

AGENDA ITEM 8:

AUDIT

TOWN OF RANSOM CANYON, TEXAS

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2020

ANNUAL FINANCIAL REPORT

TOWN OF RANSOM CANYON, TEXAS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2020

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INTRODUCTORY SECTION

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

September 30, 2020

CITY COUNCIL

Jana Trew

Mayor

Brandt Underwood

Mayor Pro-tem

Mike Greer

Alderman

Terry Waldren

Alderman

Ingram Rich

Alderman

Ron McWilliams

Alderman

ADMINISTRATIVE STAFF

Elena Quintanilla
Mary Brown

City Administrator
City Secretary

FINANCIAL SECTION

Terry & King, CPAs, P.C.

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Independent Auditors' Report on Financial Statements

Honorable Mayor and City Council
Town of Ransom Canyon, Texas
24 Lee Kitchens Dr.
Ransom Canyon, TX 79366-2200

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ransom Canyon, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the District'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 accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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



Independent Auditors' Report
Page 2

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules, and OPEB schedules, identified as Required Supplementary Information in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

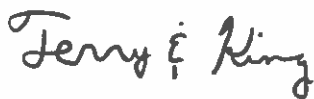
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Ransom Canyon's basic financial statements. The accompanying other schedules listed in the table of contents as Other Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2020, on our consideration of the Town of Ransom Canyon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 District'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 the Town of Ransom Canyon's internal control over financial reporting and compliance.

Respectfully submitted,



Terry & King, CPAs, P.C.
Lubbock, Texas
November 10, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Ransom Canyon's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2020. Please read this in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's net position decreased as a result of this year's operations. While the net position of our business-type activities increased by \$85,534 or 3%, net position of our governmental activities decreased by \$70,769 (7%).
- During the year, the City had expenses that were \$332,091 more than the \$946,885 generated in tax and other revenues for governmental programs before transfers.
- In the City's business type activities, revenues increased \$46,697 to \$1,213,253 (or 4%). Charges for services increased \$68,386 (7%), property taxes increased \$674 (1%), and interest income decreased \$22,363 (56%). Operating expenses increased \$21,946 to \$866,397.
- The General Fund reported a deficit this year of \$286,675 prior to inter-fund transfers in of \$261,322.
- The resources available for appropriation were \$18,847 less than budgeted for the General Fund. Expenditures for the General Fund were less than the budgeted amounts by \$56,484.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole -- The Statement of Net Position and the Statement of Activities

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net position* and the changes to its position. You can think of the City's net position—the differences between assets and liabilities—as one way to measure the City's financial health. Over time, *increases or decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the ambulance, fire, public works, and parks departments, and general administration. Property taxes, franchise 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 the cost of certain services it provides. The City's water, gas, sewer and garbage services are reported here.

Reporting the City's Most Significant Funds – Fund Financial Statements

Our analysis of the City's major funds begins on page 10. The fund financial statements begin on page 14 and provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. At times a city council may establish other funds to help it control and manage money for particular purposes, such as special projects or to show that it is meeting legal responsibilities for using certain Federal or State grants. Currently the City's governmental funds consist of the General Fund and a special revenue fund to account for grant funds. 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, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The Governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in reconciliation on Exhibits C-1R and C-3.
- *Proprietary funds*—When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

The City's combined net position was \$3,899,837. Our following analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's government and business-type activities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$3,899,837 at September 30, 2020. (See Table A-1).

Table A-1
Town of Ransom Canyon's Net Position

	Governmental Activities			Business-type Activities			Total		
	2020	2019	Percentage Change	2020	2019	Percentage Change	2020	2019	Percentage Change
Current assets									
Cash in Bank	115,937	115,184	1%	1,231,459	1,037,903	19%	1,347,396	1,153,087	17%
Temporary Investments - Restricted	-	-	0%	101,515	185,791	-45%	101,515	185,791	-45%
Receivables	22,095	3,976	456%	108,621	110,530	-2%	130,716	114,506	14%
Total current assets	138,032	119,160	16%	1,441,595	1,334,224	8%	1,579,627	1,453,384	9%
Noncurrent assets									
Land	46,230	46,230	0%	-	-	0%	46,230	46,230	0%
Buildings & Improvements	1,379,161	1,379,161	0%	318,428	318,428	0%	1,697,589	1,697,589	0%
Less accumulated depreciation, buildings	(837,270)	(788,051)	6%	(23,882)	(15,922)	50%	(861,152)	(803,973)	7%
Streets and Infrastructure	3,053,441	2,993,999	2%	-	-	0%	3,053,441	2,993,999	2%
Less accumulated depreciation, streets & infrastructure	(2,420,261)	(2,357,817)	3%	-	-	0%	(2,420,261)	(2,357,817)	3%
Utility Systems	-	-	0%	4,865,149	4,865,149	0%	4,865,149	4,865,149	0%
Less accumulated depreciation, utility systems	-	-	0%	(3,292,477)	(3,190,411)	3%	(3,292,477)	(3,190,411)	3%
Furniture & Equipment	1,169,682	1,145,261	4%	23,039	23,039	0%	1,212,721	1,168,300	4%
Less accumulated depreciation, furniture & equipment	(1,082,679)	(1,037,518)	4%	(6,912)	(4,607)	50%	(1,089,591)	(1,042,125)	5%
Total noncurrent assets	1,328,304	1,381,265	-4%	1,883,345	1,995,676	-6%	3,211,649	3,376,941	-5%
Total Assets	1,466,336	1,500,425	-2%	3,324,940	3,329,900	0%	4,791,276	4,830,325	-1%
Total Deferred Outflows of Resources	62,960	140,827	-41%	18,751	31,344	-40%	101,711	172,171	-41%
Current liabilities									
Accounts Payable	60,497	17,503	246%	65,579	56,392	16%	126,076	73,895	71%
Interest Payable	-	-	0%	379	758	-50%	379	758	-50%
Total current liabilities	60,497	17,503	246%	65,958	57,150	15%	126,455	74,653	69%
Noncurrent liabilities									
Compensated Absences	9,477	6,853	38%	623	876	-29%	10,100	7,729	31%
Due to Others	-	-	0%	40,840	38,590	6%	40,840	38,590	6%
Net Pension Liability	483,611	601,422	-20%	113,511	138,597	-18%	597,122	740,019	-19%
Total OPEB Liability	26,397	20,378	30%	5,915	4,639	28%	32,312	25,017	29%
Due within one year	-	-	0%	100,000	100,000	0%	100,000	100,000	0%
Due in more than one year	-	-	0%	-	100,000	-100%	-	100,000	-100%
Total noncurrent liabilities	519,485	628,653	-17%	260,869	382,702	-32%	780,374	1,011,355	-23%
Deferred Inflows of Resources									
Deferred Inflows - Pension & OPEB	71,024	26,037	173%	15,297	5,379	184%	86,321	31,416	175%
Total Deferred Inflows of Resources	71,024	26,037	173%	15,297	5,379	184%	86,321	31,416	175%
Net Position									
Net investment in capital assets	1,328,304	1,381,265	-4%	1,783,346	1,795,676	-1%	3,111,650	3,176,941	-2%
Restricted for debt service	-	-	0%	101,515	185,791	-45%	101,515	185,791	-45%
Unrestricted	(430,014)	(412,206)	4%	1,116,686	934,546	19%	686,672	522,340	31%
Total Net Position	898,290	969,059	-7%	3,001,547	2,916,013	3%	3,899,837	3,895,072	0%

The net position of the City's governmental activities decreased 7% (\$969,059 compared to \$898,290). Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$(412,206) at September 30, 2019 to \$(430,014) at the end of this year. The net position of the City's business-type activities increased 3%, from \$2,916,013 to \$3,001,547.

