Payable	(154,490)
Net Pension Liability	53,347
Accrued Compensated Absences	6,962
Customer Deposits Payable	247
Net Cash Provided (Used) By Operating Activities	\$ (464,365)
Reconciliation to Statement of Net Position - Proprietary Funds:	
Cash and Cash Equivalents - Unrestricted	\$ 4,934,159
Cash and Cash Equivalents - Restricted	22,307
Total Cash and Cash Equivalents - Proprietary Funds	\$ 4,956,466

The accompanying notes are an integral part of the financial statements.

CITY OF SUNSET VALLEY, TEXAS
Statement of Net Position
Discretely Presented Component Unit
As of September 30, 2020

		<u>Crime Control and Prevention District</u>
ASSETS		
Cash and Cash Equivalents - Restricted	\$	196,983
Due from Other Funds		25,213
TOTAL ASSETS		<u>222,196</u>
 LIABILITIES		
Due to Other Funds	\$	103,527
Total Liabilities		<u>103,527</u>
 FUND BALANCES		
Restricted		118,669
Total Fund Balances		<u>118,669</u>
TOTAL LIABILITIES AND FUND BALANCES	\$	<u>222,196</u>

The accompanying notes are an integral part of the financial statements.

CITY OF SUNSET VALLEY, TEXAS
Statement of Activities
Discretely Presented Component Unit
For the Year Ended September 30, 2020

		<u>Crime Control and Prevention District</u>
REVENUES		
Sales Taxes	\$	365,836
Interest Income		2,444
Total Revenues		<u>368,280</u>
EXPENDITURES		
Current		
General Government		317,195
Total Expenditures		<u>317,195</u>
Excess of Revenues Over (Under) Expenditures		51,085
OTHER FINANCING SOURCES (USES)		
Transfers Out		(100)
Total Other Financing Sources and Uses		<u>(100)</u>
Net Changes in Fund Balances		50,985
Fund Balances - Beginning of Year		<u>67,684</u>
Fund Balances - End of Year	\$	<u><u>118,669</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF SUNSET VALLEY, TEXAS
Notes to Financial Statements
September 30, 2020

1. Nature of the Entity

The City of Sunset Valley, Texas (the City) was incorporated on September 13, 1954, and operates under the laws of the State of Texas applicable to a Type A-General Law city. The City Council is composed of a mayor and five members elected at large. The City provides what are considered general government services including public safety, streets, parks and recreation, planning and zoning, permits and inspection, sanitation, general administrative, and water and wastewater services.

The combined financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

2. Summary of Significant Accounting Policies

Financial Reporting Entity

As required by GAAP, the financial statements of the reporting entity must include those of the City and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The criteria for including organizations as component units within the City's reporting entity, as set forth by GASB standards, The Financial Reporting Entity, include the following:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

Based on these criteria, the City has one component unit, the Crime Control and Prevention District. Additionally, the City is not a component unit of any other reporting entity as defined by GASB standards.

The Crime Control and Prevention District is a special purpose district created for the purpose of improving crime prevention and reducing crime. The Crime Control and Prevention District's financial statements are presented discretely alongside the financial statements of the City.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities are the government-wide financial statements. They report information on all of the City of Sunset Valley's non-fiduciary activities with most of the interfund activities removed and the discretely presented component unit. Governmental activities include programs supported by taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities include operations that rely to a significant extent on fees and charges for services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The City does not allocate indirect expenses in the Statement of Activities. Program revenues include fees, fines, and charges paid by the recipients of goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and the discretely presented component unit. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

Fund Accounting

The City reports the following major governmental funds:

General Fund - This is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Street Repair and Replacement Fund – This special revenue fund is used to account for restricted sales tax revenues that are to be used for the maintenance and replacement of the City’s streets.

Hotel Occupancy Tax Fund – This special revenue fund is used to account for revenues earned from hotel occupancy taxes. These proceeds are restricted by State law for tourism expenditures only.

Green Sales Tax Fund – This special revenue fund is used to account for revenues earned from green sales taxes.

City Facilities Fund – This special revenue fund is used to account for revenues and expenditures related to city facility construction.

The City reports the following major proprietary fund:

Utility Fund – This fund accounts for the activities of the City’s water, sewer and solid waste operations.

Government-Wide and Proprietary Fund Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or drawing from the general revenues of the City.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation (Continued)

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of sales taxes. Sales tax revenues and other revenues received from the state are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded in the accounting period in which the fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Cash, Cash Equivalents and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments with initial maturities of three months or less.

The City is authorized to invest in local government investment pools. The investment pools operate in accordance with appropriate state laws and regulations and have regulatory oversight from the Texas Public Funds Investment Act Sec. 2256.0016. The fair value of the City's position in each pool is the same as the fair value of the pool shares.

The City's investments represent certificates of deposit with various banks having maturities ranging from six to eighteen months.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

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2. Summary of Significant Accounting Policies (continued)

Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables that are doubtful for collection within one year after year-end.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The minimum capitalization threshold is any individual item with a total cost great than \$5,000.

