CITY OF SAN SABA, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2020

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ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of San Saba, Texas

Report on the Financial Statements

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 San Saba, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the 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 financial position 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 San Saba, Texas, as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-8 and 56-61 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2020, on our consideration of the City's internal control over financial reporting and 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 the effectiveness of the City's 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 City's internal control over financial reporting and compliance.

Kevin Shahan, CPA
San Saba, Texas
December 10, 2020

Reporting the City as a Whole – ***Continued***

Governmental activities — Most of the City's basic services are reported here. Property and sales taxes and state and federal grants finance most of these activities.

Business-type activities — The City charges a fee to "customers" to help it cover all or most of the cost of services it provides for water, wastewater, sanitation, and electric services.

Component units — The City includes one separate legal entity in its report — the San Saba Economic Development Corporation. Although legally separate, this "component unit" is important because the City is financially accountable for it.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 15 and provide detailed information about the most significant funds – not the City as a whole. Laws and contracts require the City to establish specific funds, such as grants. The City's administration establishes many other funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

Governmental funds – Most of the City's basic services are reported in governmental funds. These type of funds use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Revenues, Expenditures, and Changes in Net Position) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary funds – The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Revenues, Expenditures, and Changes in Net Position. The City's enterprise fund (one category of proprietary funds) is included in the business-type activities reported in the government-wide statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the Net Position (Table I) and Changes in Net Position (Table II) of the City's governmental and business-type activities.

For the year ended September 30, 2020, net position of the City's governmental activities decreased from \$616,652 to \$461,273, or 25.2%.

For the year ended September 30, 2020, net position of business-type activities increased from \$5,976,212 to \$6,896,852, or 15.4%.

The largest portion of the City's total net position, \$5,485,295 (74.5%) reflects its investment in capital assets (e.g. land, infrastructure, buildings, improvements, and machinery and equipment), less any debt used to acquire those assets which remain outstanding. The City uses capital assets to provide services to citizens; consequently, such assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, the resources necessary to repay this debt must be provided from other sources, since capital assets themselves often cannot be used to liquidate the related liabilities. An additional portion of the City's net

CITY OF SAN SABA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial Report, we, the managers of the City of San Saba, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2020. Please read it in conjunction with the Independent Auditors' Report on page 1 and the City's Basic Financial Statements, which begin on page 11.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Revenues, Expenditures, and Changes in Net Position (Exhibits A-1 and B-1). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (Exhibits C-1 through C-4) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short-term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the electric, water, sewer, and garbage services it provides to citizens and other departments within the City.

The notes to the financial statements (starting on page 24) provide narrative explanations and additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Revenues, Expenditures, and Changes in Net Position

The analysis of the City's overall financial condition and operations begins on page 11. Its primary purpose is to show whether the City's financial condition has improved as a result of the year's activities. The Statement of Net Position includes all of the City's assets and liabilities at the end of the year while the Statement of Revenues, Expenditures, and Changes in Net Position includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs and revenues provided by the taxpayers (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Revenues, Expenditures, and Changes in Net Position, we divided the City into the following three kinds of activities:

GOVERNMENT-WIDE FINANCIAL ANALYSIS – *Continued*

position of $494,373 (6.7%) represents resources that are restricted as to their use. The remaining balance of unrestricted net position of $1,378,457 (18.8%) may be used to meet ongoing obligations to citizens and creditors. As of September 30, 2020 the City is able to report positive balances in all three categories of net position for the government as a whole.

Table I
City of San Saba, Texas
Net Position

	Year Ended September 30, 2020			Year Ended September 30, 2019		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	$ 446,089	$ 2,883,768	$ 3,329,857	$ 552,348	$ 2,182,026	$ 2,734,374
Capital assets, net	1,963,901	6,809,954	8,773,855	1,880,325	6,059,159	7,939,484
Total assets	2,409,990	9,693,722	12,103,712	2,432,673	8,241,185	10,673,858
Deferred outflows	-	-	-	376,953	269,889	646,842
Current liabilities	309,119	176,494	485,613	375,261	131,604	506,865
Noncurrent liabilities	1,262,642	2,529,299	3,791,941	1,592,902	2,403,258	3,996,160
Total liabilities	1,571,761	2,705,793	4,277,554	1,968,163	2,534,862	4,503,025
Deferred inflows	376,956	91,077	468,033	224,811	-	224,811
Net position						
Inv in Capital assets, net	809,583	4,675,712	5,485,295	652,870	4,320,538	4,973,408
Restricted for:						
Debt service	242,361	252,012	494,373	143,775	328,265	472,040
Unrestricted	(590,671)	1,969,128	1,378,457	(179,993)	1,327,409	1,147,416
Total net position	$ 461,273	$ 6,896,852	$ 7,358,125	$ 616,652	$ 5,976,212	$ 6,592,864

Analysis of the City's Operations

Governmental activities reported a decrease in net position in the amount of $155,379, or 25.2%. Business-type activities reported an increase in net position in the amount of $920,640, or 15.4%. The governmental decrease in net position is the result of a lower amount of funds transferred from the enterprise funds to the General Fund compared to prior years. Operating transfers from Enterprise Funds to Governmental Funds in 2020 decreased by $259,262, or 11.4% compared to 2019. Total governmental activities revenues of $1,669,302 (not including transfers) increased by 2.3% compared to the prior year, while governmental expenditures of $3,830,648 increased by $394,301, or 11.5% compared to the prior year. The increase in expenditures is mainly the result of increased expenditures for an annual TMRS pension adjustment by $224,474. The government-wide financial statements include this annual adjustment for the City's pension liability (as disclosed in Note VI) as of September 30, 2020. General government expenditures increased $20,835, or 5.1% for salaries, airport, fire department, and EDC expenses. In addition, park and recreation expenditures increased by $105,540, or 9.8% for park and recreation payroll and related expenditures as well as advertising and contract labor. Public safety expenditures increased by $56,338, or 8.3% for increased payroll and related expenditures. Meanwhile, changes in revenues from the prior year saw combined property taxes, sales tax, other taxes and license and fee revenues increase by $35,246, or 3.5%. Grant revenues increased by $54,101 mainly as a result of TxDOT airport funding.

GOVERNMENT-WIDE FINANCIAL ANALYSIS – CONTINUED

Business-type activities reported an overall increase in service revenues from fiscal year 2019 to 2020 of $205,057, or 3.0%. Combined water and sewer revenues increased $166,942, or 10.5%, while electric operating revenues decreased $24,109, or -0.5%. Garbage revenues increased $62,224, or 10.6%. Total operating expenses decreased 3.9% compared to the prior year mainly as a result of decreased power purchase expenditures for the Electric department of $295,413, or 12.6%, offset by an increase in expenses for the annual TMRS pension adjustment by $122,346. The following table provides a summary of the City's operations for the years ended September 30, 2020 and 2019.

Table II
City of San Saba, Texas
Change in Net Position

	Year Ended September 30, 2020			Year Ended September 30, 2019		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Program revenues:						
Charges for services	$ 364,010	$ 7,056,661	$ 7,420,671	$ 362,841	$ 6,851,604	$ 7,214,445
Grant revenues	61,807	298,570	360,377	7,706		7,706
General revenues:						
Property taxes	413,248		413,248	399,743		399,743
Sales taxes	506,006		506,006	475,675		475,675
Other taxes	85,313		85,313	90,517		90,517
Licenses, fees, fines	46,454		46,454	49,840		49,840
Rents and royalties	73,305		73,305	76,931		76,931
Investment earnings	11,305	2,332	13,637	24,527	1,900	26,427
Other revenue	107,854		107,854	143,143		143,143
Transfer in (out)	2,005,967	(2,005,967)	-	2,183,939	(2,183,939)	-
Total revenues	3,675,269	5,351,596	9,026,865	3,814,862	4,669,565	8,484,427
Expenses:						
General government	1,391,643		1,391,643	1,180,374		1,180,374
Public safety	731,183		731,183	674,845		674,845
Streets	430,994		430,994	405,243		405,243
Parks and recreation	1,184,138		1,184,138	1,078,598		1,078,598
Public health	41,063		41,063	40,838		40,838
Interest expense	51,627	65,311	116,938	56,449	30,477	86,926
Utility fund expenses		4,365,645	4,365,645		4,543,589	4,543,589
Total expenses	3,830,648	4,430,956	8,261,604	3,436,347	4,574,066	8,010,413
Change in net position	(155,379)	920,640	765,261	378,515	95,499	474,014
Net position prior year	616,652	5,976,212	6,592,864	238,137	5,880,713	6,118,850
Net position current year	$ 461,273	$ 6,896,852	$ 7,358,125	$ 616,652	$ 5,976,212	$ 6,592,864

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a combined fund balance of $169,861, a decrease of 25.3% from the prior year end balance of $227,433. The unassigned fund balance of $150,831 increased $108,194, or 253% compared to the prior year's balance of $42,637. There were also restricted fund balances at the end of the fiscal year for water and wastewater funds due to water and wastewater system improvement reserve funds maintained as required by debt agreements. Future water and waste water improvements will be capitalized in the respective enterprise funds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2020, the City had $8,773,855 invested in a broad range of capital assets, including land, buildings and improvements, and machinery and equipment, net of accumulated depreciation.