Table A-2
Changes in the Town of Ransom Canyon's Net Position

	Governmental Activities			Business-type Activities			Total		
	2020	2019	Percentage Change	2020	2019	Percentage Change	2020	2019	Percentage Change
Program Revenues									
Charges for Services	12,717	8,687	46%	1,090,763	1,022,377	7%	1,103,480	1,031,064	7%
Grants & Contributions	34,996	18,930	85%	-	-	0%	34,996	18,930	85%
General Revenues									
Property Taxes	820,209	762,498	8%	105,224	104,550	1%	925,433	867,048	7%
Nonproperty Taxes	61,090	44,476	37%	-	-	0%	61,090	44,476	37%
Investment Earnings	-	-	0%	17,266	39,629	-56%	17,266	39,629	-56%
RV Storage	14,536	18,628	-22%	-	-	0%	14,536	18,628	-22%
Other	3,337	229	1357%	-	-	0%	3,337	229	1357%
Total Revenues	946,885	853,448	11%	1,213,253	1,166,556	4%	2,145,602	2,001,376	7%
Expenses									
General government	416,657	409,591	2%	-	-	0%	416,657	409,591	2%
Operations	234,069	209,253	12%	-	-	0%	234,069	209,253	12%
City Court	4,744	5,895	-20%	-	-	0%	4,744	5,895	-20%
Police	333,008	330,865	1%	-	-	0%	333,008	330,865	1%
Fire	43,875	73,896	-41%	-	-	0%	43,875	73,896	-41%
Streets	202,145	201,299	0%	-	-	0%	202,145	201,299	0%
Library	34,600	34,427	1%	-	-	0%	34,600	34,427	1%
Emergency operations	9,878	3,945	150%	-	-	0%	9,878	3,945	150%
Water and Sewer	-	-	0%	866,397	844,451	3%	866,397	844,451	3%
Total Expenses	1,278,976	1,259,171	1%	866,397	844,451	3%	2,145,373	2,113,622	2%
Excess (Deficiency) Before Other Resources Uses & Transfers	(332,091)	(415,723)	-20%	346,856	322,105	8%	229	(112,246)	-100%
Insurance Proceeds	-	-	0%	-	-	0%	-	-	0%
Gain/(Loss) on Asset Sales	-	-	0%	-	-	0%	-	-	0%
Transfers In (Out)	261,322	255,423	2%	(261,322)	(255,423)	2%	-	-	0%
Increase (Decrease) in Net Position	(70,769)	(160,300)	56%	85,534	66,682	28%	229	(112,246)	-100%
Net Position - Beginning	969,059	1,129,359	-14%	2,916,013	2,849,331	2%	3,885,072	3,978,690	-2%
Net Position - Ending	898,290	969,059	-7%	3,001,547	2,916,013	3%	3,899,837	3,885,072	0%

The City's total revenues were \$2,145,602. A significant portion, 57%, of the City's total revenue comes from the water and sewer operations. Revenues available to fund governmental activities consist of property taxes (87%), non-property taxes (6%), charges for services (1%), grants and contributions (4%) and other (2%).

The total cost of all programs and services was \$2,145,373: 40% of these costs were for utilities production and administration expenses. Expenses for governmental activities consisted of costs for general administration (33%), operations (18%), courts and police (26%), streets and services (16%), fire department (3%), and library (3%).

Governmental Activities

Revenues for the City's governmental activities increased approximately 11%, while total expenses increased by 1%.

- Property tax rates remained the same at \$0.61293 per \$100 valuation. The ad valorem tax levy for the previous fiscal year was \$867,695, compared to \$922,433 for the current year. Total tax collections increased 6%, from \$864,721 in the prior year to \$920,238 in the current year.
- Grant revenues increased \$16,066. The city received \$17,266 in grant funds to reimburse for COVID supplies.
- The cost of all *governmental* activities this year was \$1,278,976. As shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through tax collections was \$820,209 because some of the costs were paid by those who directly benefited from the programs (\$27,253) and by nonproperty taxes (\$61,090).

Business-type Activities

Revenues of the City's business-type activities (see table A-2) increase by 4% (\$1,166,556 to \$1,213,253) and expenses increased by 3% (\$844,451 to \$866,397).

THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on Exhibit C-1) reported a *combined* fund balance of \$72,328, which is a decrease from the prior year's total of \$97,681. The following items effecting fund balance should be noted:

- In the prior year, revenues were less than expenditures by \$245,808 prior to transfers. In the current year, revenues were less than expenditures by \$286,675 prior to transfers. The general fund received \$261,322 as a transfer from the enterprise funds in the current year.
- The revenues in the general fund increased approximately 11% from the prior period and expenses for the general fund increased approximately 12% from the prior period.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City's budget several times. Even with these adjustments, actual revenues were \$18,847 less than budgeted amounts and expenditures were \$56,484 less than final budget amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020, the City had \$10,875,130 invested in a broad range of capital assets, including fire equipment, buildings, furniture and equipment, and utilities facilities (see Table A-3). This amount represents a net increase (including additions and deductions) of \$103,863 from last year.

Table A-3
Fixed Assets

Governmental Activities:	Balance 10-1-19	Additions	Deletions/ Reclassifications	Balance 9-30-20
Land	\$ 46,230	-	-	46,230
Buildings	634,277	-	-	634,277
Streets & Infrastructure	2,993,999	59,442	-	3,053,441
Improvements	744,884	-	-	744,884
Furniture & Equipment	1,145,261	44,421	-	1,189,682
Accumulated Depreciation	(4,183,385)	(156,824)	-	(4,340,209)
Net Capital Assets	\$ 1,381,266	\$ (52,961)	\$ -	\$ 1,328,305

<u>Business-Type Activities:</u>	<u>Balance 10-1-19</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	<u>Balance 9-30-20</u>
Buildings& Improvements	\$ 318,428	-	-	318,428
Water & Sewer System	4,865,149	154,290	-	4,865,149
Furniture & Equipment	23,039	-	-	23,039
Accumulated Depreciation	<u>(3,210,940)</u>	<u>(112,331)</u>	<u>-</u>	<u>(3,323,271)</u>
Net Capital Assets	<u>\$ 1,995,676</u>	<u>\$(112,331)</u>	<u>\$ -</u>	<u>\$ 1,883,345</u>

More detailed information about the City's capital assets is presented in the notes to the financial statements.