Depreciation of capital assets is computed using the straight-line method over the following estimated useful lives:

Infrastructure	40 years
Buildings and Improvements	5 - 20 years
Vehicles	5 - 8 years
Furniture and Equipment	5 - 10 years
Software	5 years

The City does not capitalize interest costs related to construction.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

2. Summary of Significant Accounting Policies (continued)

Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single “Transfers” line on the government-wide Statement of Activities. Similarly, interfund receivables and payables are netted and presented as a single “Internal Balances” line on the government-wide Statement of Net Position.

Use of Estimates

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

Equity Classifications

Government-Wide Financial Statements

Equity is classified as net position and displayed in three components:

- Net investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted – All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

2. Summary of Significant Accounting Policies (continued)

Equity Classifications (Continued)

Government-Wide Financial Statements (Continued)

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Fund Financial Statements

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, requires that fund balances for each of the City's governmental funds be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The City did not have any nonspendable fund balance at September 30, 2020.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority. The City's highest level of decision-making authority is the City Council.
- *Assigned fund balance*—amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The City Council has authorized the City Administrator to assign, reassign, and unassign fund balances. The City did not have any assigned fund balances at September 30, 2020.
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts can be reported only in the City's General Fund. If a fund deficit exists in other funds, then that amount is reported as a negative unassigned fund balance.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

2. Summary of Significant Accounting Policies (continued)

Equity Classifications (Continued)

Fund Financial Statements (Continued)

In addition, the Statement clarifies the definitions of the various types of governmental funds. Interpretations of certain terms within the new definition of special revenue funds may affect which activities the City can report in special revenue funds.

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Pensions

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

Discretely Presented Component Unit

The component unit column on the government-wide financial statements include the financial data of the City's component unit. Component units are presented in a separate column to emphasize that they are legally separate from the primary government. Combining financial statements are presented as part of the basic financial statements.

3. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank places approved pledged securities for safekeeping and trust with the City's agent 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 Federal Deposit Insurance Corporation (FDIC) insurance.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

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3. Deposits and Investments (continued)

At September 30, 2020, the carrying amount of the City’s cash deposits was \$543,773 and the bank balance was \$766,097. The bank balance is categorized as follows:

Insured by FDIC or collateralized with securities held by the City or its agent in the City's name	\$ 766,097
Total Bank Balance	\$ <u><u>766,097</u></u>

The City also had petty cash and change funds at the City totaling \$152 at year-end.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in: (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

At September 30, 2020, the City had funds invested in the Texas Local Government Investment Pool (TexPool). The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard and Poor’s. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard and Poor’s, as well as the Office of the Comptroller of Public Accounts for review.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

3. Deposits and Investments (continued)

TexPool operates in a manner consistent with SEC Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. The fair market value of investments at September 30, 2020 was \$16,614,849 for governmental activities, \$4,832,953 for business-type activities and \$196,983 for the component unit.

The fair value of the TexPool investments is recorded as cash and cash equivalents on the financial statements.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy addresses the following risks:

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The City's investment policy limits exposure to credit risk by limiting investments to those authorized by the Act. At September 30, 2020, the City was not significantly exposed to credit risk.

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, or are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

The City's investment policy limits exposure to custodial credit risk by requiring all uninsured deposits and investments be covered by pledged collateral. At September 30, 2020, the City was not exposed to custodial credit risk.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

3. Deposits and Investments (continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy limits overconcentration of its assets in specific instruments except U.S. Treasury Securities and insured or collateralized certificates of deposit. At year-end, the City was not exposed to concentration of credit risk.

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy limits exposure to interest rate risk by limiting average maturities of investments to one year or less. At year-end, the City was not exposed to interest rate risk.

Analysis of Specific Deposit and Investment Risks

Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. The City does not have a policy related to foreign currency risk. At year-end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments that have a remaining term of one year or less at the time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

4. Interfund Balances

Balances due to and due from other funds at September 30, 2020 consist of the following:

Due To	Due From			Total
	General Fund	Utility Fund	Component Unit	
General Fund	\$ -	\$ -	\$ 25,213	\$ 25,213
Street Repair and Replacement Fund	3,986	-	-	3,986
Green Sales Tax	20,073	-	-	20,073
Crime Prevention	103,527	-	-	103,527
Utility Fund	50,240	-	-	50,240
	<u>\$ 177,826</u>	<u>\$ -</u>	<u>\$ 25,213</u>	<u>\$ 203,039</u>

All interfund balances represent temporary loans between the City's funds. All amounts due are scheduled to be repaid within one year.

5. Interfund Transfers

During the course of normal operations, the City has transactions between funds. The governmental and proprietary fund financial statements generally reflect such transactions as transfers in and out of the respective funds. The following is a summary of transfers during the year ended September 30, 2020.

