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CITY OF MESQUITE, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED SEPTEMBER 30, 2019

Texas Comptroller Transparency Stars Program



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About the Cover:

On September 4, 2018, the City of Mesquite announced that it is the sixth local government in the state to receive all five transparency stars through the Texas Comptroller Transparency Stars Program. The Texas Comptroller's office launched the Transparency Stars program in March 2016 to recognize cities, counties and school districts making strides to greater government transparency by providing easy on-line access to important financial data. The City has earned stars for transparency in Traditional Finances, Contracts and Procurement, Economic Development, Public Pensions and Debt Obligations.

In an effort to meet the demands of the taxpayer for a more transparent government, the City of Mesquite is providing more fiscal transparency to its citizens through the City's Transparency Stars portal located at www.cityofmesquite.com/transparency.

CITY OF MESQUITE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended

September 30, 2019

Prepared by:

Finance Department

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City of Mesquite, Texas

Comprehensive Annual Financial Report For the Fiscal Year Ended September 30, 2019

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CITY OF MESQUITE, TEXAS

CITY OFFICIALS

SEPTEMBER 30, 2019

CITY COUNCIL

Bruce Archer, Mayor

Sherry Wisdom, District 1

Kenny Green, District 2

Robert Miklos, District 3

Tandy Boroughs, District 4

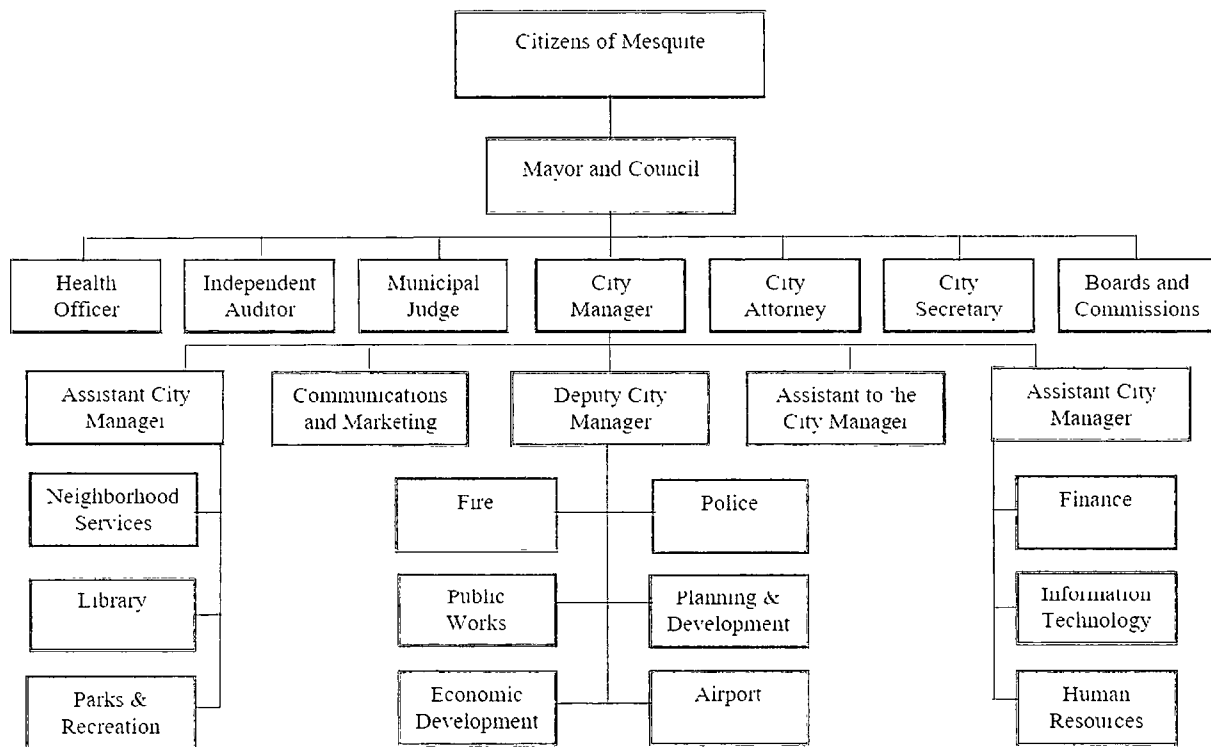
B.W. Smith, District 5

Daniel Aleman, District 6

Cliff Keheley, City Manager
Deborah Mol, CPA, Director of Finance
Sheree Haynes, Manager of Accounting Services

City of Mesquite, Texas

Organizational Chart September 30, 2019





March 18, 2020

Honorable Mayor, City Council, and City Manager,
City of Mesquite, Texas:

The Comprehensive Annual Financial Report (CAFR) of the City of Mesquite, Texas (City), for the fiscal year ended September 30, 2019, is hereby submitted.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

BKD, LLP has issued an unmodified (“clean”) opinion on the City’s financial statements for the year ending September 30, 2019. The independent auditor’s report is located at the beginning of the financial section of this report.

This letter of transmittal is designed to compliment Management’s Discussion and Analysis (MD&A) and should be read in conjunction with it. The City’s MD&A can be found immediately following the independent auditor’s report and provides a narrative introduction, overview and analysis of the basic financial statements.

Article IV, Section 32 of the City Charter requires an annual audit of the books of account and transactions of all City departments be conducted by an independent certified public accountant selected by the City Council. The City is also required to undergo an annual single audit in conformity with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Information related to the single audit, including the supplemental schedule of federal awards, schedules of findings and questioned costs, and independent auditor’s reports on internal controls and compliance are included at the end of this report.

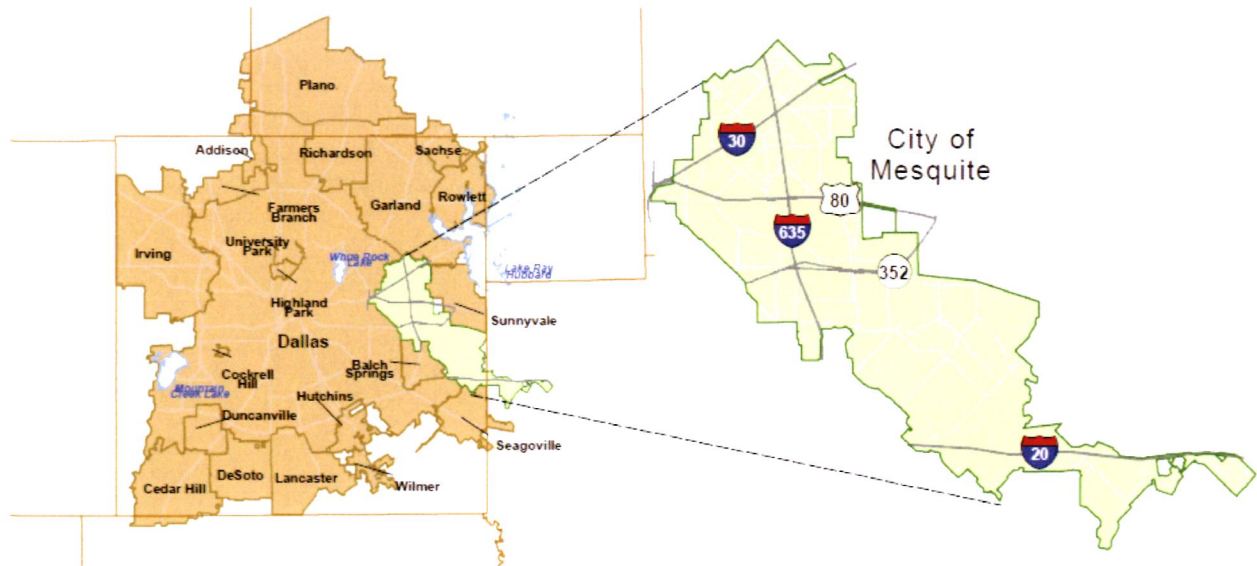
City of Mesquite, Texas Profile

The City is located in eastern Dallas County, with its corporate limits adjoining the corporate limits of Dallas for a distance of about eight miles. The central business district of Mesquite is approximately 13 miles from downtown Dallas. The incorporated area of Mesquite is presently 48.94 square miles.

Mesquite began as a small farming settlement until 1873 when the Texas and Pacific Railroad arrived. Operating as an unfranchised township, it wasn’t until December 3, 1887, that citizens took action to incorporate in Dallas County.

Over the years Mesquite grew not only in numbers but in strength and importance, becoming a viable agricultural center by the turn of the century. The Town’s population increased threefold between the 1890 and 1900 U. S. censuses - from 135 to 405 - and grew to 729 by 1930. Twenty years later, in 1950, Mesquite

was home to 1,696 citizens, and that is when explosive growth began. In 1960 the population jumped to 27,526, and to 67,053 in 1980, and 124,523 in 2000. Today, Mesquite's population is an estimated 145,000, making it the 22nd largest city in Texas. Mesquite is still one of the most dynamic cities in the Metroplex, served by excellent schools, churches, healthcare institutions, cultural and entertainment facilities, parks, playgrounds and many other amenities.



The City of Mesquite provides a full range of services, including police and fire protection, streets, health and solid waste services, libraries, parks and recreation, planning and zoning, and general administrative services. Additionally, water and sewer utility services, drainage utility services, municipal airport and the municipal golf course are provided under an enterprise fund concept, with user charges set by the City Council to ensure adequate coverage of operating expenses and timely payments on outstanding debt. Certain public safety, transportation, and parks and recreation services are provided through a legally separate Quality of Life Corporation, which functions, in essence, as a department/fund of the City of Mesquite and, therefore, has been included as an integral part of the City's financial statements.