Debt

A municipal government can finance activities such as capital improvements and acquisitions through general tax bonds or revenue bonds. Additionally, a government may purchase items through the use of capital leases. Short-term financing is available in the form of time warrants with a financial institution.

At September 30, 2020 debt outstanding consisted of the following individual issues:

Series 2010 General Obligation Refunding Bonds issued at an interest rate of 3.03%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2020 was \$100,000 of which \$100,000 is due within one year.

<u>Business-Type Activities:</u>	<u>Balance 10-1-19</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance 9-30-20</u>	<u>Due Within One Year</u>
General Obligation bonds	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>
Total Bonds	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>

More detailed information about the City's long-term obligations is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials considered many factors when setting the fiscal year 2021 budget, tax rates, and fees. Factors considered include the current economy, property tax values and the needs of the City in the coming year. The Council has adopted tax rates, budgets and set fees accordingly.

If these estimates are realized, the City's budgetary general fund fund balance is expected to increase slightly by the close of 2021.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Administrator at the City's office located in Ransom Canyon, Texas.

BASIC FINANCIAL STATEMENT

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

STATEMENT OF NET POSITION
September 30, 2020

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash in Bank	\$ 115,937	\$ 1,231,459	\$ 1,347,396
Cash in Bank - restricted	-	101,515	101,515
Accounts Receivable-Utilities, net	-	108,621	108,621
Accounts Receivable-Franchise	11,755	-	11,755
Due from Other Governments	5,133	-	5,133
Taxes Receivable, Net	5,207	-	5,207
Noncurrent Assets:			
Land	46,230	-	46,230
Streets and Infrastructure	633,180	-	633,180
Buildings & Improvements, net	450,345	294,546	744,891
Improvements	91,546	-	91,546
Utility Systems & Equipment, net	-	1,572,672	1,572,672
Furniture & Equipment, net	107,003	16,127	123,130
TOTAL ASSETS	\$ 1,466,336	\$ 3,324,940	\$ 4,791,276
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred interest on refunding bonds	\$ -	\$ 491	\$ 491
Deferred Outflows - Pension	76,909	16,938	93,847
Deferred Outflows - OPEB	6,051	1,322	7,373
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 82,960	\$ 18,751	\$ 101,711
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 60,497	\$ 65,579	\$ 126,076
Accrued Interest Payable	-	379	379
Noncurrent Liabilities:			
Accrued Compensated Absences	9,477	623	10,100
Customer Deposits	-	40,840	40,840
Net Pension Liability	483,611	113,511	597,122
Net OPEB Liability	26,397	5,915	32,312
Due within one year	-	100,000	100,000
Total Liabilities	579,982	326,847	906,829
DEFERRED INFLOWS OF RESOURCES:			
Deferred Inflows - Pension	68,828	14,847	83,675
Deferred Inflows - OPEB	2,196	450	2,646
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 71,024	\$ 15,297	\$ 86,321
NET POSITION			
Net Investment in capital assets	1,328,304	1,783,346	3,111,650
Restricted for debt service	-	101,515	101,515
Unrestricted	(430,014)	1,116,686	686,672
Total Net Position	\$ 898,290	\$ 3,001,547	\$ 3,899,837

The accompanying notes are an integral part of this statement.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

STATEMENT OF ACTIVITIES
Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Government Activities							
General Government	\$ 416,657	\$ 11,007	\$ -	\$ -	\$ (405,650)	-	(405,650)
Operations	234,069	-	-	-	(234,069)	-	(234,069)
City Court	4,744	1,710	-	-	(3,034)	-	(3,034)
Public Safety - Police Department	333,008	-	27,566	-	(305,442)	-	(305,442)
Public Safety - Fire Department	43,875	-	-	-	(43,875)	-	(43,875)
Public Works - Street Department	202,145	-	-	-	(202,145)	-	(202,145)
Library	34,600	-	7,430	-	(27,170)	-	(27,170)
Emergency Operations	9,878	-	-	-	(9,878)	-	(9,878)
Total Government Activities	1,278,976	12,717	34,996	-	(1,231,263)	-	(1,231,263)
Business-type Activities							
Water, Sewer, and Sanitation	866,397	1,090,763	-	-	-	224,366	224,366
Total Business-type Activities	866,397	1,090,763	-	-	-	224,366	224,366
Total Primary Government	2,145,373	1,103,480	34,996	-	(1,231,263)	224,366	(1,006,897)
General Revenues							
Property Taxes, Levied for General Purpose					820,209	-	820,209
Property Taxes, Levied for Debt Service					-	105,224	105,224
Nonproperty Taxes:					61,090	-	61,090
RV Storage					14,536	-	14,536
Investment Earnings					-	17,266	17,266
Miscellaneous					3,337	-	3,337
Transfers					261,322	(261,322)	-
Total General Revenue					1,160,494	(138,832)	1,021,662
Change in Net Assets					(70,769)	85,534	14,765
Net Position – Beginning					969,059	2,916,013	3,885,072
Net Position – Ending					\$ 898,290	\$ 3,001,547	\$ 3,899,837

The accompanying notes are an integral part of this statement.

EXHIBIT C-1

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

BALANCE SHEET -- GOVERNMENTAL FUNDS
September 30, 2020

	General Fund	Total Governmental Funds
ASSETS		
Cash	\$ 115,937	\$ 115,937
Taxes Receivable, net	5,207	5,207
Accounts Receivable	11,755	11,755
Due from Other Governments	5,133	5,133
<u>TOTAL ASSETS</u>	<u>\$ 138,032</u>	<u>\$ 138,032</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	60,497	60,497
<u>Total Liabilities</u>	<u>60,497</u>	<u>60,497</u>
DEFERRED INFLOWS OF RESOURCES:		
Unavailable Revenue - Property Taxes	5,207	5,207
<u>Total Deferred Inflows of Resources</u>	<u>5,207</u>	<u>5,207</u>
FUND BALANCES		
Unassigned	72,328	72,328
<u>Total Fund Balances</u>	<u>72,328</u>	<u>72,328</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>	<u>\$ 138,032</u>	<u>\$ 138,032</u>

The accompanying notes are an integral part of this statement.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2020

Total Fund Balances -- Governmental Funds Balance Sheet	\$	72,328
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Amounts reported for governmental activities in the statement of net assets (A-1) are different because:

Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds		5,207
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,328,304
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of:

Accrued vacation payable	(9,477)	
		(9,477)

Included in the items related to noncurrent assets is the recognition of the City's proportionate share of the net pension liability required by GASB 68 in the amount of \$493,611, a deferred resource outflow related to pension in the amount of \$76,909, and a deferred resource inflow of \$68,828. This resulted in a decrease in net position by \$475,530.		(475,530)
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Included in the items related to noncurrent liabilities is the recognition of the City's proportionate share of the net OPEB liability required by GASB 75 in the amount of \$26,397, a deferred resource outflow related to OPEB in the amount of \$6,051, and a deferred resource inflow related to OPEB in the amount of \$2,196. This resulted in a decrease in net position by \$22,542.		(22,542)
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Net Position of Governmental Activities -- Statement of Net Position	\$	<u>898,290</u>
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The accompanying notes are an integral part of this statement.