	Transfers In	Transfers Out	Net Transfers In/Out
Governmental Activities:			
General Fund	\$ 33,955	\$ 14,634	\$ 19,321
Street Repair & Replacement Fund	-	22,747	(22,747)
Hotel Occupancy Tax Fund	2,933	-	2,933
Green Sales Tax Fund	7,590	31,703	(24,113)
City Facilities	24,706	-	24,706
Business-Type Activities:			
Utility Fund	3,486	3,486	-
Component Unit:			
Crime Control & Prevention District	-	100	(100)
	<u>\$ 72,670</u>	<u>\$ 72,670</u>	<u>\$ -</u>

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

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6. Capital Assets

Capital asset activity for the governmental activities for the year ended September 30, 2020 was as follows:

<u>Governmental Activities</u>	Balance 10/1/2019	Additions	Deletions 9/30/2020	Transfers & Adjustments	Balance 9/30/2020
Capital Assets Not Being Depreciated					
Land	\$ 8,903,917	\$ 31,703	\$ -	\$ -	\$ 8,935,620
Construction in Progress	8,574,885	181,436	-	(8,203,710)	552,611
Total Capital Assets Not Being Depreciated	17,478,802	213,139	-	(8,203,710)	9,488,231
Capital Assets Being Depreciated					
Buildings and Improvements	1,709,530	-	-	7,936,755	9,646,285
Infrastructure	15,044,521	-	-	266,955	15,311,476
Furniture and Equipment	1,090,464	18,372	(50,168)	-	1,058,668
Vehicles	642,815	99,994	(56,645)	-	686,164
Software	76,002	-	-	-	76,002
Total Capital Assets Being Depreciated	18,563,332	118,366	(106,813)	8,203,710	26,778,595
Accumulated Depreciation					
Buildings and Improvements	(1,420,104)	(78,303)	-	-	(1,498,407)
Infrastructure	(5,092,412)	(389,291)	-	-	(5,481,703)
Furniture and Equipment	(938,025)	(49,825)	50,168	-	(937,682)
Vehicles	(473,511)	(41,609)	56,645	-	(458,475)
Software	(76,002)	-	-	-	(76,002)
Total Accumulated Depreciation	(8,000,054)	(559,028)	106,813	-	(8,452,269)
Net Capital Assets Being Depreciated	10,563,278	(440,662)	-	8,203,710	18,326,326
Net Capital Assets	\$ 28,042,080	\$ (227,523)	\$ -	\$ -	\$ 27,814,557

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

DRAFT

6. Capital Assets (Continued)

Capital asset activity for the business-type activities for the year ended September 30, 2020 was as follows:

<u>Business-Type Activities</u>	Balance 10/1/2019	Additions	Deletions 9/30/2020	Transfers & Adjustments	Balance 9/30/2020
Capital Assets Not Being Depreciated					
Construction in Progress	\$ 26,962	\$ -	\$ -	\$ (26,962)	\$ -
Total Capital Assets Not Being Depreciated	26,962	-	-	(26,962)	-
Capital Assets Being Depreciated					
Infrastructure	2,038,920	-	-	26,962	2,065,882
Furniture and Equipment	110,683	-	-	-	110,683
Vehicles	68,985	112,868	-	-	181,853
Software	35,406	-	-	-	35,406
Total Capital Assets Being Depreciated	2,253,994	112,868	-	26,962	2,393,824
Accumulated Depreciation					
Infrastructure	(902,317)	(55,071)	-	-	(957,388)
Furniture and Equipment	(73,940)	(8,623)	-	-	(82,563)
Vehicles	(11,859)	(8,091)	-	-	(19,950)
Software	(35,406)	-	-	-	(35,406)
Total Accumulated Depreciation	(1,023,522)	(71,785)	-	-	(1,095,307)
Net Capital Assets Being Depreciated	1,230,472	41,083	-	26,962	1,298,517
Net Capital Assets	\$ 1,257,434	\$ 41,083	\$ -	\$ -	\$ 1,298,517

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

Governmental Activities:	
General Government	\$ 182,149
Public Safety	53,408
Public Services	323,471
Total Governmental Activities Depreciation Expense	<u>\$ 559,028</u>
Business-Type Activities:	
Utilities	\$ 71,785
Total Business-Type Activities Depreciation Expense	<u>\$ 71,785</u>

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

7. Long-Term Obligations

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2020 are as follows:

	Balance 10/1/2019	Additions	Deletions	Balance 9/30/2020
Governmental Activities:				
Compensated Absences	\$ 75,906	\$ -	\$ 12,437	\$ 88,343
Business-Type Activities:				
Compensated Absences	3,501	-	6,962	10,463
Total	\$ 79,407	\$ -	\$ 19,399	\$ 98,806

In prior years, the general fund has been used to liquidate other governmental long-term liabilities.

8. Operating Leases

The City leases equipment through various operating leases. Total expenditures for operating leases for the year ended September 30, 2020 were \$7,415 for the governmental activities. There were no expenditures for operating leases in the business-type activities.

Future minimum rental payments for non-cancelable operating leases with remaining terms in excess of one year are as follows:

	Governmental Activities
2021	\$ 7,415
2022	7,415
2023	4,061
Totals	\$ 18,891

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

9. Risk Management

General Liability

The City is exposed to various risks of loss related to torts, theft, damage, or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, the City obtained general liability coverage at a cost that is economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operated as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

COVID-19 Impact

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the City operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the City, to date, the City is currently evaluating the effect they expect to experience. Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

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10. Pension Plan

Plan Description

The City of Sunset Valley participates as one of the 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 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 publicity available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

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 payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

	2019
Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	28
Active employees	29
Total	<u>65</u>

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

10. Pension Plan (Continued)

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 Sunset Valley were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Sunset Valley were 13.42% and 13.30% in calendar years 2019 and 2020, respectively. The city's contributions to TMRS for the year ended September 30, 2020, were \$258,731, 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.