The City of Mesquite is a Home Rule City operating under a council/manager form of government. The City Council is comprised of a Mayor and six Councilmembers. Councilmembers serve two-year terms and are responsible for appointing the City Manager, Municipal Judge, City Attorney, City Secretary, City Health Officer, Independent Auditor, and members of various boards and commissions. The Mayor is elected at large and all six Councilmembers are elected from within their respective districts. The City Manager serves as the administrative head of the municipal government and is responsible for carrying out policies and for daily management of the City.

The City's financial statements include twenty-one component units, which are discussed in Note 1 of the Notes to The Financial Statements. Component units are legally separate entities for which the primary government is financially accountable.

Local Economy

A positive factor for the City of Mesquite over the years has been the strength of the Dallas area economy. The Metroplex has ranked high nationally in attracting new businesses and expansion of existing companies. The area remains a major distribution and financial center for the Southwest, and the growth of high-tech industries, services industries, trade, and corporate headquarters have provided a strong, stable and diverse regional economy.

Mesquite has several other factors which help foster an optimistic economic outlook for the City including the availability of affordable housing, a well-educated work force, and a strong retail and service-oriented marketplace. Mesquite also benefits from having four major highways crossing through its corporate limits and is well served by rail and intermodal facilities. Dallas/Fort Worth International Airport is located nearby to meet the community's commercial passenger air transportation needs and the City operates its own municipal airport facility for corporate and general aviation.

Mesquite continues to see consistent growth in all sectors of the commercial, industrial and retail markets, with a notable surge in new industrial development. Tremendous residential growth announced in 2018-19 is taking off as subdivisions have begun site work, preparing for more than 6,000 new homes, which will build-out Mesquite's neighborhoods into the next decade. This residential growth will spur continued commercial growth, especially in the southern Mesquite neighborhoods and along IH-20 in the Trinity Pointe area of Mesquite. Industrial activity is led by new company relocations and facility expansions, along with over three million square feet of new speculative development in design or under construction. Retail activity was led by experiential retail, grocery and new dining options, with new land development preparing for future brand attraction. In partnership with stakeholders and prospective end-users, redevelopment plans for reuse and expansion in and surrounding Town East Mall and the Market East Shopping Center are underway with more than 100,000 square feet of new retail space in Market East opening by year-end 2020. Town East Mall continues to operate at 97 percent occupancy on a consistent basis.

Ashley Furniture's 877,000 square foot state-of-the-art manufacturing distribution facility opened in 2019 and created 350 new jobs. Elements International, LLC consolidated its Texas operations and made Mesquite its headquarters bringing another 110 new jobs to Mesquite. Urban Logistics Realty broke ground on an 80+ acre industrial development facility named Urban District 30, which consists of five buildings totaling 977,013 square feet of Class A industrial space that will attract new companies to Mesquite. Dalfen Industrial, Conor Commercial Real Estate and Prologis are also building industrial and office space totaling 980,000 square feet.

On the residential side, Mesquite's newest developer, Bloomfield Homes, has completed its first and second phase of 125 lots in the Hagan Hill subdivision, located along the IH-20 corridor and featuring new homes in the \$280's to \$400's price range, and is now selling homes in its third phase of development. Bloomfield Homes also began work on a second development, Ridge Ranch, in southeast Mesquite, which will have another 750 lots with homes priced from \$260's to \$400's. The City now has three Public Improvement Districts (PIDs) for proposed residential development. Heartland Town Center PID No. 1 is home to the Trailwind development by DR Horton with 450 new home sites with values ranging from \$260s to \$400s, Polo Ridge PID No. 2 will provide 1,007 new homes with values from \$260s to the \$750s, and Iron Horse PID No. 3 will provide 330 new homes, townhomes and bungalows with values from the \$235s to \$300s. There are a few more proposed residential developments throughout the City in various infill areas and other major developments in the early planning stages.

Mesquite's medical community remains a strong economic driver for the City. Construction of a new medical facility on IH-30 is now complete and provides 60,000 square feet of professional medical office space. A new medical rehabilitation facility, Cheyenne Medical Lodge, opened in 2019, and the Sanitas Medical Center secured space in the newly renovated Town East Crossing Shopping Center.

On the entertainment side, the Mesquite Arena, home to the Mesquite Championship Rodeo, is nearing completion of a \$4 million renovation project, and is now host to a semi-professional soccer team, the Mesquite Outlaws. Urban Air, a popular indoor trampoline park, opened in 2019 bringing more family entertainment options to the Mesquite community.

The Mesquite Metro Airport is now ranked 31st out of 264 by the Texas Department of Aviation for total economic output by general aviation airports in Texas. The airport completed a \$2.8 million improvement project which included expansion of its runway, upgrades to the taxiway lighting system and other infrastructure enhancements. The airport has become one of the nation's top-25 busiest general aviation airports with an air traffic control tower.

Major Initiatives

Following direction of the City Council, a number of initiatives were undertaken during the year to improve the quality of governmental services the citizens of Mesquite have come to expect. These improvements were identified after a systematic review of all activities of the City in which each program was analyzed to ensure that it was needed and wanted by the community and that it was being provided with maximum efficiency at the lowest cost possible. An excellent source of information about the City, its services, and current initiatives can be found at the City's website at <http://www.cityofmesquite.com>.

The City continued its residential street bond reconstruction project, which is a \$125 million general obligation bond authorization that was approved by voters in November 2015. The *Trinity Pointe* corridor along IH-20 continued to see development interest in multiple residential, commercial and industrial projects. The City broke ground on the first major capital improvement project in the historic downtown redevelopment area, Front Street Station, and established a façade grant program for assisting businesses in improving their downtown storefronts. The City launched a new *myMesquite* mobile app that allows citizens to connect directly with City staff to report non-emergency requests for service or to report issues.

Long Term Financial Planning

In January 2020, City Council met to review their current policy issues and goals for the City. These policy issues relate to safe community, attractive neighborhoods, improved transportation and mobility, vibrant economy, high performing/transparent government, and quality recreation and culture. More detail on the City Council Strategic Goals and Objectives for 2019-20 can be found on the City's website. City staff continued to utilize the budgeting for outcomes process to prioritize resources for the fiscal year 2020 budget. The budgeting for outcomes process allows City staff to better allocate limited resources to the highest priorities citizens want and which are better aligned with City Council goals.

Capital projects such as new roads, continued traffic improvements along the IH-635 interchange area, drainage improvements throughout the City, and new water storage and distribution projects will continue to be a priority as well as maintenance and expansion of the City's general infrastructure. To address these goals, the City maintains a 10-year capital improvement plan that provides a long-term framework for the development and maintenance of infrastructure to meet current and future needs.

The City Council also recognizes that the need to attract and retain a qualified workforce is dependent upon a competitive compensation and benefit package for City employees. Future plans include continued support of an adopted pay plan that establishes compensation for City employees at the "market midpoint" as determined by a survey of peer cities. The City Council is also committed to regular reviews of employee benefits such as insurance, retirement, paid holidays, and working conditions to ensure that Mesquite is providing an attractive work environment.

Relevant Financial Policies

Internal Controls. City management is responsible for establishing and maintaining an internal control structure design to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accounting System and Budgetary Controls. In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council.

Budgets are legally adopted by the City Council for governmental funds other than Capital Projects Funds and the Other Special Revenue Fund, at the fund level of control. Project-length financial plans are adopted for Capital Projects Funds. Advisory budgetary control is maintained at the object class level (personal services, supplies, contractual services, capital outlay, etc.) in each departmental budget, and encumbrances are entered at the time a purchase order is issued. Outstanding purchase orders are reported at year-end as assigned fund balance and the commitments will be honored during the subsequent year.

The budgetary process begins each year with the preparation of both revenue estimates and expenditure requests by each city department. Budgets are reviewed by members of the city management team, the Finance Director and Manager of Budget and Financial Analysis. The City Manager makes final decisions and submits a recommended budget to the City Council prior to August 15. The proposed budget is reviewed extensively by the City Council, public hearings are conducted, and the budget is legally enacted by passage of an ordinance prior to October 1.

As part of each year's budget development process, departments are required to update expenditure estimates for the current fiscal year. These estimates, as well as revenue estimate revisions, are reviewed by the Manager of Budget and Financial Analysis, the Finance Director, members of the city management team, the City Manager, and the City Council. The City Council approves the adoption of the amended budget by ordinance.

During the course of the fiscal year, monthly expenditure reports are generated by the Accounting Division using the City's automated accounting system. These reports provide budget, expenditure, and encumbrance data for each cost center. In addition, online inquiry capability is provided to every department to review appropriation, project, document, and vendor file data. At month-end, a summarized Monthly Financial Report is prepared. The monthly financial reports are presented to the City Council on a quarterly basis.

Revenue Policy. The City maintains a diversified and stable revenue system to shelter it from unforeseeable short-run fluctuations in any one revenue source.

Transfers between funds are only be authorized by City Council and only to the extent that the basis and justification for the transfer can be quantified. Fund transfers may occur when surplus fund balances are used to support non-recurring capital expenses or when needed to satisfy debt service obligations.

One-time revenues are not used for funding on-going appropriations. One-time revenues are used to fund capital improvements, capital equipment or other one-time appropriations.

Charges for services, or user fees, are reviewed at least every two years for the effects of inflation and revised subject to City Council approval.