EXHIBIT C-2

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES--
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2020

	General Fund	Total Governmental Funds
REVENUES:		
Property Taxes (Including Penalty & Interest)	\$ 818,977	\$ 818,977
Franchise Taxes	42,011	42,011
Sales Tax	19,079	19,079
Library Revenue	7,430	7,430
RV Storage	14,536	14,536
Municipal Court	1,710	1,710
Permits	11,007	11,007
Grant Revenues	27,566	27,566
Miscellaneous	3,337	3,337
<u>Total Revenues</u>	<u>945,653</u>	<u>945,653</u>
EXPENDITURES		
Current		
General Government	397,908	397,908
Operations	237,052	237,052
City Court	4,743	4,743
Public Safety - Police Department	313,528	313,528
Public Safety - Fire Department	32,950	32,950
Public Works - Street Department	100,438	100,438
Library	33,870	33,870
Emergency Operations	7,976	7,976
Capital Outlay	103,863	103,863
<u>Total Expenditures</u>	<u>1,232,328</u>	<u>1,232,328</u>
Excess of Revenues Over (Under) Expenditures	(286,675)	(286,675)
OTHER FINANCING SOURCES (USES)		
Transfers In	261,322	261,322
<u>Total Other Financing Sources (Uses)</u>	<u>261,322</u>	<u>261,322</u>
Net Change in Fund Balance	(25,353)	(25,353)
Fund Balance--Beginning of Year	97,681	97,681
<u>Fund Balance--End of Year</u>	<u>\$ 72,328</u>	<u>\$ 72,328</u>

The accompanying notes are an integral part of this statement.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020

Net Change in Fund Balances -- Total Governmental Funds	\$	(25,353)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount of capital outlays during the current period.		
		103,863
The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets		
		(156,825)
Certain property tax revenues are unavailable in the funds. These are the amounts that have not been collected and are therefore do not provide current financial resources. This is the amount that these accounts have changed during the current period.		
		1,232
Some expenses reported in the statement of activities do not require current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in pension expense	11,218	
Change in OPEB expense	(2,280)	
Change in accrued vacation payable	<u>(2,624)</u>	
		<u>6,314</u>
Change in Net Position -- Statement of Activities	\$	<u><u>(70,769)</u></u>

The accompanying notes are an integral part of this statement.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2020

	Business-Type Activities Enterprise Funds	
	Water, Sewer, and Sanitation Fund	Total
ASSETS		
<u>Current Assets:</u>		
Cash in Bank	\$ 1,231,459	\$ 1,231,459
Cash in Bank - Restricted	101,515	101,515
Accounts Receivable, net of allowance for uncollectable (\$14,787)	108,621	108,621
<u>Total Current Assets</u>	<u>1,441,595</u>	<u>1,441,595</u>
<u>Noncurrent Assets:</u>		
Buildings and Improvements, net	294,546	294,546
Water & Sewer System, net	1,572,672	1,572,672
Vehicles, Machinery, Furniture & Fixtures, net	16,127	16,127
<u>Total Noncurrent Assets</u>	<u>1,883,345</u>	<u>1,883,345</u>
<u>TOTAL ASSETS</u>	<u>\$ 3,324,940</u>	<u>\$ 3,324,940</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred interest on refunding bonds	491	491
Deferred Outflows - Pension	16,938	16,938
Deferred Outflows - OPEB	1,322	1,322
<u>TOTAL DEFERRED OUTFLOWS OF RESOURCES</u>	<u>\$ 18,751</u>	<u>\$ 18,751</u>
LIABILITIES & NET POSITION		
<u>Current Liabilities</u>		
Accounts Payable	\$ 65,579	\$ 65,579
Accrued Interest Payable	379	379
<u>Noncurrent Liabilities</u>		
Accrued Compensation Payable	623	623
Customer Deposits	40,840	40,840
Net Pension Liability	113,511	113,511
Net OPEB Liability	5,915	5,915
Due within one year	100,000	100,000
<u>TOTAL LIABILITIES</u>	<u>326,847</u>	<u>326,847</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Pension	14,847	14,847
Deferred Inflows - OPEB	450	450
<u>TOTAL DEFERRED INFLOWS OF RESOURCES</u>	<u>\$ 15,297</u>	<u>\$ 15,297</u>
NET POSITION		
Net investment in capital assets	1,783,346	1,783,346
Restricted for debt service	101,515	101,515
Unrestricted	1,116,686	1,116,686
<u>TOTAL NET POSITION</u>	<u>\$ 3,001,547</u>	<u>\$ 3,001,547</u>

The accompanying notes are an integral part of this statement.

EXHIBIT D-2

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

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

For the Year Ended September 30, 2020

	Business-Type Activities Enterprise Funds	
	Water, Sewer, and Sanitation Fund	Total
<u>Operating Revenues</u>		
Water Revenue	\$ 684,584	\$ 684,584
Sewer Revenue	235,261	235,261
Sanitation Revenue	152,471	152,471
Reconnect and Late Fees	8,722	8,722
Mosquito Revenue	9,725	9,725
<u>Total Operating Revenues</u>	<u>1,090,763</u>	<u>1,090,763</u>
<u>Operating Expenses</u>		
Water Purchases	408,256	408,256
Solids Waste Collection Contract	113,570	113,570
Employee Expense	149,441	149,441
Utilities	34,792	34,792
Chemicals	4,618	4,618
Supplies, Repairs and Maintenance	24,793	24,793
Fees, Permits, Inspections	2,561	2,561
Depreciation	112,330	112,330
Lab Charges	5,146	5,146
Mosquito Spraying	5,250	5,250
<u>Total Operating Expenses</u>	<u>860,757</u>	<u>860,757</u>
<u>Operating Income (Loss) Before</u>		
<u>Operating Transfers</u>	230,006	230,006
<u>Non-Operating Revenues (Expenses)</u>		
Ad Valorem Tax Receipts	105,224	105,224
Interest Income	17,266	17,266
Interest Expense	(5,640)	(5,640)
<u>Total Non-Operating Revenues (Expenses)</u>	<u>116,850</u>	<u>116,850</u>
<u>Transfers and Capital Contributions:</u>		
Transfers In (Out)	(261,322)	(261,322)
<u>Total Transfers and Capital Contributions</u>	<u>(261,322)</u>	<u>(261,322)</u>
Net Income (Loss)	85,534	85,534
NET POSITION		
Net Position, Beginning of Year	2,916,013	2,916,013
Net Position, End of Year	3,001,547	3,001,547