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

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 of younger members who become disabled. The rate are projected on the fully generational basis of Scale UMP to account for future mortality improvements subject to the floor.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

DRAFT

10. Pension Plan (Continued)

Net Pension Liability (Continued)

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 through 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) is 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 expenses 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 are summarized in fiscal year 2020 are summarized in the following table:

Net Pension Liability (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10%	1.25%
Non-Core Fixed Income	20%	4.14%
Real Return	10%	3.85%
Real Estate	10%	4.00%
Absolute Return	10%	3.48%
Private Equity	10%	7.75%
Total	100%	

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

10. Pension Plan (Continued)

Net Pension Liability (Continued)

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2018	\$ 6,828,626	\$ 5,697,601	\$ 1,131,025
Changes for the year:			-
Service cost	363,523	-	363,523
Interest	469,234	-	469,234
Change of benefit terms	-	-	-
Difference between expected and actual experience	46,118	-	46,118
Changes of assumptions	25,698	-	25,698
Contributions - employer	-	275,177	(275,177)
Contributions - employee	-	144,830	(144,830)
Net investment income	-	877,415	(877,415)
refunds of employee contributions	(117,546)	(117,546)	-
Administrative expense	-	(4,976)	4,976
Other Changes	-	(150)	150
Net changes	787,027	1,174,750	(387,723)
Balance at 12/31/2019	\$ 7,615,653	\$ 6,872,351	\$ 743,302

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

10. Pension Plan (Continued)

Net Pension Liability (Continued)

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net position liability would be if it were calculating 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	\$ 2,122,624	\$ 743,302	\$ (356,056)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. The report may be obtained on the Internet at www.tmr.com.

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

For the year ended September 30, 2020, the city recognized pension expense of \$258,731.

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

	Deferred (Inflows) of Resources	Deferred Outflows of Resources
Differences between Expected and Actual Economic Experience	\$ -	37,004
Difference in Actual Assumptions	-	20,619
Differences Between Projected and Actual Investment Earnings	(394,262)	-
Contributions Subsequent to the Measurement Date	188,607	-
	<u>\$ (205,655)</u>	<u>57,623</u>

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

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10. Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$188,607 reported as deferred inflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows of resources to pensions will be recognized in pension expense as follows:

For the Year Ended December 31,	Net deferred outflows (inflows) of resources
2020	\$ (61,801)
2021	(80,743)
2022	(3,324)
2023	(84,374)
2024	851
Thereafter	-
Total	\$ <u><u>(229,391)</u></u>

11. Other Postemployment Benefits

Plan Description

The City participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The member city contributes to the SDBF at a contractually required rate (based on the covered payroll of the employee members) as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during the employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 GASB No. 75. As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contribution for retirees.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

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11. Other Postemployment Benefits

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2019 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitle to, but not yet receiving, benefits	11
Active employees	29
Total	46

Total OPEB Liability

The City’s total OPEB liability of \$73,636 was measured as of December 31, 2019 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2019 actuarial valuation was determined by using the following actuarial assumptions and other inputs applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 11.5% including inflation
Discount rate*	2.75%
Retirees’ share of benefit-related costs	Zero
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	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 setforward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

*The discount rate is based on the Fidelity Index’s “20-Year Municipal GO AA Index” rates as of December 31, 2019.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

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11. Other Postemployment Benefits

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.

Changes in the Total OPEB Liability

	Total OPEB Liability
Changes for the year:	
Service cost	\$ 3,310
Interest	1,956
Differences between expected and actual expectations	2,066
Changes in assumptions or other inputs	15,439
Benefit payments**	(414)
Net Changes	22,357
Beginning Balance	51,279
Ending Balance	\$ 73,636

* Benefit payments are treated as being equal to the employer's yearly contributions for retirees due to the SDBF being considered an unfunded OPEB plan under GASB No. 75.

There were no changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following present the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
City's Total OPEB Liability	\$ 95,398	\$ 73,636	\$ 57,788

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

11. Other Postemployment Benefits

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

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

	Deferred (Inflows) of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ (3,475)	
Changes in actuarial assumptions	-	12,635
Contributions Subsequent to the Measurement Date	-	1,702
Total	\$ (3,475)	14,337

\$1,702 reported as deferred outflows related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of total OPEB for the fiscal year ending September 30, 2020.

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPEB Expense Amount
For the Year Ended December 31,	
2020	\$ 1,612
2021	1,612
2022	1,612
2023	1,041
2024	1,960
Thereafter	1,323
Total	\$ 9,160

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

12. Health Care Coverage

During the year ended September 30, 2020, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$540 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2 of the Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable on December 31 of each year and terms of coverage and premium costs are included in the contractual provisions.

The latest financial statements for the licensed insurer are available for the year ended December 31, 2020 and are public records filed with the Texas State Board of Insurance, Austin, Texas.