Other Information

Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (“GFOA”) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Mesquite, Texas, for its Comprehensive Annual Financial Report (“CAFR”) for the fiscal year ended September 30, 2018. This was the 40th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This CAFR continues to meet the Certificate of Achievement Program’s requirements, and it has been submitted to GFOA to determine its eligibility for another certificate.

Acknowledgements. The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. I would like to express appreciation to all members of the department who assisted and contributed to its preparation. I would also like to thank the Mayor, City Council, and City Manager for their support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully Submitted,

Deborah A. Mol

Deborah A. Mol, CPA
Director of Finance



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Mesquite
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

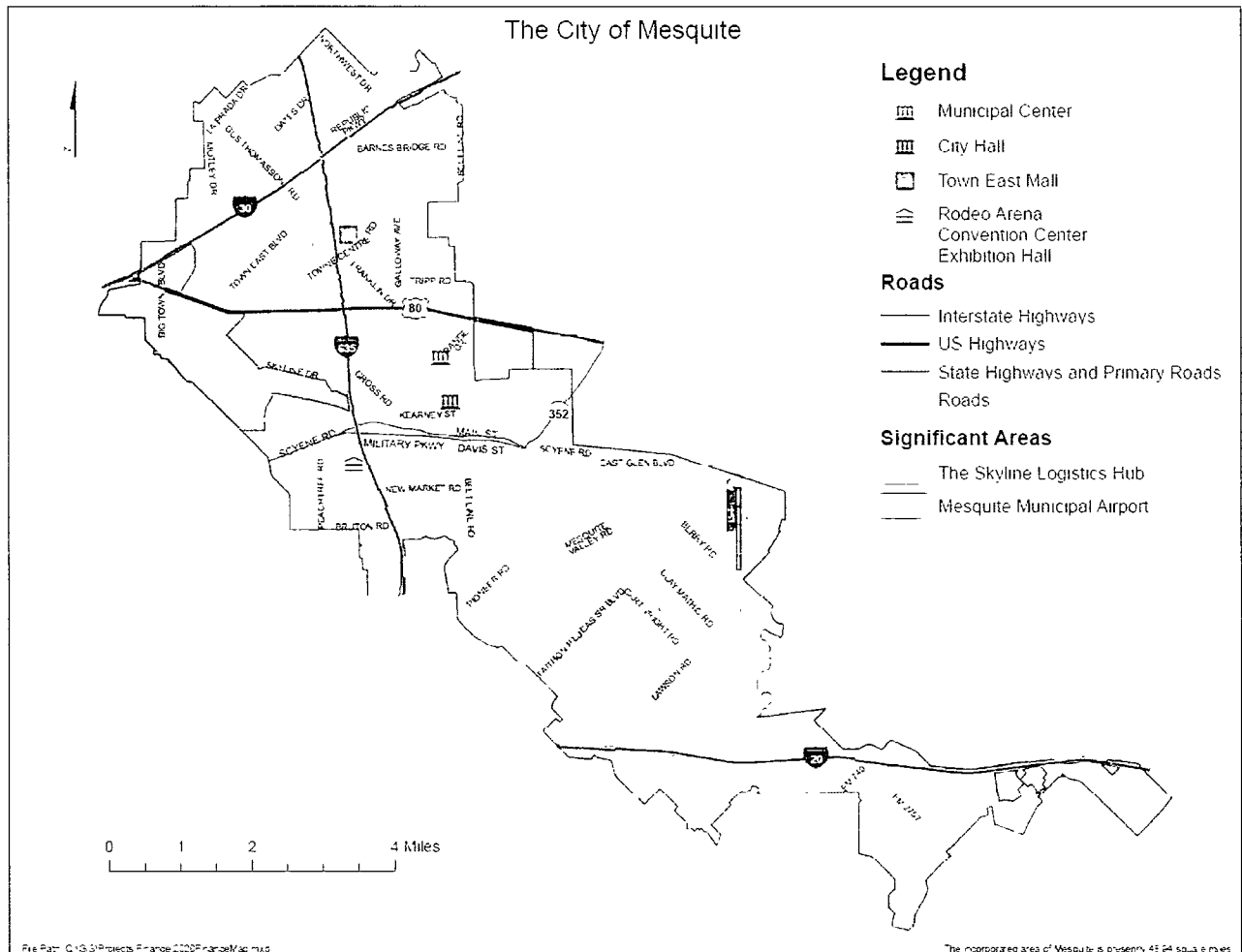
September 30, 2018

Christopher P. Morrell

Executive Director/CEO

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Independent Auditor's Report

The Honorable Mayor and Members of the City Council
City of Mesquite, Texas
Mesquite, Texas

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 City of Mesquite, Texas (City) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mesquite, Texas, as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund and the housing grants special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other postemployment benefit information as listed 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 City's basic financial statements. The introductory section, combining and individual fund statements, budget and actual schedules, statistical section, the schedule of expenditures of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the schedule of expenditures of state awards, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated March 19, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
March 18, 2020

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City of Mesquite, Texas
Management's Discussion and Analysis (Unaudited)
For the Year Ended September 30, 2019

As management of the City of Mesquite, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2019. We encourage readers to consider the information presented here in conjunction with our letter of transmittal at the front of this report and the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$220.8 million (net position). Within the total net position, unrestricted is a \$107.3 million deficit.
- The City's total net position increased by \$13.7 million from operations during fiscal year 2019. Governmental activities which receive taxes and other non-exchange revenues, increased \$5.2 million and business type activities increased by \$8.5 million.
- As of the close of the current fiscal year, the City of Mesquite's governmental funds reported combined ending fund balances of \$117.2 million, an increase of \$9.5 million from the prior year due primarily to revenues trending higher than anticipated and issuance of bonds that will be spent in the future on capital projects. Of this amount, \$20.7 million is available for spending subject to the City's self-imposed limitations by management for intended use.
- At year-end, the unassigned fund balance for the General Fund was \$20.7 million and total fund balance was \$22.7 million. Total unassigned fund balance represents approximately 62 days of working capital. On a current financial resources basis, total fund balance for the General Fund increased \$1.8 million which was primarily the result of revenue resources coming in higher than budgeted.
- The City's debt, excluding premiums, increased by \$37.3 million during this current fiscal year. The City issued certificates of obligation for infrastructure, capital replacement, and municipal building improvements. The City also issued special assessment bonds for its newly created Polo Ridge and Iron Horse Improvement Districts for infrastructure development in those districts. In addition, the City issued revenue bonded debt for water, sewer, and drainage improvements.
- The Group Medical Insurance Internal Service fund revenues exceeded expenses by \$243 thousand which reduced the negative fund balance in the fund. In an effort to address the negative fund balance, the City Council adopted a fund balance reserve policy in January 2019 that requires adequate revenues to cover expenditures each operating year with a plan to fund reserves from excess revenues over expenditures as well as one-time revenue sources. Per the policy, continuous improvements shall be shown each year to reduce the deficit with a goal of a minimum level of working capital equivalent to three months of regular, on-going operating expenses. Current year plan changes included a ten percent employer contributions rate increase and ten percent employee and retiree rate increase.
- The General Liability Insurance Internal Service fund expenses exceeded revenues and investment income by \$26 thousand which increased the negative fund balance. The City incurred a one time settlement on a claim that came in slightly higher than planned. The City will continue to work on eliminating the deficit fund balance through increased insurance rates to user departments and continue to closely monitor liability claims.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Mesquite's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business. One of the most important questions asked about the City's finances is, "Is the City of Mesquite in a better financial position at the end of this fiscal year compared to last year?" The government-wide financial statements report information about the City as a whole and about its activities in a way that helps to answer this question. Other non-financial factors should be taken into consideration, such as changes in the City's property tax base and the condition of the City's streets to assess the overall health or financial condition of the City.

The statement of net position presents information on all the City's assets and liabilities and deferred inflows/outflow of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from the functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Governmental activities include most of the City's basic services such as fire, police, code compliance, library, parks and recreation, and community services as well as general government activities. The business-type activities of the City include water and sewer, drainage utility, municipal airport services, and municipal golf course.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance

sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains ten governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General, Housing Grants Special Revenue, Local Finance Capital Project, Bond Finance Capital Project and Debt Service funds, all of which are major funds. Data from the other five governmental funds are combined into a single, aggregated presentation titled Other Governmental Funds. Individual fund data for these non-major other governmental funds is provided in the form of combining statements and individual statements and schedules section of this report.

The City adopts an annual appropriated budget for the General and the Housing Grants Special Revenue funds, which are presented as part of the basic financial statements to demonstrate compliance with these budgets.

Proprietary funds. The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, drainage utility, municipal airport and municipal golf course operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its group health insurance and general liability insurance programs. Both programs are predominantly governmental activities; however, as they benefit both governmental and business-type activities, current year results have been allocated by function in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer and Drainage Utility funds since both are considered major funds of the City. The non-major funds are the Municipal Airport and the Municipal Golf. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major funds and the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City reports only one fiduciary fund, an agency fund entitled the Tax Clearing fund. As the City collects ad valorem taxes for the City, the Mesquite Independent School District, a separate legal entity, and public improvement districts funds are held in the agency account until amounts due to each government can be determined and distributed. The basic financial statements include a statement of fiduciary assets and liabilities. The accounting used for this fiduciary fund is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and other postemployment benefits. Required supplementary information immediately follows the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Mesquite, assets and deferred outflows exceeded liabilities and deferred inflows by \$220.8 million as of September 30, 2019.