The accompanying notes are an integral part of this statement.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

STATEMENT OF CASH FLOWS--
PROPRIETARY FUNDS
For the Year Ended September 30, 2020

	Business-Type Activities Enterprise Funds	
	Water, Sewer, and Sanitation Fund	Total
<u>Cash Flows from Operating Activities</u>		
Receipts from Customers	\$ 1,094,922	\$ 1,094,922
Payments to Suppliers	(589,799)	(589,799)
Payments to Employees	(152,468)	(152,468)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>352,655</u>	<u>352,655</u>
<u>Cash Flows from Non-Capital Financing Activities</u>		
Operating Transfers	(261,322)	(261,322)
<u>Net Cash Provided (Used) by Non-Capital Financing Activities</u>	<u>(261,322)</u>	<u>(261,322)</u>
<u>Cash Flows from Capital & Related Financing Activities</u>		
Ad Valorem Tax Receipts	105,224	105,224
Acquisition of Fixed Assets	-	-
Payments on Debt Acquired for Fixed Assets	(100,000)	(100,000)
Interest Paid on Long-Term Debt	(4,544)	(4,544)
<u>Net Cash Provided (Used) by Capital & Related Financing Activities</u>	<u>680</u>	<u>680</u>
<u>Cash Flows from Investing Activities</u>		
Interest Income	17,266	17,266
<u>Net Cash Provided by Investing Activities</u>	<u>17,266</u>	<u>17,266</u>
Net Increase (Decrease) in Cash & Cash Equivalents	109,279	109,279
Cash & Cash Equivalents--Beginning of Year	1,223,695	1,223,695
<u>Cash & Cash Equivalents--End of Year</u>	<u>1,332,974</u>	<u>1,332,974</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities		
Operating Income (Loss)	230,006	230,006
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities		
Depreciation	112,330	112,330
(Increase) Decrease in Net Pension Asset/Liability	(25,086)	(25,086)
(Increase) Decrease in Deferred Inflows/Outflows Pensions	21,841	21,841
(Increase) Decrease in Net OPEB Asset/Liability	1,276	1,276
(Increase) Decrease in Deferred Inflows/Outflows OPEB	(805)	(805)
(Increase) Decrease in Receivables	1,909	1,909
Increase (Decrease) in Liabilities	11,184	11,184
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>352,655</u>	<u>352,655</u>

The accompanying notes are an integral part of this statement.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2020

Note A: Summary of Significant Accounting Policies

The Town of Ransom Canyon, Texas operates under a Council-Manager form of government and provides the following services: public safety (police and fire protection), streets, sanitation, public improvements (water and sewer systems), library, planning and zoning, and general administrative services. Volunteers staff the fire and ambulance services.

The basic financial statements of the Town of Ransom Canyon have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants (AICPA) in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

1. The Reporting Entity

The Town of Ransom Canyon is a general law type-A municipality governed by an elected mayor and a five-member City Council who appoints a City Manager. The accompanying basic financial statements comply with the provisions of GASB Statement No. 14, "The Financial Reporting Entity" (as amended by GASB Statement No. 39) in that the financial statements include all organizations, activities, functions and component units for which the City is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the over-reporting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 2
September 30, 2020

Note A: Summary of Significant Accounting Policies (Continued)

3. Basis of Presentation, Basis of Accounting

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

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General Fund: This is the primary operating fund of the City. It accounts for all financial resources of the City except those required to be accounted for in another fund.

In addition, the City reports the following fund types:

Enterprise Funds: Enterprise Funds are used to account for operations (a) 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 (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 3
September 30, 2020

Note A: Summary of Significant Accounting Policies--Continued

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims, and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus utilizing the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 4
September 30, 2020

Note A: Summary of Significant Accounting Policies (continued)

c. Fund Balance Classification

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City currently has \$101,515 restricted for debt service.

Unassigned: This classification includes the residual fund balance for the General Fund.

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

4. Financial Statement Amounts

a. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

For purposes of the statement of cash flows, the City considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Investments for the City are reported at fair value.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1st for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1st of the year following the year in which imposed. On January 1st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. As of September 30, 2020, the amount deemed uncollectible by this estimate was \$614. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 5
September 30, 2020

Note A: Summary of Significant Accounting Policies (continued)

c. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect cost applicable to future periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	5-15
Office Equipment and Furniture	3-15
Computer Equipment	3

e. Receivable and Payable Balances

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

There are no significant receivables which are not scheduled for collection within one year of the period end.

f. Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. The City's policy allows full time, permanent employees to accumulate a limited amount of earned but unused vacation leave. Full time, permanent employees are allowed to accrue up to twenty days of sick leave. It is the City's policy to not pay employees for unused sick leave upon separation of service from the City. For the year ended September 30, 2020 compensated absences relating to vacation time amounted to \$10,100.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 6
September 30, 2020

Note A: Summary of Significant Accounting Policies (continued)

g. Interfund Activity

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

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

i. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has three items which qualifies for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period when the amounts become available.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 7
September 30, 2020

Note A: Summary of Significant Accounting Policies (continued)

j. Pensions

For purposes of measuring the net pension liability/asset, 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.

k. Other Post Employment Benefits

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

Note B: Compliance and Accountability

1. Fair Value Measurements

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 inputs are observable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 8
September 30, 2020

Note B: Compliance and Accountability (continued)

1. Fair Value Measurements

There are three general valuation techniques that may be used to measure fair value:

Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Note C: Deposits and Investments

Under Texas state law, the City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits

At September 30, 2020, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing saving accounts included in temporary investments) was \$1,448,911 and the bank balance was \$1,482,493. The City's cash deposits at September 30 and throughout the year were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports an establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 9
September 30, 2020

Note C: Deposits and Investments (continued)

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

The City did not carry any investments at September 30, 2020.