13. Contingencies

The City participates in grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

14. Restricted Net Position

The restricted portion of the City's net position was comprised of the following items at September 30, 2020:

<u>Restricted For</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Unit</u>
Street Maintenance	\$ 6,668,599	\$ -	\$ -
Police Activities	756	-	-
Crime Control and Prevention	-	-	118,669
Customer Deposits	-	-	-
School Zone Safety	10,706	-	-
HRA Insurance	3,142	-	-
Green Sales Taxes	1,619,617	-	-
Tourism	689,546	-	-
Total Restricted Net Position	<u>\$ 8,992,366</u>	<u>\$ -</u>	<u>\$ 118,669</u>

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

15. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position will sometimes report a separate section for deferred outflows and inflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one type of item reported as deferred outflows of resources, in both the governmental and proprietary funds on the Statement of Net Position, which arises under the full accrual basis of accounting. These items are related to differences between projected and actual investment earnings on pensions and contributions made to the pension plan to the measurement date of the actuarial valuation. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The city has one type of item reported as deferred inflows of resources, in both the governmental and proprietary funds on the Statement of Net Position, which arises under the full accrual basis of accounting. These items are related to differences between expected and actual economic experience based on the actuarial valuation. At the governmental fund level only one type of item arises only under a modified accrual basis of accounting that qualifies for reporting as deferred inflows of resources. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from uncollected property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

16. Fund Balances

The City reported the following fund balance designations at September 30, 2020:

Fund Balance Designations	General Fund	Street Repair and Replacement Fund	Hotel Occupancy Tax Fund	Green Sales Tax Fund	City Facilities Fund	Total Governmental Funds	Crime Control and Prevention District
Restricted for:							
Street Maintenance	\$ -	\$ 6,668,599	\$ -	\$ -	\$ -	\$ 6,668,599	\$ -
Brodie Barn Trees	2,025	-	-	-	-	2,025	-
Burger Loop Trail	39,282	-	-	-	-	39,282	-
Police Activities	756	-	-	-	-	756	-
Crime Control & Prevention District	-	-	-	-	-	-	118,669
School Zone Safety	10,706	-	-	-	-	10,706	-
HRA Insurance	3,142	-	-	-	-	3,142	-
Green Sales Taxes	-	-	-	1,619,617	-	1,619,617	-
Tourism	-	-	689,546	-	-	689,546	-
Total Restricted	<u>55,911</u>	<u>6,668,599</u>	<u>689,546</u>	<u>1,619,617</u>	<u>-</u>	<u>9,033,673</u>	<u>118,669</u>
City Facilities	-	-	-	-	(115,174)	(115,174)	-
Underground Utilities	-	-	-	-	-	-	-
Equipment Replacement	553,050	-	-	-	-	553,050	-
Easements and Other	122,564	-	-	-	-	122,564	-
Total Committed	<u>675,614</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(115,174)</u>	<u>560,440</u>	<u>-</u>
Unassigned	<u>7,055,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,055,711</u>	<u>-</u>
Total Fund Balances	<u>\$ 7,787,236</u>	<u>\$ 6,668,599</u>	<u>\$ 689,546</u>	<u>\$ 1,619,617</u>	<u>\$ (115,174)</u>	<u>\$ 16,649,824</u>	<u>\$ 118,669</u>

CITY OF SUNSET VALLEY TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

17. Restatement

During the fiscal year, the new City accountant performed an analysis of the City Facilities Fund and identified transactions that should have been identified as capital assets in a previous period. Although the transactions individually did not meet the City’s capitalization threshold, the combination of those transactions contributed to the overall value of the City’s Facilities construction.

The following table reflects the net effect of the restatement on the prior year statement of net position:

		Government-Wide Statement of Net Position
		Governmental Activities
		<u> </u>
Net Position at September 30, 2019, As Previously Stated	\$	41,781,144
Capital Assets Not Previously Identified		181,436
Net Position at September 30, 2019, As Restated	\$	<u>41,962,580</u>
Effect on changes in Net Position For the Year Ended September 30, 2019	\$	<u>181,436</u>

18. Evaluation of Subsequent Events

Subsequent events have been evaluated through May 27, 2021, which is the date these financial statements were available to be issued.

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Required Supplemental Information

CITY OF SUNSET VALLEY, TEXAS
Required Supplemental Information
Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual (Budgetary Basis)
General Fund
For the Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Permits, Licenses, Fees and Fines	\$ 69,500	\$ 69,500	\$ 50,495	\$ (19,005)
Sales Taxes	4,819,200	4,819,200	4,427,629	(391,571)
Franchise Fees	120,000	120,000	111,885	(8,115)
Fire District Taxes	34,500	34,500	61,499	26,999
Mixed Beverage Taxes	35,000	35,000	35,170	170
Grant Revenues	-	-	1,352	1,352
Interest Income	110,000	110,000	77,324	(32,676)
Miscellaneous Revenue	27,700	27,700	22,564	(5,136)
Total Revenues	5,215,900	5,215,900	4,787,918	(427,982)
EXPENDITURES				
Current				
General Government	1,574,101	1,587,901	1,593,224	(5,323)
Public Safety	1,281,579	1,281,579	1,197,900	83,679
Public Services	1,375,710	1,383,620	686,752	696,868
Capital Outlay	-	-	150,068	(150,068)
Total Expenditures	4,231,390	4,253,100	3,627,944	625,156
Excess of Revenues Over (Under) Expenditures	984,510	962,800	1,159,974	197,174
OTHER FINANCING SOURCES (USES)				
Transfers	667,268	667,268	7,031	660,237
Total Other Financing Sources and Uses	667,268	667,268	7,031	660,237
Net Change in Fund Balances	1,651,778	1,630,068	1,167,005	857,411
Fund Balance - Beginning, GAAP Basis	6,600,910	6,600,910	6,600,910	-
Fund Balance - Ending, Budgetary Basis	\$ 8,252,688	\$ 8,230,978	7,767,915	\$ 857,411
Adjustments to Reconcile the Budgetary Amounts to GAAP:				
The City does not budget for transfers to other funds			19,321	
Fund Balance - Ending, GAAP Basis			\$ 7,787,236	