The largest portion of the City's net position (118.4 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, improvements, infrastructure, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Mesquite's Net Position (in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 140,337	\$126,984	\$ 84,715	\$ 64,359	\$225,052	\$191,343
Capital assets	304,385	278,975	221,999	214,780	526,384	493,755
Total assets	444,722	405,959	306,714	279,139	751,436	685,098
Deferred outflows of resources	35,252	10,592	4,245	2,586	39,497	13,178
Long-term liabilities outstanding	420,046	356,716	114,869	94,031	534,915	450,747
Other liabilities	17,544	14,636	9,519	8,842	27,063	23,478
Total liabilities	437,590	371,352	124,388	102,873	561,978	474,225
Deferred inflows of resources	7,408	15,446	730	1,462	8,138	3,885
Net investment in capital assets	144,527	131,473	151,897	148,423	296,424	279,896
Restricted net position	27,940	27,208	3,798	3,210	31,738	30,418
Unrestricted net position (deficit)	(137,491)	(128,928)	30,146	25,757	(107,345)	(103,171)
Total net position	\$ 34,976	\$ 29,753	\$185,841	\$177,390	\$220,817	\$207,143

Within the total net position, unrestricted is a \$107.3 million deficit. An additional portion of the City's net position (14.4 percent) represents resources that are subject to external restriction on how they may be used. The current and other assets increased in the governmental activities by \$13.4 million and the business-type activities increased by \$20.4 million. The increase in the governmental activities assets is primarily due to an increase in pooled cash and investments from bond proceeds received for major capital projects still in progress and a slight increase in net receivables. Increase in the business-type activities is primarily due to an increase in pooled cash and investments and net receivables as a result of current year operations.

The City's total liabilities increased by \$87.8 million. Bonds payable increased \$36.9 million for new capital projects. The Other Post Employment Benefit (OPEB) liability increased \$2.4 million and the net pension liability increased \$44.0 million due to additional City contributions to the plan offset by a down year in the market.

Deferred inflows and outflows of resources are primarily due to pension and other postemployment benefit valuation activity including less than expected market performance in calendar year 2018.

Analysis of the City's Operations. Governmental and Business-type activities increased the City's net position by \$13.7 million. The key elements of this increase and the prior year results are as follows:

City of Mesquite's Change in Net Position
(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues:						
Program revenues:						
Charges for services	\$ 35,229	\$ 31,531	\$ 76,020	\$ 74,474	\$111,249	\$106,005
Operating grants and contributions	16,414	15,900	53	283	16,467	16,183
Capital grants and contributions	5,755	4,322	982	3,830	6,737	8,152
General revenues:						
Ad valorem taxes	57,413	49,921	-	-	57,413	49,921
Gross receipts taxes	7,810	7,988	-	-	7,810	7,988
Sales taxes	46,869	45,700	-	-	46,869	45,700
Sale of capital assets	549	268	14	124	563	392
Investment income	2,687	1,330	1,344	799	4,031	2,129
Total revenues	<u>172,726</u>	<u>156,960</u>	<u>78,413</u>	<u>79,510</u>	<u>251,139</u>	<u>236,470</u>
Expenses:						
General government	30,100	31,854	-	-	30,100	31,854
Fire services	30,502	28,918	-	-	30,502	28,918
Police services	40,496	36,952	-	-	40,496	36,952
Public works	23,490	20,675	-	-	23,490	20,675
Planning & community development	3,301	3,532	-	-	3,301	3,532
Housing & community services	17,962	16,942	-	-	17,962	16,942
Library services	2,157	2,264	-	-	2,157	2,264
Parks and recreation	11,400	10,481	-	-	11,400	10,481
Other	-	-	-	-	-	-
Interest on long-term debt	8,892	5,711	-	-	8,892	5,711
Water and sewer	-	-	62,786	55,859	62,786	55,859
Drainage utility	-	-	2,832	2,196	2,832	2,196
Non major funds	-	-	3,547	3,600	3,547	3,600
Total expenses	<u>168,300</u>	<u>157,329</u>	<u>69,165</u>	<u>61,655</u>	<u>237,465</u>	<u>218,984</u>
Increase (decrease) in net position						
before transfers	4,426	(369)	9,248	17,855	13,674	17,486
Transfers	<u>797</u>	<u>4,537</u>	<u>(797)</u>	<u>(4,537)</u>	<u>-</u>	<u>-</u>
Increase in net position	5,223	4,168	8,451	13,318	13,674	17,486
Net position - Beginning	29,753	53,187	177,390	166,731	207,143	219,918
Restatement to beginning net position, change in accounting principle *	<u>-</u>	<u>(27,602)</u>	<u>-</u>	<u>(2,659)</u>	<u>-</u>	<u>(30,261)</u>
Net position - Ending	<u>\$ 34,976</u>	<u>\$ 29,753</u>	<u>\$185,841</u>	<u>\$177,390</u>	<u>\$220,817</u>	<u>\$207,143</u>

* Beginning amounts for 2018 were restated as per GASB Statement No. 75

Governmental Activities

Governmental activities increased the City of Mesquite's net position by \$5.2 million.

The City's program revenues from governmental activities increased approximately \$2.1 million (4.1 percent) as compared to the prior year. Charges for services increased approximately \$3.7 million, operating grants and contributions increased approximately \$514 thousand, and capital grants and contributions decreased approximately \$2.1 million.

Charges for services increased primarily due to an increase in the waste collection/disposal monthly fee, compost materials charges, public works inspections fees, and ambulance services. Capital and operating grants and contributions increased primarily due to funding received for development in the Polo Ridge and Iron Horse Public Improvement Districts and developer contributions in fiscal year 2019.

General revenues of the City's governmental activities increased \$10.1 million (9.6 percent) during the year. General revenue from property taxes increased \$7.5 million due to increased property tax values for the year, newly created Tax Increment Reinvestment Zones (TIRZ), and an increased tax rate approved by a street bond election held during November 2015. Gross receipts tax revenue decreased \$178 thousand due to decreased activity from electricity, gas, and cable franchise fees. Sales tax revenues increased \$1.2 million due to an increase in retail activity. Investment income increased \$1.4 million due to higher cash balances and improved yields on investments throughout the year.

Expenses for the City's governmental activities experienced a net increase of \$11.0 million (7.0 percent) compared with the prior fiscal year. The increase can be attributed to Fire services, \$1.6 million; Police services, \$3.5 million; Public works, \$2.8 million; Housing & community services, \$1.0 million; Parks and recreation, \$919 thousand; and Interest on long-term debt, \$3.2 million, which were offset by decreases in General Government, \$1.8 million, Planning and development, \$232 thousand and Library services, \$107 thousand.

- Fire services increased \$1.6 million due to a three percent merit increase to all employees, a five percent step increase for eligible employees with less than five years of service, required step increases for eligible employees with more than five years of service, training for new recruits, and overtime due to vacant positions.
- Police services increased \$3.5 million due to a three percent merit increase to all employees, a five percent step increase for eligible employees with less than five years of service, required step increases for eligible employees with less than six years of service, and overtime due to vacant positions and new patrol initiatives.
- Public works increased \$2.8 million due to a two percent merit increase to all employees, increased materials for street maintenance and repairs, and a new rear tipper pilot program which is a new semi-automated residential waste collection pilot program with carts.
- Housing and community services increased \$1.0 million due to a two percent merit increase to all employees and increased program spending in the Community Development Block based on approved grant expenditures.
- Parks and recreation services increased \$919 thousand due to a two percent merit increase to all employees, additional staffing in Parks services for a new high impact litter control team to combat loose debris and litter throughout the community, and for various parks and recreation facility improvements.

- Interest on long-term debt increased \$3.1 million due to increasing debt and timing of planned debt service payments and related interest rates
- General government increased \$4.3 million due to an increase for required contributions to the Texas Municipal Retirement System (TMRS) to set updated service credits to auto renewal. This increase was partially offset by \$5.9 million for administrative reimbursements from business activities providing a net decrease of \$1.8 million.

Business-type Activities

Business-type activities increased the City of Mesquite's net position by \$8.5 million.

The City's overall revenues for business-type activities decreased by \$1.2 million (1.4 percent) during the fiscal year. The majority of the program revenues for the City's business-type activities are from its water and sewer operations. Water and sewer customer charges increased \$1.5 million due to a 4.5 percent rate increase. Capital grants and contributions decreased \$2.8 million due to a decrease in developer contributions for the Water Sewer fund and Drainage Utility District fund.

Expenses attributable to the business-type activities increased approximately \$7.5 million (10.9 percent). The increase is mainly due to a reclass of \$4.5 million cost allocation charges from the General Fund from the transfers line to water and sewer expenses, and increased costs for purchasing treated water and wastewater pretreatment of approximately \$1.7 million. The remainder of the increase is due to a two percent merit to all employees.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds. The focus of the City of Mesquite's governmental funds is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$114.4 million. Approximately 18.1 percent of this total amount (\$20.7 million) constitutes unassigned fund balance. The remainder of the fund balance is comprised of \$2.1 million for non-spendable, which represents funds already committed for prepaid and inventory items and a note receivable which will be repaid in future years, \$89.9 million for restricted, which represents funds restricted for specific purposes by their providers (such as grantors, bondholders, and higher levels of government), and \$1.8 million for assigned, which represents amounts the City intends to use for specific purposes (such as encumbrances, promotion of tourism and capital projects). The fund balance for all governmental funds increased by \$6.7 million from the previous fiscal year. This overall increase is explained below individually by fund.