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

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

At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 10
September 30, 2020

Note C: Deposits and Investments (continued)

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

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

Note D: Capital Assets

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

Governmental Activities:	Balance 10-1-19	Additions	Deletions/ Reclassifications	Balance 9-30-20
Land	\$ 46,230	-	-	\$ 46,230
Buildings	634,277	-	-	634,277
Streets & Infrastructure	2,993,999	59,442	-	3,053,441
Improvements	744,884	-	-	744,884
Furniture & Equipment	1,145,261	44,421	-	1,189,682
Total Capital Assets	<u>\$ 5,564,651</u>	<u>\$103,863</u>	<u>\$ -</u>	<u>\$ 5,668,514</u>
<u>Less Accumulated</u>				
<u>Depreciation:</u>				
Buildings	\$ 165,899	\$ 18,033	\$ -	\$ 183,932
Streets & Infrastructure	2,357,816	62,445	-	2,420,261
Improvements	622,152	31,186	-	653,338
Furniture & Equipment	<u>1,037,518</u>	<u>45,160</u>	<u>-</u>	<u>1,082,678</u>
Total Accumulated				
Depreciation	<u>\$ 4,183,385</u>	<u>\$ 156,824</u>	<u>\$ -</u>	<u>\$ 4,340,209</u>
Net Capital Assets	<u>\$ 1,381,266</u>	<u>\$ (52,961)</u>	<u>\$ -</u>	<u>\$ 1,328,305</u>

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 11
September 30, 2020

Note D: Capital Assets (continued)

<u>Business-Type Activities:</u>	<u>Balance 10-1-19</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	<u>Balance 9-30-20</u>
Buildings& Improvements	\$ 318,428	-	-	318,428
Water & Sewer System	4,865,149	-	-	4,865,149
Furniture & Equipment	23,039	-	-	23,039
Total Capital Assets	<u>\$ 5,206,616</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,206,616</u>
<u>Less Accumulated Depreciation:</u>				
Buildings& Improvements	\$ 15,921	\$ 7,961	-	\$ 23,882
Water & Sewer System	3,190,411	102,066	-	3,292,477
Furniture & Equipment	4,608	2,304	-	6,912
Total Accumulated Depreciation	<u>\$ 3,210,940</u>	<u>\$ 112,331</u>	<u>\$ -</u>	<u>\$ 3,323,271</u>
Net Capital Assets	<u>\$ 1,995,676</u>	<u>\$(112,331)</u>	<u>\$ -</u>	<u>\$ 1,883,345</u>

Depreciation was charged to functions as follows:

General Government	\$ 18,640
Public Safety - Police	21,538
Public Safety - Fire	10,926
Public Works - Streets	103,088
Emergency Operations	1,902
Library	730
Water, Sewer and Sanitation	112,331
	<u>\$ 269,155</u>

Note E: Long-Term Obligations

Short term loans are accounted for through the applicable fund. General Fund proceeds from loans (except those issued and retired during the current year) are shown in the financial statements as Other Resources and principal payments as Other Uses. Enterprise fund loans are shown in the appropriate fund.

At September 30, 2020 debt outstanding consisted of the following individual issues:

Series 2010 General Obligation Refunding Bonds issued at an interest rate of 3.03%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2020 was \$100,000 of which \$100,000 is due within one year.

For the year ended September 30, 2020 the City paid interest in the amount of \$4,545 with the accrual basis interest expense being \$5,640.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 12
September 30, 2020

Note E: Long-Term Obligations (continued)

The General Obligation Refunding Bonds are direct obligations issued on a pledge of the general taxing power and the revenues of the Enterprise Fund for the payment of the debt obligations of the City. These Bonds require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year certificates of obligation are outstanding) funds to pay interest and principal at maturity for any amounts not paid from the revenues of the Enterprise Fund. These Bonds are secured both by a pledge of ad valorem taxes levied on all taxable property within the City and by a lien on and pledge of revenues to be generated by the Enterprise Fund.

Changes in long-term obligations for the year ended September 30, 2020 are as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Due Ending Balance</u>	<u>Within One Year</u>
Compensated Absences	\$ 6,853	\$ 2,624	\$ -	\$ 9,477	\$ -
Net Pension Liability	601,422	-	117,811	483,611	-
Net OPEB Liability	20,378	6,071	52	26,397	-
Total governmental activities	<u>\$ 628,653</u>	<u>\$ 8,695</u>	<u>\$ 117,863</u>	<u>\$ 519,485</u>	<u>\$ -</u>

<u>Business-Type Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 200,000	\$ -	\$ 100,000	\$ 100,000	\$ 100,000
Compensated Absences	876	-	253	623	-
Net Pension Liability	138,597	-	25,086	113,511	-
Net OPEB Liability	4,639	1,287	11	5,915	-
Total governmental activities	<u>\$ 344,112</u>	<u>\$ 1,287</u>	<u>\$ 125,350</u>	<u>\$ 220,049</u>	<u>\$ 100,000</u>

The annual aggregate maturities of the City's debt for the years subsequent to September 30, 2020 are as follows:

<u>Business-Type Activities</u>			
<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	<u>\$ 100,000</u>	<u>\$ 1,515</u>	<u>\$ 101,515</u>
Total	<u>\$ 100,000</u>	<u>\$ 1,515</u>	<u>\$ 101,515</u>

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 13
September 30, 2020

Note F: TMRS-Pension Plan

Plan Description

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

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

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.

	<u>Plan Year 2019</u>	<u>Plan Year 2018</u>
Employee deposit rate	6.0%	6.0%
Matching ratio (City to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100%	100%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 14
September 30, 2020

Note F: TMRS-Pension Plan (continued)

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>12</u>
Total	17

Contributions

The contribution rates for employees in TMRS are either 5%, 6% or 7% of employee gross earnings, and the city matching percentages are either 100%, 150% or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the Town of Ransom Canyon were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the Town of Ransom Canyon were 15.39% and 15.74% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020 were \$96,058, and were equal to the required contributions.

Net Pension Liability

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

Actuarial assumptions:

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

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

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 15
September 30, 2020

Note F: TMRS-Pension Plan (continued)

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	<u>10.00%</u>	7.75%
Total	100.00%	

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 16
September 30, 2020

Note F: TMRS-Pension Plan (continued)

Discount Rate

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

Change in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/18	\$ 2,075,451	\$ 1,335,432	\$ 740,019
Changes for the year:			
Service cost	69,822		69,822
Interest	141,583		141,583
Change of benefit terms			
Difference between expected and actual experience	(1,339)		(1,339)
Changes of assumptions	(13,342)		(13,342)
Contributions - employer		96,266	(96,266)
Contributions - employee		37,505	(37,505)
Net investment income		207,052	(207,052)
Benefit payments, including refunds of employee contributions	(25,663)	(25,663)	-
Administrative expense		(1,167)	1,167
Other changes		(35)	35
Net changes	171,061	313,958	(142,897)
Balance at 12/31/19	<u>\$ 2,246,512</u>	<u>\$ 1,649,390</u>	<u>\$ 597,122</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 871,200	\$ 597,122	\$ 365,105

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO FINANCIAL STATEMENTS, Page 17
September 30, 2020

Note F: TMRS-Pension Plan (continued)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2020, the city recognized pension expense of \$81,595.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 5,147	\$ 23,819
Changes in actuarial assumptions	\$ 19,314	\$ 11,339
Difference between projected and actual investment earnings	\$ -	\$ 48,517
Contributions subsequent to the measure date December 31, 2019	\$ 69,386	\$ -
Total	\$ 93,847	\$ 83,675

\$69,386 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:	
2020	\$ (14,864)
2021	(14,830)
2022	357
2023	(25,454)
2024	(2,966)
Thereafter	(1,457)
Total	\$ (59,214)

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 18
Year Ended September 30, 2020

Note G: Supplemental Death Benefits Plan

1. Plan Description

The City participates in the single-employer unfunded 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.