See Independent Auditor's Report

CITY OF SUNSET VALLEY, TEXAS
Required Supplemental Information
Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual (Budgetary Basis)
Street Repair and Replacement Fund
For the Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Sales Taxes	\$ 803,180	\$ 803,180	\$ 737,920	\$ (65,260)
Interest Income	75,000	75,000	72,423	(2,577)
Total Revenues	878,180	878,180	810,343	(67,837)
EXPENDITURES				
Current				
General Government	701,962	701,962	262,657	439,305
Total Expenditures	701,962	701,962	262,657	439,305
Excess of Revenues Over (Under) Expenditures	176,218	176,218	547,686	371,468
OTHER FINANCING SOURCES (USES)				
Transfers	-	-	22,747	(22,747)
Total Other Financing Sources and Uses	-	-	22,747	(22,747)
Fund Balance - Beginning, GAAP Basis	6,143,660	6,143,660	6,143,660	-
Fund Balance - Ending, GAAP Basis	\$ 6,319,878	\$ 6,319,878	\$ 6,668,599	\$ 394,215

CITY OF SUNSET VALLEY, TEXAS
Required Supplemental Information
Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual (Budgetary Basis)
Hotel Occupancy Tax Fund
For the Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Hotel Taxes	\$ 250,000	\$ 250,000	\$ 129,900	\$ (120,100)
Interest Income	10,000	10,000	7,945	(2,055)
Total Revenues	260,000	260,000	137,845	(122,155)
EXPENDITURES				
Current				
General Government	398,250	398,250	97,834	300,416
Total Expenditures	398,250	398,250	97,834	300,416
Excess of Revenues Over (Under) Expenditures	(138,250)	(138,250)	40,011	178,261
OTHER FINANCING SOURCES (USES)				
Transfers	-	-	(2,933)	2,933
Total Other Financing Sources and Uses	-	-	(2,933)	2,933
Fund Balance - Beginning, GAAP Basis	646,602	646,602	646,602	-
Fund Balance - Ending, Budgetary Basis	\$ 508,352	\$ 508,352	\$ 689,546	\$ 175,328

CITY OF SUNSET VALLEY, TEXAS
Required Supplemental Information
Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual (Budgetary Basis)
Green Sales Tax Fund
For the Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Sales and Use Tax	\$ 401,620	\$ 401,620	\$ 368,988	\$ (32,632)
Interest Income	28,000	28,000	17,174	(10,826)
Total Revenues	429,620	429,620	386,162	(43,458)
EXPENDITURES				
Current				
General Government	291,435	298,138	71,989	226,149
Total Expenditures	291,435	298,138	71,989	226,149
Excess of Revenues Over (Under) Expenditures	138,185	131,482	314,173	182,691
OTHER FINANCING SOURCES (USES)				
Transfers	-	-	24,113	(24,113)
Total Other Financing Sources and Uses	-	-	24,113	(24,113)
Fund Balance - Beginning, GAAP Basis	1,329,557	1,329,557	1,329,557	-
Fund Balance - Ending, Budgetary Basis	\$ 1,467,742	\$ 1,461,039	\$ 1,619,617	\$ 206,804

CITY OF SUNSET VALLEY, TEXAS
Required Supplemental Information
Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual (Budgetary Basis)
City Facilities Fund
For the Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest Income	\$ -	\$ -	\$ 2,680	\$ 2,680
Total Revenues	<u>-</u>	<u>-</u>	<u>2,680</u>	<u>2,680</u>
EXPENDITURES				
Current				
General Government	-	-	30,351	(30,351)
Total Expenditures	<u>-</u>	<u>-</u>	<u>30,351</u>	<u>(30,351)</u>
Excess of Revenues Over (Under) Expenditures	-	-	(27,671)	(27,671)
OTHER FINANCING SOURCES (USES)				
Transfers	-	-	(24,706)	24,706
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>(24,706)</u>	<u>24,706</u>
Fund Balance - Beginning, GAAP Basis	(112,209)	(112,209)	(112,209)	-
Fund Balance - Ending, Budgetary Basis	<u>\$ (112,209)</u>	<u>\$ (112,209)</u>	<u>\$ (115,174)</u>	<u>\$ (52,377)</u>

CITY OF SUNSET VALLEY, TEXAS
Required Supplemental Information
Notes to the Budgetary Comparison Schedule
For the Year Ended September 30, 2020

Budget

The following procedures are followed in establishing the budgetary data:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of an ordinance by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council, and are not made after fiscal year end. During the year, the budget was amended as necessary. All budget appropriations lapse at year-end.