Table III
City of San Saba, Texas
Capital Assets

	Year ended September 30, 2020		
	Governmental Activities	Business-Type Activities	Total
Land	$ 427,814	$ 16,656	$ 444,470
Buildings and improvements	3,920,042	11,324,365	15,244,407
Machinery and equipment	2,600,338	2,735,855	5,336,193
	6,948,194	14,076,876	21,025,070
Less accumulated depreciation	(4,984,293)	(7,266,922)	(12,251,215)
Capital assets, net of depreciation	$ 1,963,901	$ 6,809,954	$ 8,773,855

	Year ended September 30, 2019		
	Governmental Activities	Business-Type Activities	Total
Land	$ 427,814	$ 16,656	$ 444,470
Buildings and improvements	3,914,344	10,483,688	14,398,032
Machinery and equipment	2,253,818	2,479,077	4,732,895
	6,595,976	12,979,421	19,575,397
Less accumulated depreciation	(4,715,652)	(6,920,262)	(11,635,914)
Capital assets, net of depreciation	$ 1,880,324	$ 6,059,159	$ 7,939,483

CAPITAL ASSET AND DEBT ADMINISTRATION – *Continued*

Outstanding Debt

As of September 30, 2020, the City had $3,795,219 in bonds, certificates of obligation, and capital leases outstanding versus $3,446,060 last year; an increase of 10.1% as follows:

Table IV
City of San Saba, Texas
Outstanding Debt

	Year ended September 30, 2020		
	Governmental Activities	Business-Type Activities	Total
Capital leases	$ 322,652	$ 408,543	$ 731,195
Bonds payable		101,000	101,000
Certificates of obligation	850,000	1,622,026	2,472,026
Customer deposits		315,865	315,865
Transfer site liability		30,864	30,864
Compensated absences	94,027	50,242	144,269
Total	$ 1,266,679	$ 2,528,540	$ 3,795,219

	Year ended September 30, 2019		
	Governmental Activities	Business-Type Activities	Total
Capital leases	$ 188,664	$ 313,453	$ 502,117
Notes payable		128,483	128,483
Bonds payable		123,000	123,000
Certificates of obligation	1,050,000	1,171,000	2,221,000
Customer deposits		313,320	313,320
Transfer site liability		27,751	27,751
Compensated absences	88,420	41,969	130,389
Total	$ 1,327,084	$ 2,118,976	$ 3,446,060

Other obligations include compensated absences and customer deposits. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customer, and investors and creditors with a general overview of the City's finances and to show the accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at the City of San Saba, Texas, 303 S Clear Street, San Saba, Texas 78677.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

EXHIBIT A-1

CITY OF SAN SABA, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

	Primary Government			
	Governmental Activities	Business-type Activities	Total	San Saba Economic Dev Corp Fund
Assets				
Cash and cash equivalents	$ 187,557	$ 1,593,159	$ 1,780,716	$ 202,123
Investments – current		247,965	247,965	
Receivables (net of allowance)	230,359	707,568	937,927	
Inventories		335,076	335,076	
Debt issuance costs, net	18,334		18,334	
Due from other funds	9,839		9,839	
Capital assets:				
Land	427,814	16,656	444,470	200,000
Building and improvements	3,920,042	11,324,365	15,244,407	417,341
Machinery and equipment	2,600,338	2,735,855	5,336,193	66,352
Accumulated depreciation	(4,984,293)	(7,266,922)	(12,251,215)	(278,719)
Total assets	2,409,990	9,693,722	12,103,712	607,097
LIABILITIES				
Accounts payable and other current liabilities	17,416	-	17,416	
Accrued interest payable	8,609	2,685	11,294	
Capital lease and debt obligations	283,094	173,809	456,903	36,408
Total current liabilities	309,119	176,494	485,613	36,408
Noncurrent liabilities:				
Capital lease and debt obligations	889,558	1,957,748	2,847,306	82,189
Net pension liabitity	279,057	174,581	453,638	
Other noncurrent liabilities	94,027	396,970	490,997	
Total noncurrent liabilities	1,262,642	2,529,299	3,791,941	82,189
Total liabilities	1,571,761	2,705,793	4,277,554	118,597
Deferred inflows of resources				
Deferred ad valorem tax revenues	231,375	-	231,375	
Deferred inflows for pensions	145,581	91,077	236,658	
Total deferred inflow of resources	376,956	91,077	468,033	-
NET POSITION				
Net investment in capital assets	809,583	4,675,712	5,485,295	286,377
Restricted for:				
Debt service	242,361	252,012	494,373	
Unrestricted	(590,671)	1,969,128	1,378,457	202,123
Total net position	$ 461,273	$ 6,896,852	$ 7,358,125	$ 488,500

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

CITY OF SAN SABA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2020

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
GOVERNMENTAL ACTIVITIES:				
General government	$ 1,391,643	$	$ 61,807	
Public safety	731,183			
Streets	430,994			
Public health and welfare	41,063			
Parks and recreation	1,184,138	364,010	-	-
Interest on debt	51,627			
	3,830,648	364,010	61,807	-
BUSINESS-TYPE ACTIVITIES				
Utility fund	4,365,645	7,056,661		298,570
	4,365,645	7,056,661	-	298,570
TOTAL PRIMARY GOVERNMENT	$ 8,196,293	$ 7,420,671	$ 61,807	$ 298,570
COMPONENT UNIT	EDC			
Component unit	153,086			
TOTAL COMPONENT UNIT	$ 153,086	$	$	$

General Revenues:

- Taxes:
  - Property taxes levied for general purposes
  - Sales tax
  - Other taxes and franchise fees
  - Penalty and interest
- Licenses and permits
- Fines
- Rents and royalties
- Miscellaneous revenues
- Investment income
- Transfers in (out)

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	San Saba Economic Dev Corp Fund
$ (1,329,836)	$	$ (1,329,836)	$
(731,183)		(731,183)	
(430,994)		(430,994)	
(41,063)		(41,063)	
(820,128)		(820,128)	
(51,627)	(65,311)	(116,938)	
(3,404,831)	(65,311)	(3,470,142)	
	2,989,586	2,989,586	
	2,989,586	2,989,586	
$ (3,404,831)	$ 2,924,275	$ (480,556)	$
			$ (153,086)
$	$	$	$ (153,086)
413,248		413,248	
506,006		506,006	167,337
66,063		66,063	
19,250		19,250	
2,061		2,061	
44,393		44,393	
73,305		73,305	
107,854		107,854	3,597
11,305	2,332	13,637	197
2,005,967	(2,005,967)	-	-
$ 3,249,452	$ (2,003,635)	$ 1,245,817	$ 171,131
(155,379)	920,640	765,261	18,045
616,652	5,976,212	6,592,864	470,455
$ 461,273	$ 6,896,852	$ 7,358,125	$ 488,500

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

EXHIBIT C-1

CITY OF SAN SABA, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Current Assets			
Cash and cash equivalents	$ 172,241	$ 15,316	$ 187,557
Taxes receivable	35,359	195,000	230,359
Other current assets	1,230	8,609	9,839
Total Assets	$ 208,830	$ 218,925	$ 427,755
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 17,910	$ 8,609	$ 26,519
Total Liabilities	17,910	8,609	26,519
Deferred inflow of resources			
Deferred ad valorem taxes	36,375	195,000	231,375
Total deferred inflow of resources	36,375	195,000	231,375
Fund Balances:			
Restricted for debt service		15,316	15,316
Assigned to:			
Fire department	1,845		1,845
Park lights	1,869		1,869
Unassigned	150,831		150,831
Total Fund Balances	154,545	15,316	169,861
Total Liabilities and Fund Balances	$ 208,830	$ 218,925	$ 427,755

The accompanying notes are integral part of the financial statements.

EXHIBIT C-2

CITY OF SAN SABA, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

Total Fund Balances - Governmental Funds	$ 169,861
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $6,595,976 and the accumulated depreciation was $4,715,651. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	389,219
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2020 capital outlays and debt payments is to increase net position.	330,023
The 2020 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(268,642)
Included in noncurrent liabilities is the recognition of the City's share of the net pension liability required by GASB 68 in the amount of $279,057. Also included in the statement of net position are deferred inflows in the amount of $145,581, which increased compared to the prior year balance of deferred outflows. Additionally, changes in pension expense have been included, which results in a current year decrease in net position.	(196,697)
Various other reclassifications and eliminations are necessary to convert from the modified accural basis of accounting to the the accrual basis of accounting. These include eliminating interfund transactions, reclassifying the capitalization of construction in progress, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	37,509
Net Position of Governmental Activities	$ 461,273

The accompanying notes are integral part of the financial statements.

EXHIBIT C-3

CITY OF SAN SABA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Taxes:			
Property taxes	$ 98,616	$ 333,882	$ 432,498
General sales and use taxes	506,006		506,006
Other taxes and franchise fees	66,064		66,064
Licenses and permits	2,061		2,061
Charges for services	364,010		364,010
Fines	44,393		44,393
Investment income	10,572	734	11,306
Rents and royalties	73,305		73,305
Grant income	19,996		19,996
Other revenues	149,664		149,664
Total Revenues	1,334,687	334,616	1,669,303
EXPENDITURES:			
Current:			
General government	1,210,840	15,162	1,226,002
Public safety	696,462		696,462
Streets	384,484		384,484
Parks and recreation	1,013,352		1,013,352
Public health	30,892		30,892
Debt service:			
Principal	104,950	200,000	304,950
Interest and fiscal charges	9,201	42,426	51,627
Capital Outlay:			
Capital outlay	25,073		25,073
Total Expenditures	3,475,254	257,588	3,732,842
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,140,567)	77,028	(2,063,539)
OTHER FINANCING SOURCES (USES):			
Transfers in (out)	2,211,454	(205,487)	2,005,967
Total Other Financing Sources and (Uses)	2,211,454	(205,487)	2,005,967
NET CHANGES IN FUND BALANCES	70,887	(128,459)	(57,572)
Fund Balance - October 1 (Beginning)	83,658	143,775	227,433
Fund Balance - September 30 (Ending)	$ 154,545	$ 15,316	$ 169,861

The accompanying notes are integral part of the financial statements.