2. OPEB Plan Fiduciary Net Position

Detailed information about the fiduciary net position of the Supplemental Death Benefits Fund is available in the separately-issued TMRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.tmr.com> or by writing to TMRS at P.O. Box 149153, Austin, TX 78714-9153.

3. Benefits Provided

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

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

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>12</u>
Total	16

4. Contributions

The City contributes to the SDBF monthly based on the covered payroll of employee members. The contractually required contribution rate is determined annually for each city. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 19
September 30, 2020

Note G: Supplemental Death Benefits Plan (continued)

As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

City	<u>Contribution Rates</u>	
	<u>2019</u>	<u>2020</u>
	0.24%	0.25%
Current Fiscal Year Employer Contributions	\$ 1,516	

5. Actuarial Assumptions

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

Summary of Actuarial Methods and Assumptions

Valuation Date	December 31, 2019
Actuarial Cost Method	Entry Age Normal
Inflation	2.50%
Salary increases	3.50% to 11.5% including inflation
Discount Rate*	2.75%*
Retirees' 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 to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 20
September 30, 2020

Note G: Supplemental Death Benefits Plan (continued)

6. Discount Rate

As of December 31, 2019, the discount rate used in the development of the Total OPEB Liability was 2.75% compared to 3.71% as of December 31, 2018. In accordance with GASB No. 75, paragraph 155, the applicable discount rate for an unfunded OPEB is based on an index of tax exempt 20-year municipal bond rates rated as AA or higher. The projection of cash flows used to determine the discount rate assumed that contributions are made at the actuarially determined rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to *not be able to* make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2019.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Total OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.71%) in measuring the Total OPEB Liability.

	1% Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
Total OPEB Liability	\$ 39,429	\$ 32,313	\$ 26,707

8. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At September 30, 2020, the City reported a liability of \$32,313 for total OPEB liability. The total OPEB liability was measured as of December 31, 2019 by an actuarial valuation as of that date.

Changes Since the Prior Actuarial Valuation – The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period:

As of December 31, 2019, the discount rate used in the development of the Total OPEB Liability was 2.75% compared to 3.71% as of December 31, 2018. Beginning with the December 31, 2019 actuarial valuation, mortality rates are based on the 2019 Municipal Retirees of Texas Mortality Tables. Prior to the December 31, 2019 actuarial valuation, mortality rates were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment.

For the year ended September 30, 2020, the City recognized OPEB expense of \$4,267.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 21
September 30, 2020

Note G: Supplemental Death Benefits Plan (continued)

Change in the Total OPEB Liability

	Total OPEB Liability (a)
Balance at 12/31/18	\$ 25,018
Changes for the year:	
Service cost	1,250
Interest	950
Change of benefit terms	
Difference between expected and actual experience	(656)
Changes of assumptions	5,814
Benefit payments, including refunds of employee contributions	(63)
Other changes	
Net changes	7,295
Balance at 12/31/19	<u>\$ 32,313</u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ -	\$ 1,233
Changes in actuarial assumptions	\$ 6,274	\$ 1,413
Difference between projected and actual investment earnings	\$ -	\$ -
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	\$ -	\$ -
Total as of Dec. 31, 2018 measurement date	\$ 6,274	\$ 2,646
Contributions paid to TRS subsequent to the measurement date	\$ 1,099	\$ -
Total as of fiscal year-end	<u>\$ 7,373</u>	<u>\$ 2,646</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended December 31:</u>	<u>OPEB Expense Amount</u>
2020	\$ 630
2021	630
2022	630
2023	615
2024	333
Thereafter	790

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 22
September 30, 2020

Note H: Interfund Transfers

Interfund transfers for the year ended September 30, 2020 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>General Fund:</u>		
Proprietary Fund	<u>261,322</u>	<u>-</u>
<u>Total General Fund</u>	<u>-</u>	<u>-</u>
<u>Proprietary Fund:</u>		
General Fund	<u>-</u>	<u>261,322</u>
<u>Total</u>	<u>\$ 261,322</u>	<u>\$ 261,322</u>

These interfund transfers represent cash flow transfers from the proprietary fund to the general fund in the normal course of business.

Note I: Litigation

There was no litigation pending or in progress against the City at September 30, 2020.

Note J: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a public entity risk pool managed by the Texas Municipal League whereby the risk is pooled with other entities. Participation in this pool allows the City to share liability, crime, motor vehicle and property damage risks. The Intergovernmental Risk Pool (the Pool) allows the City to manage risk by purchasing property, liability, and workers compensation insurance through the Texas Municipal League. The Pool provides property, liability and workers' compensation coverage for certain governmental entities of the State of Texas. Member entities include municipalities, housing authorities, councils of governments, hospital districts, water districts and tax appraisal districts. The Pool consists of five separate funds: the Workers' Compensation Fund, the Liability Fund, the Property Fund, the Reinsurance Fund and the Stability Fund. The financial results of these coverages are accounted for in separate funds by the Pool.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended September 30, 2020

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Property Taxes (Including Penalty and Interest)	\$ 879,300	\$ 818,977	\$ (60,323)
Franchise Taxes	30,100	42,011	11,911
Sales Tax	13,000	19,079	6,079
Library Revenue	6,500	7,430	930
RV Storage	10,000	14,536	4,536
Municipal Court	700	1,710	1,010
Permits	10,600	11,007	407
Grant Revenues	10,300	27,566	17,266
Miscellaneous	4,000	3,337	(663)
<u>Total Revenues</u>	<u>964,500</u>	<u>945,653</u>	<u>(18,847)</u>
<u>Expenditures</u>			
Current			
General Government	404,254	397,908	6,346
Operations	241,602	237,052	4,550
City Court	6,878	4,743	2,135
Public Safety - Police Department	322,979	313,528	9,451
Public Safety - Fire Department	36,752	32,950	3,802
Public Works - Street Department	103,040	100,438	2,602
Library	34,682	33,870	812
Emergency Operations	8,625	7,976	649
Capital Outlay	130,000	103,863	26,137
<u>Total Expenditures</u>	<u>1,288,812</u>	<u>1,232,328</u>	<u>56,484</u>
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	254,692	261,322	6,630
<u>Total Other Financing Sources (Uses)</u>	<u>254,692</u>	<u>261,322</u>	<u>6,630</u>
<u>Excess (Under) Expenditures and Other Uses</u>	(69,620)	(25,353)	44,267
Fund Balance, Beginning of Year	97,681	97,681	-
<u>Fund Balance, End of Year</u>	<u>\$ 28,061</u>	<u>\$ 72,328</u>	<u>\$ 44,267</u>

EXHIBIT E-2

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET
AND RELATED RATIOS - TMRS
(unaudited)