CITY OF SUNSET VALLEY, TEXAS

Required Supplemental Information

Schedule of Changes in Net Pension Liability and Related Ratios – Last 10 Years*

	2020	2019	2018	2019	2018	2017
Total Net Pension Liability						
Service Cost	\$ 363,523	\$ 344,555	\$ 316,489	\$ 313,365	\$ 278,127	\$ 245,678
Interest (on the Total Net Pension Liability)	469,234	430,478	394,159	349,990	320,611	288,801
Changes of benefit terms	-	163,571	-	-	-	-
Difference between expected and actual experience	46,118	(54,073)	(196,727)	99,988	34,890	60,289
Change of assumptions	25,698	-	-	-	64,868	-
Benefit payments, including refunds of employee contributions	(117,546)	(195,018)	(111,915)	(109,183)	(113,295)	(199,833)
Net Change in Total Pension Liability	<u>787,027</u>	<u>689,513</u>	<u>402,006</u>	<u>654,160</u>	<u>585,201</u>	<u>394,935</u>
Total Pension Liability - Beginning	<u>6,828,626</u>	<u>6,139,113</u>	<u>5,737,107</u>	<u>5,082,947</u>	<u>4,497,746</u>	<u>4,102,811</u>
Total Pension Liability - Ending (a)	<u><u>7,615,653</u></u>	<u><u>6,828,626</u></u>	<u><u>6,139,113</u></u>	<u><u>5,737,107</u></u>	<u><u>5,082,947</u></u>	<u><u>4,497,746</u></u>
Plan Fiduciary Net Pension						
Contributions - Employer	275,178	249,438	231,084	209,333	193,522	153,711
Contributions - Employee	144,830	138,138	132,264	130,880	120,551	114,206
Net Investment Income	877,415	(169,310)	658,633	286,556	5,983	215,891
Benefit payments, including refunds of employee contributions	(117,546)	(195,018)	(111,915)	(109,183)	(113,295)	(199,833)
Administrative Expense	(4,977)	(3,287)	(3,427)	(3,249)	(3,644)	(2,253)
Other	(150)	(172)	(174)	(175)	(180)	(185)
Net Change in Plan Fiduciary Net Position	<u>1,174,750</u>	<u>19,789</u>	<u>906,465</u>	<u>514,162</u>	<u>202,937</u>	<u>281,537</u>
Plan Fiduciary Net Position - Beginning	<u>5,697,601</u>	<u>5,677,812</u>	<u>4,771,347</u>	<u>4,257,185</u>	<u>4,054,248</u>	<u>3,772,711</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 6,872,351</u></u>	<u><u>\$ 5,697,601</u></u>	<u><u>\$ 5,677,812</u></u>	<u><u>\$ 4,771,347</u></u>	<u><u>\$ 4,257,185</u></u>	<u><u>\$ 4,054,248</u></u>
Net Pension Liability - Ending (a)-(b)	\$ 743,302	\$ 1,131,025	\$ 461,301	\$ 965,760	\$ 825,762	\$ 443,498
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	90.24%	83.44%	92.49%	83.17%	83.75%	90.14%
Covered Employee Payroll	2,068,998	1,973,399	1,889,485	1,869,717	1,722,151	1,631,515
Net Pension Liability as a Percentage of Covered Employee Payroll	35.93%	57.31%	24.41%	51.65%	47.95%	27.18%

*Note: GASB No. 68 requires ten fiscal years of data to be provided in this schedule. Fiscal year ending 2015 was the first year of implementation. The City will develop the schedule prospectively.

CITY OF SUNSET VALLEY, TEXAS
Required Supplemental Information
Schedule of Changes in Postemployment Benefits Other Than Pensions (OPEB)
Liability and Related Ratios –
Last 10 Years*

	2020	2019	2018
Total Net Pension Liability			
Service Cost	\$ 3,310	\$ 3,355	\$ 2,834
Interest (on the Total Net Pension Liability)	1,956	2,002	1,894
Difference between expected and actual experience	2,066	(7,613)	-
Change of assumptions	15,439	(5,070)	5,771
Benefit payments, including refunds of employee contributions	(414)	(395)	(378)
Net Change in Total OPEB Liability	<u>22,357</u>	<u>(7,721)</u>	<u>10,121</u>
Total OPEB Liability - Beginning	<u>51,279</u>	<u>59,000</u>	<u>48,879</u>
Total OPEB Liability - Ending (a)	<u>\$ 73,636</u>	<u>\$ 51,279</u>	<u>\$ 59,000</u>
Covered Employee Payroll	\$ 2,068,998	\$ 1,973,399	\$ 1,889,485
OPEB as a Percentage of Covered Employee Payroll	3.56%	2.60%	3.12%