EXHIBIT C-4

CITY OF SAN SABA, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Total Net Change in Fund Balances - Governmental Funds	$ (57,572)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2020 capital outlays and debt payments is to increase net position.	330,023
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(268,642)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflow. The annual change in contributions made after the TMRS measurement date of 12/31/2019 caused the ending net position to increase by $13,405. Also, the change in contributions made before the measurement date but during 2019-2020 FY were de-expended and recorded as a reduction in the net pension liability of the City, which decreased net position by $3,747. The City recorded its share of pension expense of $102,571 during the measurement period as part of the net pension liability. The annual changes related to the impact of the implementation of GASB 68 is to decrease net position by $196,698.	(196,698)
Various other reclassifications and eliminations are necessary to convert from the modified accural basis of accounting to the the accrual basis of accounting. These include eliminating interfund transactions, reclassifying the proceeds of general obligation debt as an increase in long-term debt, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	37,510
Change in Net Position of Governmental Funds	$ (155,379)

PROPRIETARY FUND FINANCIAL STATEMENTS

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EXHIBIT D-1

CITY OF SAN SABA, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2020

	Business-Type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Electric Fund	Garbage Fund	TOTAL
ASSETS					
Current Assets					
Cash and cash equivalents	$ 334,107	$ 390,614	$ 748,410	$ 120,028	$ 1,593,159
Investments - current	57,925	86,558	103,482	-	247,965
Accounts receivable - net of uncollectible accounts	110,301	65,678	468,443	63,146	707,568
Inventories	119,051	7,884	208,141	-	335,076
Total current assets	621,384	550,734	1,528,476	183,174	2,883,768
Non-current Assets					
Capital assets:					
Land	-	14,206	2,450	-	16,656
Buildings and improvements	4,200,866	4,589,614	2,501,950	31,935	11,324,365
Machinery and equipment	409,750	473,063	1,018,609	834,433	2,735,855
Accumulated depreciation	(1,709,782)	(2,687,029)	(2,149,190)	(720,921)	(7,266,922)
Total non-current assets	2,900,834	2,389,854	1,373,819	145,447	6,809,954
Total Assets	3,522,218	2,940,588	2,902,295	328,621	9,693,722
LIABILITIES					
Current Liabilities					
Accrued interest payable	2,685	-	-	-	2,685
Revenue bonds & notes payable - current	51,000	-	-	-	51,000
Capital leases payable - current	30,247	-	58,503	34,059	122,809
Total current liabilities	83,932	-	58,503	34,059	176,494
Non-current liabilities					
Revenue bonds and notes payable	1,672,026	-	-	-	1,672,026
Capital leases payable	49,909	-	149,513	86,300	285,722
Customer deposits	145,894	-	169,971	-	315,865
Net pension liability	26,594	26,760	71,169	50,058	174,581
Other non-current liabilities	11,277	6,440	20,447	42,941	81,105
Total non-current liabilities	1,905,700	33,200	411,100	179,299	2,529,299
Total Liabilities	1,989,632	33,200	469,603	213,358	2,705,793
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources	13,874	13,960	37,128	26,115	91,077
Total deferred inflows of resources	13,874	13,960	37,128	26,115	91,077
NET POSITION					
Net investment in capital assets	1,094,967	2,389,854	1,165,803	25,088	4,675,712
Restricted for debt service	226,120	1,109	24,783	-	252,012
Unrestricted	197,625	502,465	1,204,978	64,060	1,969,128
Total Net Position	$ 1,518,712	$ 2,893,428	$ 2,395,564	$ 89,148	$ 6,896,852

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

EXHIBIT D-2

CITY OF SAN SABA, TEXAS
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Business-Type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Electric Fund	Garbage Fund	TOTAL
OPERATING REVENUES					
Charges for services	$ 1,105,125	$ 614,438	$ 4,654,643	$ 646,940	$ 7,021,146
Grant revenues	298,570	-	-	-	298,570
Other revenues	873	34,642	-	-	35,515
Total operating revenues	1,404,568	649,080	4,654,643	646,940	7,355,231
OPERATING EXPENSES					
Salaries and wages	117,978	118,713	315,720	222,065	774,476
Employee benefits	44,975	43,795	103,229	107,417	299,416
Purchased power	-	-	2,039,242	-	2,039,242
Other operating expenses	134,364	148,006	164,744	257,858	704,972
Supplies	45,609	14,475	102,430	33,865	196,379
Depreciation	104,488	99,363	91,774	55,535	351,160
Total operating expenses	447,414	424,352	2,817,139	676,740	4,365,645
Operating income	957,154	224,728	1,837,504	(29,800)	2,989,586
NON-OPERATING REVENUES (EXPENSES)					
Investment earnings	737	794	794	7	2,332
Interest expense - non-operating	(53,430)	(1,539)	(3,985)	(6,357)	(65,311)
Total non-operating revenues (expenses)	(52,693)	(745)	(3,191)	(6,350)	(62,979)
INCOME (LOSS) BEFORE TRANSFERS	904,461	223,983	1,834,313	(36,150)	2,926,607
Transfers in	205,487	-	-	-	205,487
Transfers out	(544,292)	(150,000)	(1,517,162)	-	(2,211,454)
Change in net position	565,656	73,983	317,151	(36,150)	920,640
Net Position - beginning	953,056	2,819,445	2,078,413	125,298	5,976,212
Net Position - ending	$ 1,518,712	$ 2,893,428	$ 2,395,564	$ 89,148	$ 6,896,852

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

CITY OF SAN SABA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Business-Type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Electric Fund	Garbage Fund	Total Enterprise Funds
Cash Flows from Operating Activities:					
Cash received from user charges	$ 1,097,445	$ 612,466	$ 4,676,218	$ 645,239	$ 7,031,368
Cash payments to employees for services	(102,263)	(101,275)	(257,347)	(182,972)	(643,857)
Cash payments to suppliers	(267,639)	(206,694)	(2,392,501)	(396,027)	(3,262,861)
Other operating income	299,443	34,642	-	-	334,085
Net Cash Provided by Operating Activities	1,026,986	339,139	2,026,370	66,240	3,458,735
Cash Flows from Non-Capital Financing Activities:					
Transfers in	205,487	-	-	-	205,487
Transfers out	(544,292)	(150,000)	(1,517,162)	-	(2,211,454)
Net Cash Used for Non-Capital Financing Activities	(338,805)	(150,000)	(1,517,162)	-	(2,005,967)
Cash Flows from Capital and Related Financing Activities:					
Acquisition of capital assets	(822,753)	(28,160)	(236,544)	(14,500)	(1,101,957)
Principal paid on debt and capital leases	(213,902)	(128,483)	(61,416)	(32,696)	(436,497)
Interest paid on debt and capital leases	(53,430)	(1,539)	(3,985)	(6,357)	(65,311)
Proceeds from financing activities	642,768	-	189,351	-	832,119
Net Cash Provided by (used for) Capital and Related Financing Activities	(447,317)	(158,182)	(112,594)	(53,553)	(771,646)
Cash Flows from Investing Activities:					
Interest and dividends on investments	737	794	794	7	2,332
Net Cash Provided by (used for) Investing Activities	737	794	794	7	2,332
Net increase (decrease) in cash and cash equivalents	241,601	31,751	397,408	12,694	683,454
Cash and Cash Equivalents at Beginning of the Year	150,431	445,421	454,484	107,334	1,157,670
Cash and Cash Equivalents at End of the Year	$ 392,032	$ 477,172	$ 851,892	$ 120,028	$ 1,841,124
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating income	$ 957,154	$ 224,728	$ 1,837,504	$ (29,800)	$ 2,989,586
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	104,488	99,363	91,774	55,535	351,160
Effect of increases and decreases in assets and liabilities:					
Decrease (increase) in receivables	(7,680)	(1,972)	21,575	(470)	11,453
Decrease (increase) in inventories	(42,791)	(418)	14,699	-	(28,510)
Decrease (increase) in deferred outflows	61,104	59,804	142,595	97,463	360,966
Increase (decrease) in compensated absences	327	1,061	6,079	805	8,272
Increase (decrease) in net pension liabilities	(45,716)	(43,427)	(90,301)	(59,176)	(238,620)
Increase (decrease) in other noncurrent	100	-	2,445	1,883	4,428
Net Cash Provided by Operating Activities	$ 1,026,986	$ 339,139	$ 2,026,370	$ 66,240	$ 3,458,735

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

The City of San Saba (the primary government) is a general law city incorporated under the laws of the State of Texas in 1910. In February 1992, the City began operating under a Type A General Law Municipality, with a Mayor-Council form of government. The City provides the following services: public safety, street maintenance, refuse collection, recreation programs, municipal court, public health, community development, public improvements, water, sewer, electric and general administrative services.

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City an option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

In accordance with Codification 2200, the City's financial statements include all funds, account groups, agencies, boards, commissions and other organizations over which the Council exercises oversight responsibility. Oversight responsibility includes appointment of governing bodies, budget authority, approval of tax levies, securing outstanding debt by the City's full faith and credit or revenues, and responsibility for funding deficits.

The City has included the San Saba Economic Development Corporation as a component unit in the financial statements. As a result of applying the entity definition criteria of the Government Accounting Standards Board, the City included this entity as a component unit. This unit was organized for the following purpose:

San Saba Economic Development Corporation (San Saba EDC)

This corporation was created in 1999 under the Development Corporation Act of 1979, to promote and develop various enterprises and the general welfare of the city. It is supported by a ½ *(.005)* cent sales tax approved by voters in October 1999. Its governing board is appointed and serves at the pleasure of the city council.

A joint venture is an organization created through a contractual arrangement. The organization is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The City participates in two joint ventures with the County of San Saba, Texas. The purpose of these joint ventures is to pool resources and to share the costs, risks, and rewards of providing goods or services to the general public.

The City participates in the following joint ventures:

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. FINANCIAL REPORTING ENTITY - CONTINUED

San Saba County Emergency Medical Services

The County is responsible for overseeing countywide emergency management and medical services whereby professional emergency personnel respond to calls for emergency management and/or medical assistance. The County and the City share in funding the operations each fiscal year through an inter-local agreement whereby the City pays a portion of expenses, or $7,459 per month, to San Saba County for such services. The City also shares in funding Emergency Management Coordinator services with San Saba County, whereby the City pays $322 per month. The City records these expenditures in the general fund.

San Saba Volunteer Fire Department

This volunteer organization is county-wide. Its net deficit is funded half by the County and half by the City. The City incurred expenditures of $30,615 for fire department services in fiscal year 2020. These expenditures are recorded in the general fund.