The General Fund is the chief operating fund of the City of Mesquite. At the end of the current fiscal year, unassigned fund balance of the General fund was \$20.7 million while the total fund balance was at \$22.7 million. The total fund balance increased by \$1.8 million.

In the General Fund, total revenues increased \$10.9 million from the prior year as follows:

- Ad valorem taxes increased \$7.6 million due to an increase in assessed property values and the increase of the debt service portion of the tax rate for the adopted street maintenance bond from fiscal year 2015.

- Sales tax increased over the prior year by \$593 thousand due to an increase in retail activity within the City.
- Charges for services increased \$2.1 million as a result of increases in the waste collection/disposal monthly fee, compost materials fees, public works inspections fees, and ambulance services fees.
- Fines and forfeitures increased \$399 thousand over the prior year. The rise can be attributed primarily to an increased collection on traffic fines and city code violations.
- Licenses and permits increased \$308 thousand over the prior year due to a rate increase for construction related permits and other public safety permits.

Total expenditures in the General Fund increased \$3.7 million over the prior year as follows:

- Fire services increased \$1.7 million due to a three percent merit increase to all employees, a five percent step increase for eligible employees with less than five years of service, required step increases for eligible employees with more than five years of service, and overtime for vacant positions.
- Police services increased \$2.4 million due to a three percent merit increase to all employees, required step increases for eligible employees with less than six years of service, and overtime due to special impact operations to minimize crime.
- Public works increased \$1.4 million due to a two percent merit increase to all employees, increased street maintenance, and a new rear loader tipper pilot program which is a new semi-automated residential waste collection pilot program with carts.
- Parks and recreation had an increased of \$1.4 million due to a two percent merit increase to all employees, an additional two employees and a vehicle for the High Impact Litter Control Program, and a decrease in budgeted reimbursements from special revenue funds

The Housing Grants Fund is a major special revenue fund used to account for funds awarded the City by the U. S. Department of Housing and Urban Development under their housing assistance program. The fund balance is \$1.3 million at the end of the year. Fund balance decreased by \$12 thousand due to increased program activity in the grant program.

The Local Finance capital projects fund is reported as a major fund and is used to account for capital project expenditures from the proceeds of local revenue sources. Fund balance at year end is \$43.9 million, \$42.6 million of which is restricted for various capital projects and specified spending and \$1.2 million is assigned for other capital projects identified by the City. The fund balance increased \$17.0 million primarily due to the issuance of \$24.6 million of special assessment bonds for the City's new Polo Ridge and Iron Horse Public Improvement Districts for current and future infrastructure projects in the Districts.

The Bond Finance capital projects fund is a major fund used to account for capital project expenditures from the proceeds of governmental debt. See the Capital Asset section for highlights on project spending. Fund balance at year end is \$37.1 million, all of which is restricted for use for the capital projects approved within the various bond issues. The fund balance decreased \$12.4 million which is due to timing fluctuations of issuing of bonds (prior year) versus capital project spending from year to year and the street bond rehabilitation program.

The Debt Service fund is a major fund used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The

fund balance was \$4.2 million at the end of the year. Fund balance decreased by \$42 thousand due to an increase on the principal and interest payments for the bonds.

Proprietary funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Water and Sewer fund at the end of the year amounted to \$29.2 million and the Drainage Utility District amounted to \$3.0 million. The change in net position was an increase of \$7.9 million for the Water/Sewer Fund and an increase of \$1.5 million in the Drainage Utility District Fund. The factors concerning the finances of the Water and Sewer fund have already been addressed in the discussion of the City of Mesquite's business-type activities. The Drainage Utility District fund operating results were consistent with prior year except for a decrease in developer contributions.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City revised the original appropriations approved by the City Council for the 2019 fiscal year budget. Overall, these changes resulted in an increase in budgeted revenues and transfers in by \$3.0 million and an increase in expenditures and transfers out of \$3.6 million from the original budget.

The increase in budgeted revenues was to reflect:

- Adjustments to match revenue trends including an increase in collection of General Property Taxes of \$150 thousand, a decrease in Cable TV Gross Receipts activity of \$335 thousand, an increase in collections of Commercial Sanitation Gross Receipts of \$161 thousand, an increase in General Sales Tax activity of \$200 thousand, an increase in earned Interest Income of \$355 thousand, and an increase of \$404 thousand related to fee increases approved by City Council;
- An increase of \$750 thousand in miscellaneous other revenue for the Medicaid reimbursement program administered by the Texas Health and Human Services Commission,
- An increase of \$525 thousand from the Drainage Utility District Fund based on a cost allocation rate and,
- An increase of \$280 thousand from the Capital Projects Reserve Fund for TIRZ administration.

The increase in budgeted expenditures were:

- General government increased \$963 thousand due to additional 380 agreement payments, and legal costs needed for a planned City attorney retirement and related transition;
- Fire services increased \$210 thousand for termination pay due to retirements;
- Police Services increased \$1.2 million due to additional overtime expenses related to special impact operations;
- Parks and Recreation increased \$295 thousand due to a rise in user participation in programs requiring additional staff to provide services; and
- Transfers out of \$350 thousand for the General Liability Fund to comply with the funding policy and \$540 thousand to the Debt Service Fund for GO debt as a result of impact fees from development activity not trending as projected.

Budget variances as compared to actuals were more revenues of \$1.7 million and less expenditures and net transfers out of \$6.6 million. The positive variance in revenues was mainly due to additional Sales Taxes of \$411 thousand, Fines and Forfeitures of \$428 thousand, and Charges for Services of \$1.1 million. Other positive variances included \$247 thousand in Ad Valorem Taxes, \$113 thousand in Gross Receipts Taxes, \$296 thousand in Licenses and Permits, and investment income was more than budget by \$78 thousand due to better yields on City investments throughout the year. Negative variances versus budgeted revenues included \$60 thousand in Intergovernmental revenues, \$25 thousand in Contributions and Donations, and \$896 thousand in Other Revenues, which can be attributed to less than expected revenues for City auctions and reimbursements.

The budget variance of \$671 thousand less in expenditures and transfers out was due to police services, public works, planning and community development, library services, housing and community services coming in under amended budget through a planned effort to control spending. Police services was under budget \$255 thousand due to a reduction in overtime as a result of more patrol officers on staff. Public works was under budget \$692 thousand due to savings in electricity costs, and more work order credits due to increased capital projects activity. Planning and community development was under budget \$247 thousand as a result of vacant positions. Fire services was over budget \$291 thousand as a result of termination pay and retirements. General government was over budget \$511 thousand primarily due to increased facility maintenance costs for repairs. Parks and recreation services was over budget \$52 thousand due to increased water costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2019, the City had over \$526.4 million (net of accumulated depreciation) invested in capital assets for its governmental and business-type activities in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. The total increase in the City of Mesquite's net investment in capital assets was 6.6 percent for the current fiscal year.

City of Mesquite's Capital Assets (Net of Depreciation, in Thousands)

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2017
Land	\$ 24,664	\$ 23,763	\$ 12,443	\$ 12,443	\$ 37,107	\$ 36,206
Construction in progress	29,878	32,634	8,980	17,342	38,858	49,976
Buildings	64,789	66,826	6,382	6,603	71,171	73,429
Infrastructure	148,574	128,129	187,060	170,919	335,634	299,048
Improvements	10,651	10,870	3,588	3,581	14,239	14,451
Equipment	25,829	16,753	3,546	3,892	29,375	20,645
Totals	<u>\$ 304,385</u>	<u>\$ 278,975</u>	<u>\$ 221,999</u>	<u>\$ 214,780</u>	<u>\$ 526,384</u>	<u>\$ 493,755</u>

Major capital asset events during the current fiscal year include the following:

- Over \$21.2 million was expended for governmental type activities for capital projects in 2019 and \$42.0 million was completed and placed into service. Major components of projects placed into service include the following:

- Over \$25.2 million in infrastructure improvements including residential street reconstruction, Scyene Road reconstruction, Town East Boulevard reconstruction, other street and alley reconstruction, and Thomasson Square improvements.
- Over \$1.4 million in land purchases to include rights-of-way, and a 48 acre plot on McKenzie Road for future City use.
- Over \$837 thousand in building and facility improvements including Westlake Park and Recreation Center, Florence Ranch House improvements, the City Lake Park slide project, and various other facilities upgrades.
- Over \$14.0 million was expended on equipment replacements including software upgrades for public safety and overall city operations, police and fire vehicles and equipment, public works vehicles and equipment, traffic signal equipment and various other types of equipment.
- Over \$6.7 million of infrastructure and equipment was expended on the water and sewer system capital projects and \$9.4 was completed and placed into service.
- Over \$7.6 million of infrastructure improvements was expended on drainage system capital projects and \$12.8 million was completed and placed into service.
- Over \$89 thousand of improvements was expended on the airport facility and \$301 thousand was completed and placed into service for the runway rehabilitation.

Additional information on the City of Mesquite's capital assets can be found in Note 6 of the Notes to the Basic Financial Statements.

Debt Administration

At year-end, the City had \$324.6 million in net bonded debt outstanding. Of this total amount, \$192.8 million, 59.4 percent, is comprised of bonded debt backed by the full faith and credit of the City; \$31.8 million, 9.8 percent, is comprised of special assessment bonds which are to be paid from special assessments on each property owner in the Heartland Town Center PID, Iron Horse PID, Polo Ridge PID and is secured by property values; and \$100.0 million, 30.8 percent, represents revenue bonds secured by specified revenue sources related to the revenue bond projects.