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Supplemental Information

CITY OF SUNSET VALLEY, TEXAS
Supplemental Information
Schedule of Revenues, Expenditures and Changes in Net Position –
Budget and Actual (Budgetary Basis)
Proprietary Fund
For the Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Charges for Services	\$ 1,237,855	\$ 1,237,855	\$ 1,039,997	\$ (197,858)
Interest Income	48,800	48,800	60,670	11,870
Miscellaneous Revenue	1,000	1,000	275	(725)
Total Revenues	1,287,655	1,287,655	1,100,942	(186,713)
EXPENSES				
Utilities	471,068	471,068	373,259	97,809
Public Works	421,750	421,750	17,503	404,247
Contractual Services	1,158,367	1,158,367	996,054	162,313
Capital Outlay	-	-	112,868	(112,868)
Total Expenses	2,051,185	2,051,185	1,499,684	551,501
Excess of Revenues Over (Under) Expenses	(763,530)	(763,530)	(398,742)	364,788
OTHER FINANCING SOURCES (USES)				
Transfers	452,040	452,040	-	452,040
Total Other Financing Sources (Uses)	452,040	452,040	-	452,040
Change in Net Position	(311,490)	(311,490)	(398,742)	(87,252)
Fund Balance - Beginning, GAAP Basis	6,566,421	6,566,421	6,566,421	-
Net Position - Ending, Budgetary Basis	\$ 6,254,931	\$ 6,254,931	6,167,679	\$ (87,252)
Adjustments to Reconcile the Budgetary Amounts to GAAP:				
The City does not budget for depreciation expense			(71,785)	
The City budgets capital outlays as expenditures, but for GAAP they are reported as capital assets			112,868	
Net Position - Ending, GAAP Basis			\$ 6,208,762	

See Independent Auditor's Report

CITY OF SUNSET VALLEY, TEXAS
Supplemental Information
Schedule of Revenues, Expenditures and Changes in Net Position –
Budget and Actual (Budgetary Basis)
Component Unit
For the Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Sales and Use Tax	\$ 391,923	\$ 391,923	\$ 365,836	\$ (26,087)
Interest Income	-	-	2,444	2,444
Total Revenues	391,923	391,923	368,280	(23,643)
EXPENDITURES				
Current				
General Government	-	-	317,195	(317,195)
Total Expenditures	-	-	317,195	(317,195)
Excess of Revenues Over (Under) Expenditures	391,923	391,923	51,085	(340,838)
OTHER FINANCING SOURCES (USES)				
Transfers	-	-	100	(100)
Total Other Financing Sources and Uses	-	-	100	(100)
Fund Balance - Beginning, GAAP Basis	67,684	67,684	67,684	-
Fund Balance - Ending, Budgetary Basis	\$ 459,607	\$ 459,607	\$ 118,669	\$ (340,738)

CITY OF SUNSET VALLEY, TEXAS
Supplemental Information
Notes to the Budgetary Comparison Schedule – Proprietary Fund
For the Year Ended September 30, 2020

Budget

The following procedures are followed in establishing the budgetary data:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of an ordinance by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council, and are not made after fiscal year end. During the year, the budget was amended as necessary. All budget appropriations lapse at year-end.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and City Council
City of Sunset Valley, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sunset Valley, Texas (the City), 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, and have issued our report thereon dated May 27, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS (CONTINUED)*

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings (as item 2020-01) that we consider to be a significant deficiency.

Compliance and Other Matters

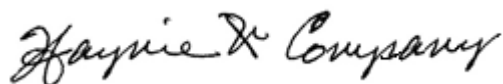
As part of obtaining reasonable assurance about whether the City’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2020-01.

City of Sunset Valleys Response to Findings

The City’s response to the findings identified in our audit is described in the accompanying schedule of findings. The City’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Antonio, Texas
May 27, 2021

DRAFT

Schedule of Findings

CITY OF SUNSET VALLEY, TEXAS

Schedule of Findings

September 30, 2020

2020-01 – Inadequate Capital Subsidiary Ledger

Criteria: Under governmental accounting principles generally accepted in the United States of America (GAAP), the City is required to report its capital assets within the government-wide statement of net position and other required footnotes.

Condition: The City could not provide a complete capital asset subsidiary ledger. Consequently, the City did not have a formal internal process to determine the related annual depreciation expense and information required to compile the capital asset rollforward.

Context: During our testing of capital assets, we noted the following internal processes were not complete at year-end:

- A complete annual inventory to determine all capital assets listed in the subsidiary ledger are still in service.
- Calculation of annual depreciation
- Compilation of annual assets rollforward
- Concise location in which capital assets are recorded (e.g. Capital Outlay account)

Cause and Effect: In the absence of these internal controls, a misstatement on the government-wide statement of net position and the required capital asset disclosures would be possible.

Recommendation: We recommend City implement the following:

- Compilation and annual maintenance of a complete capital asset subsidiary ledger for all capital assets. This detailed subsidiary ledger should include all relevant information necessary to report and disclose capital assets (e.g. asset description, historical cost, accumulated depreciation, net book value, useful life and acquisition date).
- Processes and procedures to ensure an annual inventory of capital assets is performed. Additionally, items identified as missing or no longer in service should be reviewed by management to determine if they should be removed from the capital asset subsidiary ledger.

Views of Responsible Official(s) and Planned Corrective Actions:

Management concurs with the finding and recommendation. We will implement the related recommendation noted above by the end of fiscal year 2021.