	Measurement Year				
	2019	2018	2017	2016	2015
Total Pension Liability					
Service Cost	\$ 69,822	\$ 62,220	\$ 61,357	\$ 58,412	\$ 52,228
Interest (on the Total Pension Liability)	141,583	130,300	121,065	110,872	104,470
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(1,339)	(630)	(12,487)	10,383	(32,917)
Change of assumptions	(13,342)	-	-	-	47,799
Benefit payments, including refunds of employee contributions	(25,663)	(31,386)	(35,722)	(24,547)	(24,547)
Net change in Total Pension Liability	171,061	160,504	134,213	155,120	147,033
Total Pension Liability - Beginning	2,075,451	1,914,947	1,780,734	1,625,614	1,478,581
Total Pension Liability - Ending (a)	\$ 2,246,512	\$ 2,075,451	\$ 1,914,947	\$ 1,780,734	\$ 1,625,614
Plan Fiduciary Net Position					
Contributions - employer	96,266	86,820	83,684	75,041	71,479
Contributions - employee	37,505	33,243	32,753	31,264	29,703
Net investment income	207,052	(38,610)	147,029	62,002	1,239
Benefit payments, including refunds of employee contributions	(25,663)	(31,386)	(35,722)	(24,547)	(24,547)
Administrative expense	(1,167)	(745)	(761)	(699)	(754)
Other	(35)	(38)	(39)	(38)	(37)
Net Change in Plan Fiduciary Net Position	313,958	49,284	226,944	143,023	77,083
Plan Fiduciary Net Position - Beginning	1,335,432	1,286,148	1,059,203	916,180	839,097
Plan Fiduciary Net Position - Ending (b)	\$ 1,649,390	\$ 1,335,432	\$ 1,286,147	\$ 1,059,203	\$ 916,180
Net Pension Liability/(Asset) - Ending (a) - (b)	\$ 597,122	\$ 740,019	\$ 628,800	\$ 721,531	\$ 709,434
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	73.42%	64.34%	67.16%	59.48%	56.36%
Covered Employee Payroll	\$ 625,084	\$ 554,054	\$ 545,883	\$ 521,071	\$ 495,055
Net Pension Liability/(Asset) as a Percentage of Covered Payroll	95.53%	133.56%	115.19%	138.47%	143.30%
					132.39%

The accompanying notes are an integral part of this statement.

EXHIBIT E-3

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

SCHEDULE OF CONTRIBUTIONS - TMRS PENSION
(unaudited)

	Fiscal Year				
	2020	2019	2018	2017	2016
Actuarially Determined Contribution	\$ 93,847	\$ 94,220	\$ 84,791	\$ 82,136	\$ 73,803
Contributions in relation to the actuarially determined contribution	93,847	94,220	84,791	82,136	73,803
Contribution (deficiency) excess	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 614,129	\$ 608,899	\$ 544,306	\$ 544,652	\$ 512,102
Contributions as a percentage of covered employee payroll	15.28%	15.47%	15.58%	15.08%	14.41%
					14.35%

The accompanying notes are an integral part of this statement.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
AND RELATED RATIOS - TMRS
(unaudited)

	Measurement Year		
	2019	2018	2017
Total OPEB Liability			
Service Cost	\$ 1,250	\$ 1,385	\$ 1,201
Interest (on the Total OPEB Liability)	950	874	835
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(656)	(942)	-
Change of assumptions	5,814	(1,985)	2,253
Benefit payments, including refunds of employee contributions	(63)	(55)	(55)
Net change in Total OPEB Liability	<u>7,295</u>	<u>(723)</u>	<u>4,234</u>
Total OPEB Liability - Beginning	<u>25,018</u>	<u>25,741</u>	<u>21,507</u>
Total OPEB Liability - Ending	<u>\$ 32,313</u>	<u>\$ 25,018</u>	<u>\$ 25,741</u>
 Covered Employee Payroll	 \$ 625,084	 \$ 554,054	 \$ 545,883
 Total OPEB Liability/(Asset) as a Percentage of Covered Payroll	 5.17%	 4.52%	 4.72%

The accompanying notes are an integral part of this statement.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

SCHEDULE OF CONTRIBUTIONS - TMRS OPEB
(unaudited)

	Fiscal Year		
	2020	2019	2018
Actuarially Determined Contribution	\$ 1,516	\$ 1,429	\$ 1,183
Contributions in relation to the actuarially determined contribution	<u>1,516</u>	<u>1,429</u>	<u>1,183</u>
Contribution (deficiency) excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 614,129	\$ 608,899	\$ 544,306
Contributions as a percentage of covered employee payroll	0.2469%	0.2347%	0.2173%

The accompanying notes are an integral part of this statement.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2020

Schedule of Contributions for Pensions – TMRS

Valuation Date:

Notes

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	N/A
Asset Valuation Method	10 year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes

There were no benefit changes during the year.

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2020

Schedule of Contributions for OPEB – TMRS

Valuation Date:

Notes 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
Asset Valuation	For purposes of calculating the Total OPEB Liability, the plan is considered to be unfunded and therefore no assets are accumulated for OPEB.
Inflation	2.5%
Salary Increases	3.50% to 11.5% including inflation
Discount Rate*	2.75%
Retirees' 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 to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF RANSOM CANYON
Ransom Canyon, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended September 30, 2020

Years Ended September 30	Tax Rate Per \$100 Value	Assessed/Appraised Value for Tax Purposes	Balance 10/01/19	Add: Current Levy	Less: Collections	Total Year's Adjustments	Balance 09/30/20
2011 and prior	\$ --	\$ --	\$ 63	-	\$ -	(6)	\$ 57
2012			74	-	-	-	74
2013			66	-	-	-	66
2014			85	-	-	-	85
2015	0.659290	111,964,003	154	-	-	-	154
2016	0.659290	115,377,420	340	-	-	-	340
2017	0.659290	125,415,790	303	-	-	-	303
2018	0.612930	136,899,277	288	-	14	-	274
2019	0.612930	141,132,763	2,899	-	2,570	-	329
2020	0.612930	150,495,652	-	922,433	917,654	(540)	4,239
Totals			<u>\$ 4,272</u>	<u>\$ 922,433</u>	<u>\$ 920,238</u>	<u>\$ (546)</u>	<u>\$ 5,921</u>

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Independent Auditors' Report

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

To the Honorable Mayor and City Council
Town of Ransom Canyon, Texas
24 Lee Kitchens Dr.
Ransom Canyon, TX 79366-2200

Members of the Board of Trustees:

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, each major fund, and the aggregate remaining fund information of the Town of Ransom Canyon, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Ransom Canyon's basic financial statements, and have issued our report thereon dated November 10, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Ransom Canyon's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Ransom Canyon'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.



Independent Auditors' Report
Page 2

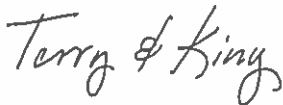
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Ransom Canyon'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 financial statements. 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*.

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.

Respectfully submitted,

A handwritten signature in cursive script that reads "Terry & King".

Terry & King, CPAs, P.C.
Lubbock, Texas
November 10, 2020