San Saba Jail Dispatcher and Municipal Court Services

Services for jail dispatching and municipal court services are also shared between the City and San Saba County. Interlocal agreements exist between the two municipalities for $86,892 and $26,760 for such services. These expenditures are recorded in the general fund.

Financial support from the City for these joint ventures has remained stable for the last several years and the City remains a vested partner in the provision of such services to its citizens.

B. BASIS OF PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and Statement of Revenues, Expenditures, and Changes in Net Position display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. BASIS OF PRESENTATION - CONTINUED

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term principal and interest and water and sewer fund principal and interest. It is used for the accumulation of funds to make required payments on principal and interest for such liabilities as certificate of obligation debt, bonds, and capital leases.

Capital Projects Fund

The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of capital facilities. Expenditures are accumulated in the fund until projects are completed.

Proprietary Funds

Proprietary funds are used to account for the City's ongoing organizations and activities that are similar to those found in the private sector. The measurement focus is upon determination of net income and capital maintenance. The City maintains the following proprietary fund types:

Enterprise Funds

These funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Discretely Presented Component Units

These funds are used to account for quasi-municipal activities of the San Saba Economic Development Corporation (SSEDC).

Major and Nonmajor Funds

The funds are all classified as major funds and are shown below:

Fund Type	Brief Description
Major	
General	Accounts for operating activities of the City.
Proprietary Funds	
City of San Saba Electric Utility	Accounts for activities of the public trust in providing electric services to the public.
City of San Saba Water Utility	Accounts for activities of the public trust in providing water services to the public.
City of San Saba Sewer Utility	Accounts for activities of the public trust in providing sewer services to the public.
City of San Saba Garbage Collection	Accounts for activities of the public trust in providing refuse collection services to the public.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded with the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Revenues, Expenditures, and Changes in Net Position, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All government funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Revenues, Expenditures, and Changes in Net Position both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, or economic asset used.

Cash and Investments

For the purposes of the Statement of Net Position, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary

D. ASSETS, LIABILITIES, AND EQUITY

fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. Investments of the promissory note trustee accounts are not considered cash equivalents. The signing of the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010 made the FDIC insurance coverage of $250,000 permanent.

In accordance with GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are stated at fair value. GASB Statement No. 31 also allows governments to value short-term, highly liquid debt instruments (i.e., money market investments, certificates of deposit) at amortized cost if those investments have a remaining maturity of one year or less at the time they are acquired. Short-term investments are reported at cost, which reasonably estimates fair value. Additional cash and investment disclosures are presented in Notes II.B. and III.A.

Texas Government Code Section 2256 (PFIA) outlines requirements for state agencies investing public funds. PFIA defines state agency as a department or commission that is part of any branch of state government and any non-profit corporation acting on behalf of either of those entities. In addition, the PFIA authorizes the governing body of a state agency to invest public funds and, in doing so, must comply with the requirements of PFIA. Procedures followed while conducting the annual government-wide audit of the financial statements of the City disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Public Funds Investment Act.

Interfund Receivables and Payables

During the course of operations, transactions may occur between individual funds that result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "Interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. See Note IV for details of interfund transactions, including receivables and payables at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines, and ambulance fees. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. ASSETS, LIABILITIES, AND EQUITY - CONTINUED

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations, and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Revenues, Expenditures, and Changes in Net Position, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the asset's estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	25-50 years
Utility System	25-50 years
Improvements	10-50 years
Machinery and Equipment	3-20 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in government-wide statements.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

All long-term debt to be repaid from governmental and business-type resources is reported as a liability in the government-wide statements. The long-term debt consists primarily of certificates of obligation, bonds, lease payables, customer deposits, and accrued compensated absences.

Fund Financial Statements

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. ASSETS, LIABILITIES, AND EQUITY - CONTINUED

Pensions

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

Equity Classifications

Government-wide Statements

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

a. Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes, mortgages, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net position – consists of net positions with constraints placed on the use either by: (1) external groups such as grantors, creditors, contributors, or other laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.

c. Unrestricted net position – all other net positions that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

The City's policy is to first apply restricted resources to an expense and then unrestricted resources for the same expenses in the case where both restricted and unrestricted net position resources are available to pay for the expense. The City considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

Fund Financial Statements

To clarify the relationship between reserved fund balance and restricted net position, the GASB issued Statement No. 54. The objective of the statement was to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. Fund balance reporting requirements were changed to depict the relative strength of the spending constraints placed on the purposes for which the resources can be used as follows:

Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact

Restricted fund balance – amounts that are constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation

D. ASSETS, LIABILITIES, AND EQUITY - CONTINUED

Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint

Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority

Unassigned fund balance – amounts available for any purpose not contained in other classifications

E. REVENUES, EXPENDITURES, AND EXPENSES

Sales Tax

The City presently levies a one-cent (0.010) sales tax on taxable sales within the City. The sales tax is collected by the Texas State Comptroller of Public Accounts and remitted to the City in the month following receipt by the Comptroller. The Comptroller receives the sales tax approximately one month after collection by vendors. The sales tax is recorded entirely in the General Fund and then allocated two-thirds for General Fund operations and one-third for the San Saba EDC.

Property Tax

Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and any court-assessed judgments. Property taxes attach as an enforceable lien on taxable property as of January 1. Taxes are levied annually on October 1 and are due by January 31. The San Saba County Central Appraisal District bills and collects the property taxes and remits to the City its portion. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year end. Due to the immaterial amount of any additional property taxes receivable after the 60-day period and between the date of the issuance of the financial statements, no additional accrual is made in the government-wide financial statements.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds — By Character

Current (further classified by function)
Debt Service
Capital Projects

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. REVENUES, EXPENDITURES, AND EXPENSES - CONTINUED

Proprietary Fund — By Operating and Non-operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as Interfund transfers. For the purposes of the Statement of Revenues, Expenditures, and Changes in Net Position, all interfund transfers between individual governmental funds have been eliminated.

F. BUDGETS

Budgets are legally adopted for the General and Enterprise Funds. Budget-to-actual comparisons are presented due to the legal requirement to adopt a budget.

The original budget is adopted by the City Council prior to the beginning of the fiscal year. Amendments are made during the year on approval by the City Council. The final amended budget is used in this report. Unused budget appropriations lapse at year-end unless carried forward to the next year by City Council action. The operating budget includes proposed expenditures for the General and Enterprise Funds. The City Council annually adopts the final budget prior to September 30.

The City Manager has the authority to transfer appropriation balances from one expenditure category to another within a department. Although costs are monitored on expenditure categories, the legal level of control (level at which expenditures may not exceed budget) is the fund level. The reported budgetary data has been revised for amendments authorized during the year.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

A. FUND ACCOUNTING REQUIREMENTS

The City complies with all state and local laws and regulations requiring the use of separate funds.

B. DEPOSITS AND INVESTMENT LAWS AND REGULATIONS

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, as required by 12 U.S.C.A., Section 1823(3). All financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. As reflected in Note III.A., all deposits were fully insured or collateralized.

C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources. For the year ended September 30, 2020, the City complied, in all material respects, with all revenue restrictions.

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the various assets, liabilities, equity, revenue, and expenditure/expense amounts reported in the basic financial statements.

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS - CONTINUED

A. CASH AND INVESTMENTS

Deposits were with a contracted depository bank in interest bearing accounts which were secured throughout the year by FDIC coverage and by securities conforming to the provisions of House Bill 1488 pledged to, and in the name of the City. Under the provisions of the Governmental Accounting Standards Boards "Codification of Governmental Accounting Standards," the City was adequately secured for the entire year.

Cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1	Deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name.
Category 2	Deposits that are collateralized with securities held by the pledging financial institutions trust department or agent in the entity's name.
Category 3	Deposits which are not collateralized.

The City's cash and investments are categorized as follows:

	Carrying Amount	Bank Balance
Category 1	$ 274,783	$ 274,783
Category 2	1,611,099	2,182,151
Total	$ 1,885,882	$ 2,456,934

For the fiscal year 2020, the City only invested in certificates of deposits and money market accounts at insured institutions.

Deposits for the component unit are held in a financial institution and are fully secured under the Federal Deposit Insurance Corporation.

B. CAPITAL ASSETS

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

	Balance September 30, 2019	Additions	Dispositions	Balance September 30, 2020
Governmental activities:				
Land	$ 427,814	$	$	$ 427,814
Buildings	946,099			946,099
Improvements	2,968,245	5,698		2,973,943
Machinery and equipment	2,253,818	346,520		2,600,338
Totals at historical cost	6,595,976	352,218		6,948,194
Less accumulated depreciation				
Buildings	(663,643)	(31,388)		(695,031)
Improvements	(2,063,120)	(114,122)		(2,177,242)
Machinery and equipment	(1,988,888)	(123,132)		(2,112,020)
Total accumulated depreciation	(4,715,651)	(268,642)		(4,984,293)
Governmental activities capital assets, net	$ 1,880,325	$ 83,576	$	$ 1,963,901

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS -CONTINUED

B. CAPITAL ASSETS CONTINUED

	Balance September 30, 2019	Additions	Dispositions	Balance September 30, 2020
Business-type activities:				
Land	$ 16,656			$ 16,656
Buildings and improvements	10,483,688	840,677		11,324,365
Machinery and equipment	2,479,077	261,278	(4,500)	2,735,855
Totals at historical cost	12,979,421	1,101,955	(4,500)	14,076,876
Less accumulated depreciation				
Total accumulated depreciation	(6,920,262)	(351,160)	4,500	(7,266,922)
Business-type capital assets, net	$ 6,059,159	$ 750,795	$ -	$ 6,809,954

Depreciation expense was charged to governmental activities as follows:

	Amount
General government	$ 6,454
Public safety and judiciary	34,721
Streets	46,510
Parks and recreation	170,786
Public health	10,171
Total depreciation expense	$ 268,642

C. LONG-TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

GOVERNMENTAL ACTIVITIES

Governmental activities debt consists of the following:

	Balance September 30, 2020
General Fund	
Lease purchase with Yamaha Financial Services in the original amount of $58,500 on September 1, 2018, for golf carts with monthly payments of $1,218.75 including interest at 4.52%.	26,853
Lease purchase with Yamaha Financial Services in the original amount of $54,079 on April 2, 2019, for golf carts with monthly payments of $1,239.29 including interest at 4.96%.	36,087
Lease purchase with First Financial Bank in the original amount of $79,654 on October 11, 2018, for a 1998 dump trailer with annual payments of $15,003.10 including interest at 4.87%.	53,361
Lease purchase with First Financial Bank in the original amount of $36,417 on July 10, 2020, for a Toro Greensmaster mower with annual payments of $5,920.31 including interest at 3.34%.	36,417

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS -CONTINUED

C. LONG-TERM DEBT – CONTINUED

GOVERNMENTAL ACTIVITIES

General Fund	Balance September 30, 2020
Lease purchase with Spirit of Texas Bank in the original amount of $161,240 on June 25, 2020, for a TYMCO street sweeper with annual payments of $25,467.96 including interest at 3.27%.	136,739
Lease purchase with First Financial Bank in the original amount of $42,095 on December 10, 2019, for a 2020 Ford Fusion with annual payments of $9,252.82 including interest at 4.50%	33,195
Certificates of Obligation in the original amount of $1,500,000 issued March 2008, with principal payments annually and interest at 4.5% payable semi-annually, final maturity March 2023. Proceeds from these obligations were restricted for the purchase of capital improvements to the electric lines and City parks. The certificates are collateralized with future ad valorem taxes.	390,000
Certificates of Obligation in the original amount of $915,000 issued October 2009, with principal payments annually and interest at 4.95% payable semi-annually, final maturity November 2025. Proceeds from these obligations were restricted for waterworks and sewer system improvements. The certificates are collateralized with future ad valorem taxes.	385,000
Certificates of Obligation in the original amount of $165,000 issued May 2014, with principal payments annually and interest ranging from 0.00% to 2.26% payable annually, final maturity May 2024. Proceeds from these obligations were restricted for waterworks and sewer system improvements. The certificates are collateralized with future ad valorem taxes.	75,000
Accrued compensated absences	94,027
Total general long-term debt	$ 1,266,679
Less amounts due within one year	283,094
Amounts due in more than one year	$ 983,585

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS -CONTINUED

C. LONG-TERM DEBT – CONTINUED

BUSINESS-TYPE ACTIVITIES

As of September 30, 2020, the long-term debt payable from proprietary fund resources (business-type activities) consisted of the following:

	Balance September 30, 2020
Water fund	
Waterworks and Sewer System Revenue Bonds in the original amount of $475,000 issued 1985, with principal payments annually and interest at 5% semi-annual, final maturity June 1, 2024.	101,000
Lease purchase with Spirit of Texas Bank in the original amount of $84,100 on April 9, 2015, for SCADA Water System Equipment with monthly payments of $1,148 including interest at 3.98%.	20,189
Lease purchase with First Financial Bank in the original amount of $47,469 on November 16, 2018, for New Holland Skid Loader Equipment with annual payments of $13,384 including interest at 4.91%.	36,510
Lease purchase with First Financial Bank in the original amount of $29,768 on December 16, 2019 for a 2020 Chevrolet 1500 with annual payments of $6,538 including interest at 4.50%.	23,457
Certificates of Obligation in the original amount of $1,870,000 issued September 2018, with principal payments annually and interest of 2.75% payable annually, final maturity September 2058. Proceeds from these obligations were restricted for waterworks and sewer system improvements. The certificates are collateralized with future ad valorem taxes.	1,622,026
Accrued compensated absences	11,277
Customer deposits	145,894
Total water fund long-term debt	$ 1,960,353
Sewer fund	
Accrued compensated absences	6,441
Total sewer fund long-term debt	$ 6,441

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS -CONTINUED

C. LONG-TERM DEBT – CONTINUED

BUSINESS-TYPE ACTIVITIES

	Balance September 30, 2020
Electric fund	
Lease purchase with Spirit of Texas Bank in the original amount of $104,333 on November 21, 2014, for a 2009 Ford F750 Hi-Ranger Truck with annual payments of $16,709 including interest at 3.53%.	16,121
Lease purchase with Alyce Temple in the original amount of $29,500 on October 13, 2015, for a 2015 Chevrolet Silverado 2500 HD with monthly payments of $472 including interest at 4.82%.	6,401
Lease purchase with Spirit of Texas Bank in the original amount of $69,900 on May 10, 2016, for a Digger Truck and Related Equipment with annual payments of $13,114 including interest at 3.49%.	24,916
Lease purchase with Spirit of Texas Bank in the original amount of $189,351 on June 25, 2020, for a Ford Lift Truck with annual payments of $29,908.11 including interest at 3.27%.	160,578
Accrued compensated absences	20,447
Customer deposits	169,971
Total electric fund long-term debt	$ 398,434
Garbage fund	
Lease purchase with Texas Bank in the original amount of $150,250 on November 18, 2014, for a 2015 Freightliner Sanitation Truck with semiannual payments of $8,957 including interest at 3.57%.	66,283
Lease purchase with Spirit of Texas Bank in the original amount of $75,000 on November 10, 2015, for a 2006 IHC 7300 Sanitation Truck with semiannual payments of $12,216 including interest at 3.97%.	23,182

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS -CONTINUED

C. LONG-TERM DEBT – CONTINUED

BUSINESS-TYPE ACTIVITIES

	Balance September 30, 2020
Lease purchase with First Financial Bank in the original amount of $37,578 on March 11, 2019 for a 2011 CASE 580N Backhoe with annual payments of $8,911 including interest at 5.96%.	30,906
Accrued compensated absences	12,077
Transfer site liability	30,864
Total garbage fund long-term debt	$ 163,312
Total enterprise fund long-term debt	$ 2,528,540
Amounts due within one year	173,808
Amounts due in more than one year	$ 2,354,732

C. LONG-TERM DEBT – SUMMARY OF CHANGES FOR THE YEAR

The following is a summary of changes in long-term debt of the City for the year ended September 30, 2020.

Governmental Activities

	Payable at 9/30/2019	Additions	Deletions	Payable at 9/30/2020
Capital leases	$ 188,664	$ 239,752	$ 105,764	$ 322,652
Certificates of obligation	1,050,000	-	200,000	850,000
Compensated absences	88,420	5,607	-	94,027
Totals	$ 1,327,084	$ 245,359	$ 305,764	$ 1,266,679

Enterprise Funds

	Payable at 9/30/2019	Additions	Deletions	Payable at 9/30/2020
Bonds Payable	$ 123,000	$ -	$ 22,000	$ 101,000
Capital Leases	313,453	219,119	124,029	408,543
Certificates of obligation	1,171,000	478,026	27,000	1,622,026
Notes Payable	128,483	-	128,483	-
Transfer site liability	27,751	3,113	-	30,864
Compensated absences	41,969	8,273	-	50,242
Customer deposits	313,320	2,545	-	315,865
Totals	$ 2,118,976	$ 711,076	$ 301,512	$ 2,528,540

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS -CONTINUED

C. LONG-TERM DEBT – CONTINUED

GOVERNMENTAL ACTIVITIES

ANNUAL REQUIREMENTS TO AMORTIZE LONG-TERM BONDED DEBT

Annual amortization requirements for the General Fund long-term certificates of obligation outstanding as of September 30, 2020 including interest payments are as follows:

Year ending September 30,	Principal	Interest	Total
2021	210,000	33,439	243,439
2022	225,000	23,797	248,797
2023	230,000	13,723	243,723
2024	100,000	6,414	106,414
2025	85,000	2,104	87,104
Total	$ 850,000	$ 79,477	$ 929,477

BUSINESS-TYPE ACTIVITIES

Annual amortization requirements for the Water Fund long-term 1985 bonded debt outstanding as of September 30, 2020, including interest payments are as follows:

Year ending September 30,	Principal	Interest	Total
2021	23,000	5,050	28,050
2022	25,000	3,900	28,900
2023	26,000	2,650	28,650
2024	27,000	1,350	28,350
Total	$ 101,000	$ 12,950	$ 113,950

Annual amortization requirements for the Water Fund long-term 2018 certificates of obligation outstanding as of September 30, 2020 including interest payments are as follows:

Year ending September 30,	Principal	Interest	Total
2021	28,000	49,940	77,940
2022	28,000	49,170	77,170
2023	29,000	48,400	77,400
2024	30,000	47,603	77,603
2025	31,000	46,778	77,778
2026 - 2030	167,000	220,632	387,632
2031 - 2035	190,000	196,488	386,488
2036 - 2040	220,000	168,713	388,713
2041 - 2045	252,000	136,785	388,785
2046 - 2050	289,000	100,156	389,156
2051 - 2055	330,000	58,300	388,300
2056	28,026	6,105	34,131
Total	$ 1,622,026	$ 1,129,070	$ 2,751,096

III. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS -CONTINUED

C. LONG-TERM DEBT – CONTINUED

CAPITAL LEASE PAYMENTS FOR GOVERNMENT ACTIVITIES

Minimum future lease payments for all capital lease payments including interest are as follows:

Year ending September 30,	Governmental Activities Principal	Interest	Total
2021	73,094	12,047	85,141
2022	74,832	9,040	83,872
2023	58,070	6,249	64,319
2024	51,476	4,168	55,644
2025	29,245	2,143	31,388
2026 - 2027	35,935	1,374	37,309
Total	$ 322,652	$ 35,021	$ 357,673

CAPITAL LEASE PAYMENTS FOR ENTERPRISE ACTIVITIES

Minimum future lease payments for all capital lease payments including interest are as follows:

Year ending September 30,	Enterprise Activities Principal	Interest	Total
2021	122,808	15,330	138,138
2022	99,589	10,460	110,049
2023	69,817	6,838	76,655
2024	59,324	3,947	63,271
2025	28,044	1,864	29,908
2026	28,961	947	29,908
Total	$ 408,543	$ 39,386	$ 447,929

IV. INTERFUND RECEIVABLES AND PAYABLES

The following is a list of interfund receivables and payables:

	Receivable	Payable
Garbage Fund	$ 1,230	$
Water Fund	242,828	
Debt Service Fund		242,828
General Fund		1,230
Totals	$ 244,058	$ 244,058

V. RISK MANAGEMENT

The City incurs risk in the areas of property and liability, errors and omissions, and law enforcement liability. Risk of loss for each of these areas is transferred to commercial carriers. A public entity risk pool is a cooperative group of governmental entities joining together to finance an exposure, liability or risk. The City participates in the Texas Municipal League Risk Pool, a risk-sharing pool, for workers compensation, wherein member cities pool risks and share in the costs of any losses.