City of Mesquite's Outstanding Net Bonded Debt
General Obligation and Revenue Bonds (in Thousands)

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
General obligation	\$ 100,740	\$ 108,940	\$ -	\$ -	\$ 100,740	\$ 108,940
Certificates of obligation	80,385	76,200	-	-	80,385	76,200
Special Assessment Bonds	31,835	7,245	-	-	31,835	7,245
Premium on refunding	11,635	12,808	5,642	4,774	17,277	17,582
Revenue bonds	-	-	94,375	77,700	94,375	77,700
Totals	<u>\$ 224,595</u>	<u>\$ 205,193</u>	<u>\$100,017</u>	<u>\$ 82,474</u>	<u>\$ 324,612</u>	<u>\$ 287,667</u>

During the fiscal year, the City had six debt issuances. The first debt issue was for \$10.0 million of certificate of obligation debt for constructing and improving streets, roads, and alleys including related storm drainage, signalization, landscaping, lighting and signage, major repairs and renovations to existing municipal buildings, constructing and equipping a new fire station, acquisition of equipment and vehicles for various City departments, acquisition of computer equipment and software for various City departments, and paying for legal, fiscal, engineering and other professional fees in connection with such projects. The second and third debt issues were for \$7.0 million and \$7.5 million for improvements within the Polo Ridge Public Improvement District for Phase 1 and Phase 2-6 of the development project. The fourth debt issue was for \$10.0 million for improvements within the Iron Horse Public Improvement District. The fifth debt issue was for \$7.9 million of municipal drainage utility revenue bonds to allow for improvements to the drainage system. The sixth debt issue was for \$15.2 million of revenue bonds for water and sewer improvements.

Standard and Poor's Rating Services assigned its 'AA' long-term rating to the city's series 2019 combination tax and limited surplus revenue certificates of obligation. In addition, Standard and Poor's affirmed its 'AA' long-term and underlying rating on the city's outstanding general obligation debt. Standard and Poor's Rating Services assigned its 'AA' rating and stable outlook to the city's series 2019 waterworks and sewer system revenue bonds. At the same time, Standard and Poor's affirmed its 'AA' rating on the city's existing system revenue debt. Standard and Poor's Rating Service raised its rating on the drainage utility system outstanding debt to 'AAA' from 'AA+'. At the same time, Standard and Poor's assigned its 'AAA' rating and stable outlook to the city's series 2019 drainage utility system revenue bonds.

Moody's Investor Services, Inc. assigned its 'Aa2' long-term rating to the city's series 2019 combination tax and limited surplus revenue certificates of obligation. In addition, Moody's affirmed its 'Aa2' long-term and underlying rating on the city's outstanding general obligation debt. Moody's assigned its 'Aa2' rating to the city's series 2019 waterworks and sewer system revenue bonds. At the same time, Moody's affirmed its 'Aa2' rating on the city's existing system revenue debt. Moody's assigned its 'Aa2' rating to the city's series 2019 drainage utility system revenue bonds. At the same time, Moody's affirmed its 'Aa2' rating on the city's existing drainage utility system revenue debt.

Additional information on the City's long-term bonded debt can be found in Note 8 of the Notes to the Basic Financial Statements.

Pensions and Retiree Health Care

Pensions and retiree health care continue to receive negative media attention as governments around the nation struggle to properly fund these commitments. The City is committed to providing programs in these areas that are fair to both the employees and taxpayers and that can be sustained over the long term.

Effective for fiscal year 2015, GASB Statement No. 68, created specific reporting requirements for pensions that are different than that used for funding purposes. Both valuations are important as the reporting valuation provides a rigorous standard measure that can be used to compare the City's pension liabilities to other governments around the nation. The funding valuation is important as the actuarial methods used including strategies for repaying any unfunded actuarial accrued liabilities combined with the City's history of making those contributions provides insights regarding the City's commitment to and the effectiveness of its funding strategy. Information contained in the financial statements themselves including the first schedule of the Required Supplementary Information (RSI), Schedule of Changes in Net Pension Liability and Related Ratios, is based on the reporting valuation. The second schedule in the RSI, Schedule of Contributions, is based on the funding valuation. On a reporting basis, the City's financial statements reflect a Net Pension Liability as of September 30, 2019 of \$147,924,157, which is 198.3 percent of the City's annual covered payroll of \$74,609,215.

Retiree health care's actuarially accrued liability has been calculated in accordance with the new GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", to be \$37,413,066 as of September 30, 2019, which is 56.5 percent of the City's annual covered payroll of \$66,209,320.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The financial forecast over the next five years calls for slow to moderate growth highlighted by a more stable housing market boosted by low inventories and high sales prices. With local sales tax collections remaining strong but expected to level off in 2020, new revenues will continue to depend on tax roll growth. The city's growth in property tax has averaged just over 8 percent for the past five years.

Fiscal year 2020 marks the fourth year of implementing a hybrid form of the budgeting process known as Budgeting for Outcomes. The City has started to transform its operations and culture under a performance management framework with involving greater citizen participation and community engagement.

In the 2019-2020 budget General Fund revenues and transfers in are projected to increase by 4.0 percent from the 2018-19 final budget with the majority of this increase coming from property tax. General property tax revenue (Ad valorem tax revenue) is determined by two major factors: the total assessed property value established by the Dallas Central Appraisal District and the tax rate set by City Council. Certified assessed valuations increased 7.61 percent over the preceding year. The City's adopted tax rate is set at \$0.734 per \$100 of assessed valuation and represents no change from the prior year tax rate. General sales tax receipts have continued to trend upward from the 2018-19 budget. Based on historical patterns, it is expected to remain flat for 2019-2020. This revenue source comprises 25.3 percent of General Fund revenues and transfers in and is the most volatile and subject to change based on the economy. Charges for services is budgeted with a \$675,000 increase mainly due to a fee increase in residential solid waste collections of \$1.50 per month per household. The 2019-20 budget includes other modest increases and decreases to some of the other revenue line items that make up the remaining change from the previous year.

General Fund expenditures and transfers out are budgeted at a 3.6 percent increase over the 2018-19 final budget. The 2019-20 budget includes a two percent merit increase for eligible General Government employees excluding managers, directors and above along with an increase to the Texas Municipal Retirement System (TMRS) for all full-time employees. All eligible sworn public safety employees are budgeted to receive a two percent merit increase effective January 1, 2020 along with five percent step increases for 48 firefighters and 62 police officers

with less than six years of service. The budget also includes firefighter ride-out pay increase from \$30 to \$40 per 24-hour shift and bilingual pay to qualified firefighter employees. The budget includes eight new positions including three firefighters, one police officer, one animal service officer, one police property and evidence supervisor, one public safety administrator and one building inspector for the Rental Certificate Occupancy Program. Also included is a 10 percent increase in the City's contribution to the Group Medical Insurance fund. There are other increases and decreases between the expenditure categories that offset each other to create the overall budget increase.

A new General Fund Reserve Policy was approved in 2018-19. The new policy requires maintaining a minimum unassigned fund balance equivalent to 60 days of working capital to be calculated as 60 days of General Fund budget revenues. Total fund balance for the General Fund is projected to remain flat in fiscal year 2020. The projected ending fund balance is approximately 60 days of working capital for the unassigned fund balance based on total revenues.

The Water and Sewer Fund budget includes rate increases for both water and sewer charges to cover increased costs for treated water and wastewater treatment charges. The water and sewer rates are set to increase by 4.5 percent in base rates and tiered consumption rates which will be sufficient to meet the City's 1.5 bond coverage requirement and 120-days working capital reserve.

CONTACTING THE CITY'S FINANCIAL MANAGMENT

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Department, Attn: Accounting Manager, at P. O. Box 850137, Mesquite, Texas 75185-0137, call (972) 216-6219 or e-mail at shaynes@cityofmesquite.com.