V. RISK MANAGEMENT – CONTINUED

Claims against the City are expected to be paid by that public entity risk pool. Should the pool become insolvent, or otherwise unable to pay claims, the City may have to pay the claims. There were no significant reductions in insurance coverage or insurance settlements exceeding insurance coverage during each of the past three years.

VI. DEFINED BENEFIT PENSION PLANS

A. Plan Description

The City of San Saba participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

B. 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.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. The City also provides death benefits and disability benefits. Effective January 1, 2002, members are vested after 5 years. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

Employees covered by benefit terms:

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

Number of members:	December 31 2019	December 31 2018
Inactive employees or beneficiaries currently receiving benefits:	23	24
Inactive employees entitled to but not yet receiving benefits:	20	17
Active employees:	43	45
Total	86	86

VI. DEFINED BENEFIT PENSION PLANS – CONTINUED

C. Contributions

The contribution rates for employees in TMRS are either 3%, 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 San Saba were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates (including SDBF contributions) for the City of San Saba were 8.75% and 8.59% in calendar years 2020 and 2019, respectively. The City's employer contributions to TMRS for the years ended September 30, 2020, and 2019, were $166,739 and $157,779, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured at December 31, 2019 and 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of those dates. Exhibit E-2 and E-3 present the City's Pension Liability and Other Ratios, as well as the Schedule of City Contributions for these valuation dates.

Actuarial Assumptions:

The Total Pension Liabilities in the December 31, 2019, and 2018, actuarial valuations were determined using the following actuarial methods and assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year
Investment Rate of Return	6.75% net of pension plan investment expenses, including inflation

Salary increases are assumed to occur once a year, on January 1, thus, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by the following graduated service-based scale.

Years of service	Rate (%)
1	11.50%
2	7.25%
3	6.75%
4	6.25%
5	6.00%
6	5.75%
7	5.50%
8	5.25%
9	5.00%
10	4.75%
11-12	4.50%
13-15	4.25%
16-20	4.00%
21-24	3.75%
25+	3.50%

Actuarial assumptions used in the December 31, 2019 and 2018 valuations were based on the results of actuarial experience studies. The experience study for TMRS was for the period December 31, 2014 through December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation.

D. Net Pension Liability – Continued

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct 2019 Municipal Retirees of Texas mortality tables was used for service retirees and beneficiary mortality rates. For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) until 2027 are based on the mortality study performed in 2013, with the factors phasing into being based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females. The current table of APR's is explicitly valued through 2023 and it is assumed the APR's and the valuation mortality assumptions will be consistent over time.

The actuarial cost method being used is known as the Entry Age Normal Actuarial Cost Method. This method develops the annual cost of the plan in two parts; that attributable to benefits accruing in the current year, known as normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member.

Timing of the Valuation

Per GASB 68, an actuarial valuation to determine the total pension liability is required to be performed at least every two years. For the employer's financial reporting purposes, the net pension liability and pension expense should be measured as of the employer's "measurement date" which may not be earlier than the employer's prior fiscal year-end date. If the actuarial valuation used to determine the total pension liability is not calculated as of the measurement date, the total pension liability is required to be rolled forward from the actuarial valuation date to the measurement date.

The measurement date used for the total pension liability is of December 31, 2019, thus adjustments are included in the financial statements to account for the difference in the measurement date and the City's fiscal year-end date of September 30, 2020.

Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

For the purpose of this valuation, the expected rate of return on pension plan investments is 6.75%; the municipal bond rate is 2.75% (based on the daily rate closest to but not later than the measurement date of the Fidelity 20-Year Municipal GO AA Index). A single discount rate of 6.75% was used to measure the total pension liability as of December 31, 2019. The single discount rate was based on the expected rate of return on pension plan investments of 6.75%. Based on the stated assumptions and the projection of cash flows, the City's fiduciary net position and future contributions were sufficient to finance the future benefit payment of the current plan members for all projection years. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for the City. The projection of cash flows used to determine the single discount rate for the City assumed that the funding policy adopted by the TMRS Board will remain in effect for all future years. Under this funding policy the City will finance the unfunded actuarial accrued liability over the years remaining for the closed period existing for each base in addition to the employer portion of all future benefit accruals (i.e. the employer normal cost).

VI. DEFINED BENEFIT PENSION PLANS - CONTINUED

D. Net Pension Liability- Continued

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

Exhibit E-2 presents the net pension liability of the City. The following presents the net pension liability calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
Net Pension liability / (asset)	$ 1,385,006	$ 453,639	$(307,725)

Pension Plan Fiduciary Net Position

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to Pensions.

For the years ended September 30, 2020 and 2019, the City recognized pension expense of $134,573 and $221,069, calculated as follows:

2019 SCHEDULE OF PENSION EXPENSE

$ 223,211	Total service cost
430,999	Interest on the total pension liability
(111,235)	Employee contributions (reduction of expense)
(366,681)	Projected earnings on plan investments (reduction of expense)
4,745	Administrative expense
143	Other changes in fiduciary net position
(18,335)	Recognition of current year outflows (inflows) of resources – Liabilities
(94,608)	Recognition of current year outflows (inflows) of resources – Assets
(37,353)	Amortization of prior year outflows (inflows) of resources – Liabilities
103,687	Amortization of prior year outflows (inflows) of resources – Assets
$ 134,573	Total pension expense (income)

2018 SCHEDULE OF PENSION EXPENSE

$ 211,388	Total service cost
409,046	Interest on the total pension liability
(104,389)	Employee contributions (reduction of expense)
(382,338)	Projected earnings on plan investments (reduction of expense)
3,279	Administrative expense
171	Other changes in fiduciary net position
496	Recognition of current year outflows (inflows) of resources – Liabilities
110,399	Recognition of current year outflows (inflows) of resources – Assets
(31,785)	Amortization of prior year outflows (inflows) of resources – Liabilities
4,802	Amortization of prior year outflows (inflows) of resources – Assets
$ 221,069	Total pension expense (income)

VI. DEFINED BENEFIT PENSION PLANS - CONTINUED

D. Net Pension Liability- Continued

At September 30, 2020, the City schedule of (inflows)/outflows of resources related to pension expense in current and future years is as follows:

Deferred Inflows/Outflows of Resources	*Recognition Period (or Amort. Yrs)*	*Total (Inflow) or Outflow of Resources*	*Recognized 2019 Current Pension Expense*	*Deferred (Inflow)/Outflow in future expense*
Due to Liabilities:				
Difference in expected and actual economic experience [actuarial (gains) or losses]	4.95	$(106,527)	$ (21,521)	$ (85,006)
Changes in actuarial assumptions [actuarial (gains) or losses]	4.95	$ 15,769	$ 3,186	$ 12,583
			$ (18,335)	$ (72,423)
Due to Assets:				
Difference in projected and actual earnings on pension plan investments [actuarial (gains) or losses]	5.0	$(473,042)	$ (94,608)	$(378,434)
Contributions paid to TMRS subsequent to measurement date	-	$ 214,199	-	$ 214,199
			$ (94,608)	$(164,235)
TOTAL				$(236,658)

At September 30, 2019, the City schedule of (inflows)/outflows of resources related to pension expense in current and future years is as follows:

Deferred Inflows/Outflows of Resources	*Recognition Period (or Amort. Yrs)*	*Total (Inflow) or Outflow of Resources*	*Recognized 2018 Current Pension Expense*	*Deferred (Inflow)/Outflow in future expense*
Due to Liabilities:				
Difference in expected and actual economic experience [actuarial (gains) or losses]	5.32	$ 2,639	$ 496	$ 2,143
Changes in actuarial assumptions [actuarial (gains) or losses]	5.32	$ -	$ -	$ -
			$ 496	$ 2,143
Due to Assets:				
Difference in projected and actual earnings on pension plan investments [actuarial (gains) or losses]	5.0	$ 551,996	$ 110,399	$ 441,597
Contributions paid to TMRS subsequent to measurement date	-	$ 203,102	-	$ 203,102
			$ 110,399	$ 644,699
TOTAL				$ 646,842

The $(236,658) for 2020 and $646,842 for 2019 reported as deferred (inflows)/outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as an increase/(decrease) in the net pension liability for the years ending September 30, 2020 and 2019.

VI. DEFINED BENEFIT PENSION PLANS - CONTINUED

D. Net Pension Liability- Continued

Net deferred outflows(inflows) of resources, by year, to be recognized in future pension expense as follows:

Year ended December 31:	
2020	(108,770)
2021	(92,095)
2022	(5,850)
2023	(111,869)
2024	-
Thereafter	-
Total	$ (318,584)

VII. SUPPLEMENTAL DEATH BENEFITS FUND

A. Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an *"other postemployment benefit," or OPEB.*

City of San Saba offers supplemental death benefits to:	*Plan year 2018*	*Plan year 2019*
Active employees (yes or no)	*Yes*	*Yes*
Retirees (yes or no)	*Yes*	*Yes*

B. Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employee's entire careers.

Schedule of Contribution Rates:
(RETIREE-only portion of the rate)

Plan/ Calendar Year	***Retiree Portion of SDBF Contribution (Rate)***	***TOTAL SDBF Employer Contribution Rate***
2017	*0.05%*	*0.19%*
2018	*0.05%*	*0.25%*
2019	*0.06%*	*0.28%*
2020	*0.07%*	*0.29%*

VII. SUPPLEMENTAL DEATH BENEFITS FUND - CONTINUED

C. OPEB Liability and Sensitivity of the OPEB liability to changes in the discount rate

Exhibit E-5 presents the activity for the OPEB liability of the City related to SDBF. The following presents the OPEB liability calculated using the discount rate of 2.75%, as well as what the City's OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.75%) or 1 percentage point higher (3.75%) than the current rate:

	1% Decrease 1.75%	Current Single Rate Assumption 2.75%	1% Increase 3.75%
Total OPEB liability	$ 182,678	$ 152,256	$ 128,424

The City's contributions to the TMRS SDBF for the year ended 2019 and 2018, were $5,376 and $5,273 respectively, which equaled the required contributions each year.

OPEB Expense and Deferred (Inflows)/Outflows of Resources Related to OPEB.

2019 OPEB EXPENSE

Service cost	$ 6,118
Interest on total OPEB liability	4,815
Changes in benefit terms including TMRS plan participation	-
Employer administrative costs	-
Recognition of deferred outflows/(inflows) of resources:	
Differences between expected and actual experience	(1,600)
Changes in assumptions and inputs	3,988
Total OPEB Expense	$ 13,321

Deferred (Inflows)/Outflows of Resources:

	Deferred (Inflows) of Resources	*Deferred Outflows of Resources*
Differences between expected and actual experience	$ (7,983)	$ 0
Changes in assumptions and inputs	-	18,704
Contributions made subsequent to measurement date	N/A	4,032
Total	$ (7,983)	$ 22,736

At September 30, 2019, the City schedule of (inflows)/outflows of resources related to OPEB expense in current and future years is as follows:

Due to Liabilities:	*Recognition Period (or Amort. Yrs)*	*Total (Inflow) or Outflow of Resources*	*Recognized 2019 Current OPEB Expense*	*Deferred (Inflow)/Outflow in future expense*
Difference in expected and actual economic experience [actuarial (gains) or losses]	6.09	$ (8,327)	$ (1,367)	$ (6,960)
Changes in assumptions [actuarial (gains) or losses]	6.09	$ 23,483	$ 3,856	$ 19,627
Contributions made subsequent to measurement date	-	$ 4,032	-	$ 4,032
TOTAL			$ 2,489	$ 16,699

VII. SUPPLEMENTAL DEATH BENEFITS FUND - CONTINUED

The $16,699 reported for 2020 as deferred (inflows)/outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as an increase in the OPEB liability for the years ending September 30, 2020 and 2019.

Net deferred outflows(inflows) of resources, by year, to be recognized in future OPEB expense as follows:

Year ended December 31:	
2020	2,388
2021	2,388
2022	2,388
2023	1,472
2024	1,863
Thereafter	222
Total	$ 10,721

VIII. CAFETERIA PLAN

The City of San Saba established for their employees a Premium Only Cafeteria Plan. This is in accordance with Section 125 of the Internal Revenue Code of 1986. The plan offers certain non-taxable insurance and medical benefits.

All full-time employees who work a minimum of 30 hours per week and have reached the minimum age of 18 are eligible to participate in the plan beginning with the first day of the month following employment. Participation in the plan ends with termination of employment with the City. Plan provisions require the City to contribute an amount equal to the amount of the salary reduction elected by the participant toward the cost of benefits that are provided under the plan.

IX. DEFINED BENEFIT PENSION PLAN - EMERGENCY SERVICES PERSONNEL

A. Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. The City shares in the cost of the TESRS with San Saba County, thus the City is responsible for 50% of the liabilities and expense of the TSERS as presented. There is no direct financial activity for the System that is classified in the financial statements as pension trust funds or pension liabilities. Of the nine member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2019, there were 238 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2019, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,649
Terminated Members Entitled to Benefits but Not Yet Receiving Them	1,842
Active Participants (Vested and Non-vested)	3,702

IX. DEFINED BENEFIT PENSION PLAN - EMERGENCY SERVICES PERSONNEL - CONTINUED

B. Benefits Provided – Continued

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

<u>Funding Policy</u>
Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is $36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities. The state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended in 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions for the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were to be 2% of the Part One contributions beginning September 1, 2017. Based on the August 31, 2018 actuarial valuation, the Part Two contributions are not required for an adequate contribution arrangement.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

C. Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2019, total contributions of $3,480,509 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated $1,329,224 for the fiscal year ending August 31, 2019.

D. Contributions - Continued

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in Section I(B)(1). The most recently completed biennial actuarial valuation as of August 31, 2018 stated that the TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state.

The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately $725,000 each year to pay for part of the System's administrative expenses.

E. Net Pension Liability

The City's share of the net pension liability as it relates to the TSERS was measured as of August 31, 2019, and the total pension liability used to calculate the City's share of the Net Pension Liability was determined by an actuarial valuation as of August 31, 2018 and rolled forward to August 31, 2019.

Actuarial Assumptions:

The total pension liability in the August 31, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation rate	3.00%
Investment rate of return	7.75% per year, net of investment expenses, including inflation
Salary increases	N/A

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables projected for males and females projected to 2024 by scale AA.

The long-term expected rate of return on pension plan investments was determined using a building block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components 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 (currently 5.01%) and by adding expected inflation (3.00%). In addition, the final 7.75% assumption was selected by "rounding down" and thereby reflects a reduction of 0.26% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	*Target Allocation*	*Long-term Expected Net Real Rate of Return*
Equities		
Large cap domestic	32%	5.81%
Small cap domestic	15	5.92
Developed international	15	6.21
Emerging markets	5	7.18
Master limited partnerships	5	7.61
Real estate	5	4.46
Fixed income	23	1.61
Cash	-	-
Total	100%	
Weighted Average		5.01%

IX. DEFINED BENEFIT PENSION PLAN - EMERGENCY SERVICES PERSONNEL – CONTINUED

Pension Plan Fiduciary Net Position

The System issues a stand-alone financial report that is available to the public at www.tsers.org.

For the year ended August 31, 2019 and 2018, the TSERS pension expense related to the San Saba Emergency Services personnel was $9,605 and $14,344 (of which the City shares 50/50 with San Saba County), and the net pension liability was $40,534 and $45,249. [See Exhibit E-4 for additional information.]

X. SAN SABA ECONOMIC DEVELOPMENT CORPORATION

The San Saba Economic Development Corporation (EDC) is reported as a component unit of the City due to the control which the City has over it. The EDC has been involved in the following matters which should be disclosed in this report:

A. Upon approval by the City Council on January 19, 2009, the EDC obtained financing from the Texas Leverage Fund in the amount of $350,000 at the Wall Street Journal floating prime rate to expand the local airport runway, fund an economic feasibility study, and to provide for downtown infrastructure, parking, lighting and signage, and restroom facilities. Monthly installments were paid on the note in fiscal year 2020 in the total amount of $31,229, of which $26,560 was applied to the principal balance, with the remaining $4,669 applied to interest. The remaining note balance as of September 30, 2020 is $101,341.

B. On June 30, 2015, the EDC signed a security note agreement with Government Capital Corp. for $58,030 for the purchase of Mill Pond Park Playground Equipment. The note requires monthly payments of $792.72, includes a stated interest rate of 3.982%, and has scheduled payments through 6/30/22. Principal paid on the note in fiscal year 2020 was $8,656, and interest paid was $856. The remaining note balance as of September 30, 2020 is $16,792.

XI. GARBAGE TRANSFER SITE

The City's garbage collection process involves daily collection of garbage, then transfer to a larger trailer for transportation to a dump site operated by the City of Brownwood. State and federal environmental laws and accounting rules require that a determination be made of the life expectancy of that transfer site and an estimated cost to clean the site up in an environmentally sensitive manner. The City's engineer determined an estimated life of 30 years and a cost of $24,975. That cost, as adjusted for additional estimated costs and inflation, and amortized over a 30-year life expectancy, is $30,864.

XII. LITIGATION

There are no lawsuits currently pending against the City.

XIII. RELATED PARTY TRANSACTIONS

During the year ended September 30, 2020, the City purchased merchandise from Harry's Department Store, of which Mayor Ken Jordan is part owner. Payments made to Harry's for the year ended September 30, 2020, totaled $9,735.46. No outstanding payables existed as of September 30, 2020.

The City also purchased products from Alamo Pecan & Coffee Co., of which Robert Whitten, Alderman, is an owner. Payments made to Alamo Pecan & Coffee Co. for the twelve months ended September 30, 2020, totaled $1,040.07. No outstanding payables existed as of September 30, 2020.

XIII. RELATED PARTY TRANSACTIONS – CONTINUED

The City also purchased products and services from Nelson Autoworks, of which Michael Nelson, Alderman, is an owner. Payments made to Nelson Autoworks for the year ended September 30, 2020, totaled $1,647.95. No outstanding payables existed as of September 30, 2020.

XIV. RECENT PRONOUNCEMENTS

In June 2017, the GASB approved a new pronouncement Statement No. 87, *Leases*, which improved accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

In March 2018, the GASB approved Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information disclosed in the notes and clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

XV. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the auditor's report, which is the date the financial statements were available to be issued.

On October 15, 2020, the City approved resolutions regarding the purchase and funding of a Kubota tractor and a mower, both of which were approved in the 2020-2021 City budget. These vehicles will be financed with Government Capital Corporation for a total of $70,495.51.

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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*

Honorable Mayor and Members of the City Council
City of San Saba, Texas

We have audited, 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, the 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 San Saba, Texas as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise City of San Saba, Texas's (the "City") basic financial statements, and have issued our report thereon dated December 10, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of San Saba, Texas'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.

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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of San Saba, Texas'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City, in a separate letter dated December 10, 2020.