City of Mesquite, Texas

**Statement of Net Position
September 30, 2019**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Pooled cash and investments	\$ 112,923,283	\$ 72,370,872	\$ 185,294,155
Receivables (net of allowance for uncollectibles)	24,733,522	12,918,109	37,651,631
Internal balances	999,970	(999,970)	-
Inventory	1,080,403	353,630	1,434,033
Prepays and other assets	463,010	2,728	465,738
Accrued interest	137,410	69,615	207,025
Capital assets-			
Land and construction in progress	54,542,091	21,423,449	75,965,540
Other capital assets (net of accumulated depreciation)	<u>249,842,905</u>	<u>200,575,058</u>	<u>450,417,963</u>
Total Assets	<u>444,722,594</u>	<u>306,713,491</u>	<u>751,436,085</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	1,997,707	986,071	2,983,778
Deferred pension contributions	8,531,428	691,738	9,223,166
Difference in projected and actual earnings on pension assets	20,956,911	1,699,210	22,656,121
Difference in assumption changes - pension	769,723	62,411	832,134
Difference in assumption changes - OPEB	2,949,558	239,155	3,188,713
Change in proportional share - pension	<u>46,434</u>	<u>566,616</u>	<u>613,050</u>
Total Deferred Outflows of Resources	<u>35,251,761</u>	<u>4,245,201</u>	<u>39,496,962</u>
LIABILITIES			
Accounts payable	15,261,595	4,983,140	20,244,735
Accrued interest payable	1,073,768	314,036	1,387,804
Deposits and other liabilities	1,208,168	4,221,854	5,430,022
Long-term liabilities			
Due within one year			
Bonds payable	16,249,034	7,682,710	23,931,744
Total other postemployment benefit (OPEB) liability	1,607,428	130,333	1,737,761
Accrued compensated absences	7,894,271	203,742	8,098,013
Estimated claims payable	<u>1,852,202</u>	<u>-</u>	<u>1,852,202</u>
Due in more than one year			
Bonds payable	208,345,878	92,334,349	300,680,227
Total other postemployment benefit (OPEB) liability	32,999,656	2,675,649	35,675,305
Net pension liability	136,829,840	11,094,317	147,924,157
Accrued compensated absences	12,445,710	748,192	13,193,902
Estimated claims payable	<u>1,822,004</u>	<u>-</u>	<u>1,822,004</u>
Total Liabilities	<u>437,589,554</u>	<u>124,388,322</u>	<u>561,977,876</u>
DEFERRED INFLOWS OF RESOURCES			
Difference in expected and actual pension experience	4,769,741	386,735	5,156,476
Difference in expected and actual OPEB experience	2,190,750	177,629	2,368,379
Change in proportional share - pension	<u>447,849</u>	<u>165,201</u>	<u>613,050</u>
Total Deferred Inflows of Resources	<u>7,408,340</u>	<u>729,565</u>	<u>8,137,905</u>
NET POSITION			
Net investment in capital assets	144,526,707	151,897,380	296,424,087
Restricted for			
Capital projects	5,498,271	-	5,498,271
Local finance projects	15,245,822	-	15,245,822
Housing grants	1,287,418	-	1,287,418
Other grants and special revenue	5,905,240	-	5,905,240
Debt service	4,167	3,797,549	3,801,716
Unrestricted	<u>(137,491,164)</u>	<u>30,145,876</u>	<u>(107,345,288)</u>
Total Net Position	<u>\$ 34,976,461</u>	<u>\$ 185,840,805</u>	<u>\$ 220,817,266</u>

The accompanying notes are an integral part of this statement

City of Mesquite, Texas

Statement of Activities

For the Year Ended September 30, 2019

		Program Revenues		
		Charges for	Operating	Capital
	<u>Expenses</u>	<u>Services</u>	<u>Grants and Contributions</u>	<u>Grants and Contributions</u>
FUNCTION / PROGRAM ACTIVITIES				
Governmental activities				
General government	\$ 30,099,532	\$ 7,103,374	\$ 104,387	\$ -
Fire services	30,502,473	2,662,727	12,169	177,459
Police services	40,496,308	5,690,591	140,042	-
Public works	23,489,512	10,418,790	-	5,232,034
Planning and community development	3,300,757	3,055,569	951,273	325,000
Housing and community services	17,962,083	428,729	14,953,866	-
Library services	2,157,215	43,215	4,721	-
Parks and recreation	11,400,109	5,825,654	247,658	20,000
Interest & fiscal charges on long-term debt	8,891,530	-	-	-
Total governmental activities	<u>168,299,519</u>	<u>35,228,649</u>	<u>16,414,116</u>	<u>5,754,493</u>
Business-type activities.				
Water and sewer	62,785,809	69,273,725	3,462	821,991
Drainage utility	2,832,374	4,055,242	-	160,350
Non-major other enterprise funds	3,547,608	2,690,639	50,000	-
Total business-type activities	<u>69,165,791</u>	<u>76,019,606</u>	<u>53,462</u>	<u>982,341</u>
Total function / program activities	<u>\$ 237,465,310</u>	<u>\$ 111,248,255</u>	<u>\$ 16,467,578</u>	<u>\$ 6,736,834</u>
General revenues				
Ad valorem taxes				
Gross receipts taxes				
Sales taxes				
Gain on sale of capital assets				
Investment income				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning of year				
Net position - ending				

The accompanying notes are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Position

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (22,891,771)	\$ -	\$ (22,891,771)
(27,650,118)	-	(27,650,118)
(34,665,675)	-	(34,665,675)
(7,838,688)	-	(7,838,688)
1,031,085	-	1,031,085
(2,579,488)	-	(2,579,488)
(2,109,279)	-	(2,109,279)
(5,306,797)	-	(5,306,797)
(8,891,530)	-	(8,891,530)
<u>(110,902,261)</u>	<u>-</u>	<u>(110,902,261)</u>
-	7,313,369	7,313,369
-	1,383,218	1,383,218
-	(806,969)	(806,969)
-	<u>7,889,618</u>	<u>7,889,618</u>
<u>(110,902,261)</u>	<u>7,889,618</u>	<u>(103,012,643)</u>
57,413,399	-	57,413,399
7,809,774	-	7,809,774
46,869,479	-	46,869,479
549,131	13,598	562,729
2,687,239	1,344,354	4,031,593
796,972	(796,972)	-
<u>116,125,994</u>	<u>560,980</u>	<u>116,686,974</u>
5,223,733	8,450,598	13,674,331
<u>29,752,728</u>	<u>177,390,207</u>	<u>207,142,935</u>
<u>\$ 34,976,461</u>	<u>\$ 185,840,805</u>	<u>\$ 220,817,266</u>

City of Mesquite, Texas

**Balance Sheet - Governmental Funds
September 30, 2019**

	<u>General</u>	<u>Housing Grants</u>	<u>Local Finance</u>	<u>Bond Finance</u>
ASSETS				
Pooled cash and investments	\$ 12,018,955	\$ 1,320,277	\$ 46,596,205	\$ 41,468,762
Receivables (net of allowance)				
Accounts receivable	9,295,187	84,937	31,903	-
Ad valorem taxes	1,759,577	-	-	-
Other taxes receivable	1,891,255	-	-	-
Note receivable	804,560	-	-	-
Intergovernmental	5,754,624	-	-	-
Due from other funds	3,430,453	-	-	-
Inventory	1,080,403	-	-	-
Prepays and other assets	41,069	-	50	-
Accrued interest	37,330	1,747	30,160	53,297
	<u>36,113,413</u>	<u>1,406,961</u>	<u>46,658,318</u>	<u>41,522,059</u>
Total Assets	<u>\$ 36,113,413</u>	<u>\$ 1,406,961</u>	<u>\$ 46,658,318</u>	<u>\$ 41,522,059</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable	\$ 6,178,625	\$ 34,606	\$ 2,227,630	\$ 3,245,056
Retainage payable	-	-	255,856	1,130,455
Deposits	281,586	-	282,890	-
Unearned revenue	-	-	-	-
Due to other funds	-	-	-	-
	<u>6,460,211</u>	<u>34,606</u>	<u>2,766,376</u>	<u>4,375,511</u>
Total Liabilities	<u>6,460,211</u>	<u>34,606</u>	<u>2,766,376</u>	<u>4,375,511</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	<u>6,957,907</u>	<u>84,937</u>	<u>19,800</u>	<u>-</u>
Fund Balances				
Nonspendable	1,926,032	-	50	-
Restricted	-	1,287,418	42,630,937	37,146,548
Assigned	56,269	-	1,241,155	-
Unassigned	20,712,994	-	-	-
	<u>22,695,295</u>	<u>1,287,418</u>	<u>43,872,142</u>	<u>37,146,548</u>
Total Fund Balances	<u>22,695,295</u>	<u>1,287,418</u>	<u>43,872,142</u>	<u>37,146,548</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 36,113,413</u>	<u>\$ 1,406,961</u>	<u>\$ 46,658,318</u>	<u>\$ 41,522,059</u>

The accompanying notes are an integral part of this statement

<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 3,383	\$ 9,522,347	\$ 110,929,929
-	22,557	9,434,584
-	-	1,759,577
-	60,298	1,951,553
-	-	804,560
-	4,894,447	10,649,071
-	-	3,430,453
-	-	1,080,403
-	26,758	67,877
<u>784</u>	<u>12,000</u>	<u>135,318</u>
<u>\$ 4,167</u>	<u>\$ 14,538,407</u>	<u>\$ 140,243,325</u>
\$ -	\$ 1,280,992	\$ 12,966,909
-	406,436	1,792,747
-	616,267	1,180,743
-	27,425	27,425
<u>-</u>	<u>169,843</u>	<u>169,843</u>
<u>-</u>	<u>2,500,963</u>	<u>16,137,667</u>
<u>-</u>	<u>2,595,763</u>	<u>9,658,407</u>
-	127,870	2,053,952
4,167	8,807,747	89,876,817
-	506,064	1,803,488
<u>-</u>	<u>-</u>	<u>20,712,994</u>
<u>4,167</u>	<u>9,441,681</u>	<u>114,447,251</u>
<u>\$ 4,167</u>	<u>\$ 11,942,644</u>	<u>\$ 140,243,325</u>