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 Saba, Texas
December 10, 2020

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT E-1

CITY OF SAN SABA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Budgeted Amounts		(Budgetary Basis) Actual	Variance With Final Budget Under or
	Original	Final	Amounts	(Over)
REVENUES:				
Taxes:				
Property taxes	$ 413,477	$ 432,498	$ 432,498	$ -
General sales and use taxes	512,600	502,006	506,006	(4,000)
Other taxes and franchise fees	79,700	66,064	66,064	-
Licenses and permits	5,050	2,061	2,061	-
Charges for services	403,000	399,927	364,010	35,917
Fines	71,400	44,393	44,393	-
Investment income	18,700	11,306	11,306	-
Rents and royalties	73,800	77,340	73,305	4,035
Grant income	-	19,996	19,996	-
Other revenues	54,883	352,498	149,664	202,834
Total Revenues	1,632,610	1,908,089	1,669,303	238,786
EXPENDITURES:				
Current:				
General government	1,265,006	1,249,709	1,226,002	23,707
Public safety	773,291	700,148	696,462	3,686
Streets	399,561	386,491	384,484	2,007
Parks and recreation	1,076,747	1,020,282	1,013,352	6,930
Public health	37,008	32,308	30,892	1,416
Debt service:				
Principal	303,161	191,238	304,950	(113,712)
Interest	100,985	51,497	51,627	(130)
Capital Outlay:				
Purchases of capital assets	80,598	282,383	25,073	257,310
Total Expenditures	4,036,357	3,914,056	3,732,842	181,214
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,403,747)	(2,005,967)	(2,063,539)	57,572
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(205,487)	(205,487)	-
Transfers in	2,403,747	2,211,454	2,211,454	-
Total Other Financing Sources and (Uses)	2,403,747	2,005,967	2,005,967	-
NET CHANGES IN FUND BALANCES	-	-	(57,572)	57,572
Fund Balance - October 1 (Beginning)	-	-	227,433	(227,433)
Fund Balance - September 30 (Ending)	$ -	$ -	$ 169,861	$ (169,861)

CITY OF SAN SABA, TEXAS
RECONCILIATION OF FUND BALANCE ON BUDGETARY BASIS
TO FUND BALANCE ON A GAAP BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Total Fund Balances - Budgetary Basis	$ 169,861
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $6,595,976 and the accumulated depreciation was $4,715,651. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	389,219
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2020 capital outlays and debt payments is to increase net position.	330,023
The 2020 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(268,642)
Included in noncurrent liabilities is the recognition of the City's share of the net pension liability required by GASB 68 in the amount of $279,057. Also included in the statement of net position are deferred inflows in the amount of $145,581, which increased compared to the prior year balance of deferred outflows. Additionally, changes in pension expense have been included, which results in a current year decrease in net position.	(196,697)
Various other reclassifications and eliminations are necessary to convert from the modified accural basis of accounting to the the accrual basis of accounting. These include eliminating interfund transactions, reclassifying the capitalization of construction in progress, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	37,509
Total Fund Balances - GAAP Basis	$ 461,273

EXHIBIT E-2

CITY OF SAN SABA, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR FISCAL YEAR 20XX

	January 1 through December 31					
Total Pension Liability	2019	2018	2017	2016	2015	2014
Service Cost	$ 223,211	$ 211,388	$ 213,172	$ 206,648	$ 197,466	$ 188,124
Interest (on the Total Pension Liability)	430,999	409,046	394,571	382,901	379,784	354,127
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	(106,527)	2,639	(56,608)	(93,312)	(85,495)	52,904
Changes of assumptions	15,769	-	-	-	9,364	-
Benefit payments, incl refunds of employee contr	(298,128)	(309,375)	(362,219)	(291,002)	(226,167)	(240,434)
Net Change in Total Pension Liability	265,324	313,698	188,916	205,235	274,952	354,721
Total Pension Liability - Beginning	6,422,635	6,108,937	5,920,021	5,714,786	5,439,834	5,085,113
Total Pension Liability - Ending (a)	$6,687,959	$6,422,635	$6,108,937	$5,920,021	$5,714,786	$5,439,834
Plan Fiduciary Net Position						
Contributions - Employer	$ 154,060	$ 146,145	$ 151,707	$ 138,395	$ 140,760	$ 161,297
Contributions - Employee	111,235	104,389	106,586	103,152	104,204	102,303
Net investment income	839,724	(169,658)	702,668	324,312	7,049	257,369
Benefit payments, incl refunds of employee contr	(298,128)	(309,375)	(362,219)	(291,002)	(226,167)	(240,434)
Administrative expense	(4,745)	(3,279)	(3,641)	(3,662)	(4,293)	(2,687)
Other	(143)	(172)	(185)	(197)	(212)	(221)
Net Change in Plan Fiduciary Net Position	802,003	(231,950)	594,916	270,998	21,341	277,627
Plan Fiduciary Net Position - Beginning	5,432,317	5,664,267	5,069,351	4,798,353	4,777,013	4,499,386
Plan Fiduciary Net Position - Ending (b)	$6,234,320	$5,432,317	$5,664,267	$5,069,351	$4,798,354	$4,777,013
Net Pension Liability - Ending (a) - (b)	$ 453,639	$ 990,318	$ 444,670	$ 850,670	$ 916,432	$ 662,821
Plan Fidiciary Net Position as a Percentage of Total Pension Liability	93.22%	84.58%	92.72%	85.63%	83.96%	87.82%
Covered employee payroll	$1,853,912	$1,739,818	$1,776,431	$1,719,202	$1,736,725	$1,705,051
Net Pension Liability as a Percentage of Covered Employee Payroll	24.47%	56.92%	25.03%	49.48%	52.77%	38.87%

Notes to Schedule:

1. Only five years of data is presented in accordance with GASB 68 paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these case, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement.

2. GASB 68 requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date, for example: for the above period ending December 31, 2019 - the period from January 1, 2019 to December 31, 2019. This is how the data is presented for each year presented above.

EXHIBIT E-3

CITY OF SAN SABA, TEXAS
SCHEDULE OF CITY CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR FISCAL YEAR 20XX

	2019	2018	2017	2016	2015	2014
Actuarially Determined Contribution	$ 111,235	$ 104,389	$ 106,586	$ 103,152	$ 104,204	$ 102,303
Contributions in relation to the actuarially determined contribution	111,235	104,389	106,586	103,152	104,204	102,303
Contribution deficiency (excess)	-	-	-	-	-	-
Covered employee payroll	$1,853,912	$1,739,818	$1,776,431	$1,719,202	$1,736,725	$1,705,051
Contributions as a percentage of covered employee payroll	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

Notes to Schedule:

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	26 years
Asset Valuation Method	10 year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experienced-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014- 2018.
Mortality	Post-retirement; 2019 Municipal Retirees of Texas Mortality Table. The rates are projected on a fully generational basis with scale UMP. Pre-retirement; PUB(10) mortality tables, with the Public Safety tables used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information

Notes	There were no benefit changes during the year.

CITY OF SAN SABA, TEXAS
SCHEDULE OF PENSION AMOUNTS AND DEFERRED OUTFLOWS OF RESOURCES
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
AS OF AND FOR THE YEAR ENDED AUGUST 31, 20XX

TESRS' allocation of pension expense as of TESRS' fiscal year end is shown in the following table:

	2019	2018	2017	2016
Service Cost	$ 2,668	$ 3,330	$ 2,852	$ 2,948
Interest (on the Total Pension Liability)	15,090	20,700	16,948	15,489
Projected earnings on pension plan investments	(12,683)	(16,867)	(13,137)	(12,000)
Amortization of differences between projected and actual earnings on plan investments	4,121	400	1,504	2,310
Amortization of changes of assumptions	116	564	483	469
Amortization of differences between expected and actual experience	(32)	(18)	35	34
Pension plan administrative expense	324	331	330	290
Changes in benefit provisions	-	5,905	-	1,256
Pension expense related to San Saba Emergency Services Personnel	9,605	14,344	9,015	10,796

Amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized in pension expense in future years as follows:

Fiscal year ended August 31,	Net Deferred Outflows Minus Deferred Inflows
2020	1,101
2021	577
2022	1,283
2023	2,210
Total	$ 5,171

Actuarial Methods and Assumptions Used to Determine Pension amounts:

Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Inflation	3.0%
Salary Increases	N/A
Investment Rate of Return	7.75%, net of investment expenses, including inflation
Cost of living adjustments	None
Mortality rates	Based on RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA.

CITY OF SAN SABA, TEXAS
SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM - GASB 75 REPORTING
SUPPLEMENTAL DEATH BENEFITS FUND

	Year Ended December 31,		
Actuarial Valuation and Measurement Date	2019	2018	2017
Membership [1]			
Number of			
- Inactive employees currently receiving benefits	20	21	20
- Inactive employees entitle to but no yet receiving benefits	5	4	3
- Active employees	43	45	46
TOTAL	68	70	69
Covered Payroll	$1,853,912	$ 1,739,818	$ 1,776,431
Changes in the Total OPEB Liability			
Total OPEB Liability - beginning of year	$ 127,279	$ 127,627	$ 107,988
Changes for the year:			
Service Cost	6,118	6,437	5,862
Interest on Total OPEB Liability	4,815	4,317	4,193
Changes in benefit terms including TMRS plan participation	-	-	-
Differences between expected and actual experience	(8,327)	(1,489)	-
Changes in assumptions or other inputs	23,483	(8,743)	9,584
Benefit payments[2]	(1,112)	(870)	-
Net changes	24,977	(348)	19,639
Total OPEB Liability - end of year	$ 152,256	$ 127,279	$ 127,627
Total OPEB Liability as a Percentage of Covered Payroll	8.21%	7.32%	7.18%

Notes to Schedule:

1. Membership counts for inactive employees currently receiving or entitled to but not yet receiving benefits will differ from GASB 68 as they include only those eligible for a SDBF benefit (ie - excludes beneficiaries, non-vested terminations due a refund, etc.)
2. Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefits payments are treated as being equal to employer's yearly contributions for retirees.

Summary of Actuarial Assumptions:

Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Discount rate	2.75% - based on Fidelity Index "20 year Municipal GO AA Index as of 12/31/19
Retiree's share of benefit-related costs	$0
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 set forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied reflect the impairment for younger members who became disabled for males and females, respectively.