City of Mesquite, Texas

**Reconciliation of the Balance Sheet
of Governmental Funds
To the Statement of Net Position
As of September 30, 2019**

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

Total fund balance per balance sheet	\$ 114,447,251
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	304,384,996
Other long-term assets less related uncollectibles are not available to pay for current period expenditures and therefore are reported as unavailable revenues in the governmental funds	9,658,407
Internal service funds are used by management to charge the costs of health claims and general liability to individual funds. A significant portion of the internal service fund's net position (deficit) is included in the governmental activities in the statement of net position.	(3,912,029)
Accrued interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the balance sheet of governmental funds	(1,073,768)
Long-term liabilities, including bonds payable and net pension liability (and the related deferred inflows and deferred outflows) are not due and payable in the current period and therefore are not reported as liabilities, deferred outflows or deferred inflows in the governmental funds. Long-term liabilities consist of	
General obligation bonds payable	(100,740,000)
Certificate of obligation bonds payable	(80,385,000)
Special Assessment Bonds	(31,835,000)
Deferred charge on refunding	1,997,707
Unamortized premiums/discounts on bonds	(11,634,912)
Total other postemployment benefit (OPEB) liability	(34,607,084)
Net pension liability	(136,829,840)
Deferred pension contributions	8,531,428
Difference in assumption changes - pension	769,723
Difference in assumption changes - OPEB	2,949,558
Difference in projected and actual earnings on pension plan assets	20,956,911
Difference in expected and actual pension experience	(4,769,741)
Difference in expected and actual OPEB experience	(2,190,750)
Net change in proportional share - pension	(401,415)
Accrued compensated absences	(20,339,981)
	<u>(388,528,396)</u>
Net position of governmental activities	<u>\$ 34,976,461</u>

The accompanying notes are an integral part of this statement

MESQUITE

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City of Mesquite, Texas

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2019**

	<u>General</u>	<u>Housing Grants</u>	<u>Local Finance</u>	<u>Bond Finance</u>
REVENUES:				
Taxes-				
Ad valorem	\$ 55,821,077	\$ -	\$ 1,714,079	\$ -
Gross receipts	7,563,867	-	-	-
Sales	33,715,663	-	-	-
Licenses and permits	2,558,675	-	-	-
Fines and forfeitures	3,329,898	-	-	-
Investment income	776,535	34,093	539,755	1,031,467
Charges for services	16,228,595	-	1,297,872	-
Intergovernmental	89,829	13,449,251	3,216,776	-
Contributions and donations	115,410	-	1,184,382	-
Other revenues	812,407	121,487	227,154	-
	<u>121,011,956</u>	<u>13,604,831</u>	<u>8,180,018</u>	<u>1,031,467</u>
Total Revenues				
EXPENDITURES:				
Current-				
General government	11,147,923	-	962,831	447,485
Fire services	29,273,255	-	5,320	86,126
Police services	37,400,128	-	67,369	160,599
Public works	13,204,428	-	1,199,413	722,115
Planning and community development	2,805,050	-	74,653	54,917
Library services	2,029,285	-	-	22,083
Parks and recreation	2,670,807	-	297,761	35,942
Housing and community services	3,021,890	13,617,016	-	1,140
Capital outlay	-	-	11,064,017	22,448,288
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	483,920	-
Bond issuance costs	-	-	1,961,722	131,466
	<u>101,552,766</u>	<u>13,617,016</u>	<u>16,117,006</u>	<u>24,110,161</u>
Total Expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>19,459,190</u>	<u>(12,185)</u>	<u>(7,936,988)</u>	<u>(23,078,694)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,183,917	-	642,661	2,786
Transfers out	(19,012,661)	-	(1,300,000)	-
Issuance of debt	-	-	24,590,000	10,065,000
Premium on bonds issued	-	-	-	564,965
Proceeds from sale of capital assets	151,391	-	960,039	-
	<u>(17,677,353)</u>	<u>-</u>	<u>24,892,700</u>	<u>10,632,751</u>
Total Other Financing Sources (Uses)				
NET CHANGE IN FUND BALANCES	1,781,837	(12,185)	16,955,712	(12,445,943)
FUND BALANCES AT BEGINNING OF YEAR	<u>20,913,458</u>	<u>1,299,603</u>	<u>26,916,430</u>	<u>49,592,491</u>
FUND BALANCES AT END OF YEAR	<u>\$ 22,695,295</u>	<u>\$ 1,287,418</u>	<u>\$ 43,872,142</u>	<u>\$ 37,146,548</u>

The accompanying notes are an integral part of this statement

<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 57,535,156
-	245,907	7,809,774
-	13,153,816	46,869,479
-	39,550	2,598,225
-	757,371	4,087,269
66,349	196,314	2,644,513
-	1,078,175	18,604,642
-	1,523,193	18,279,049
-	357,778	1,657,570
-	2,978,053	4,139,101
<u>66,349</u>	<u>20,330,157</u>	<u>164,224,778</u>
-	1,904,267	14,462,506
-	164,765	29,529,466
-	923,338	38,551,434
-	465,674	15,591,630
-	383,198	3,317,818
-	4,889	2,056,257
-	6,748,549	9,753,059
-	1,130,257	17,770,303
-	5,717,185	39,229,490
14,080,000	-	14,080,000
7,678,421	-	8,162,341
18,499	-	2,111,687
<u>21,776,920</u>	<u>17,442,122</u>	<u>194,615,991</u>
<u>(21,710,571)</u>	<u>2,888,035</u>	<u>(30,391,213)</u>
21,671,830	-	23,501,194
(2,786)	(2,388,775)	(22,704,222)
-	-	34,655,000
-	-	564,965
-	-	1,111,430
<u>21,669,044</u>	<u>(2,388,775)</u>	<u>37,128,367</u>
(41,527)	499,260	6,737,154
<u>45,694</u>	<u>8,942,421</u>	<u>107,710,097</u>
<u>\$ 4,167</u>	<u>\$ 9,441,681</u>	<u>\$ 114,447,251</u>

City of Mesquite, 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, 2019**

Amounts reported for governmental activities in the statement of activities are different because.

Net change in fund balance - total governmental funds		\$ 6,737,154
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period		
Capital outlay expenditures	39,229,490	
Depreciation expense	(13,728,348)	
		25,501,142
The net effect of various transactions involving capital assets (i.e. sales, trade-ins, donations, and transfers to business-type activities) is to decrease net position		(417,151)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This adjustment is to recognize contributions of capital assets by developers		325,860
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount is the net change in deferred inflows of resources		2,989,875
The issuance of long-term debt (e.g. bond proceeds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items		
Principal amount of debt issued	(34,655,000)	
Refunded bond debt amortization	(313,054)	
Principal amount of debt paid to bondholders/refunding bond agents	14,080,000	
Net change in accrued interest payable	(56,871)	
Premium on bonds issued	(564,965)	
Net deferred offering charges and related debt issuance items	1,738,224	
		(19,771,666)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This adjustment is to reflect the net change in accrued compensated absences		(447,658)
Current year OPEB expenditures are reported on the fiscal year basis in the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in deferred outflows and inflows of resources balances		(1,003,239)
Current year pension and expenditures are reported on the fiscal year basis in the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in deferred outflows and inflows of resources balances		(8,920,109)
Internal service funds are used by management to charge the costs of health claims and general liability to individual funds. The net expenses of certain activities of internal service funds is reported within governmental activities		229,525
Change in net position of governmental activities		\$ 5,223,733

The accompanying notes are an integral part of this statement.

MESQUITE

T E X A S

Real. Texas. Flavor.

City of Mesquite, Texas

General Fund

**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended September 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES.				
Taxes-				
Ad valorem	\$ 55,424,000	\$ 55,574,000	\$ 55,821,077	\$ 247,077
Gross receipts	7,625,000	7,450,800	7,563,867	113,067
Sales	33,105,000	33,305,000	33,715,663	410,663
Licenses and permits	2,263,100	2,263,100	2,558,675	295,575
Fines and forfeitures	2,902,000	2,902,000	3,329,898	427,898
Investment income	324,000	699,000	776,535	77,535
Charges for services	14,747,980	15,115,980	16,228,595	1,112,615
Intergovernmental	150,000	150,000	89,829	(60,171)
Contributions and donations	140,000	140,000	115,410	(24,590)
Other revenues	922,100	1,707,950	812,407	(895,543)
TOTAL REVENUES	<u>117,603,180</u>	<u>119,307,830</u>	<u>121,011,956</u>	<u>1,704,126</u>
EXPENDITURES				
General government-current and capital outlay	15,579,830	10,637,003	11,147,923	(510,920)
Fire services	28,773,210	28,982,730	29,273,255	(290,525)
Police services	36,475,740	37,655,070	37,400,128	254,942
Public works	13,808,110	13,895,950	13,204,428	691,522
Planning and community development	3,084,340	3,051,800	2,805,050	246,750
Library services	2,153,840	2,071,100	2,029,285	41,815
Parks and recreation	2,322,640	2,618,580	2,670,807	(52,227)
Housing and community services	3,145,310	3,189,130	3,021,890	167,240
TOTAL EXPENDITURES	<u>105,343,020</u>	<u>102,101,363</u>	<u>101,552,766</u>	<u>548,597</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>12,260,160</u>	<u>17,206,467</u>	<u>19,459,190</u>	<u>2,252,723</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	5,750,000	1,149,133	1,183,917	34,784
Transfer out	(18,000,000)	(18,890,000)	(19,012,661)	(122,661)
Proceeds from sale of capital assets	-	-	151,391	151,391
TOTAL OTHER FINANCING SOURCES (USES)	<u>(12,250,000)</u>	<u>(17,740,867)</u>	<u>(17,677,353)</u>	<u>63,514</u>
NET CHANGE IN FUND BALANCE	<u>\$ 10,160</u>	<u>\$ (534,400)</u>	<u>1,781,837</u>	<u>\$ 2,316,237</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>20,913,458</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 22,695,295</u>	

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

Housing Grants Special Revenue Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended September 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 14,000	\$ 22,000	\$ 34,093	\$ 12,093
Intergovernmental	13,103,000	13,103,000	13,449,251	346,251
Other revenues	-	-	121,487	121,487
TOTAL REVENUES	<u>13,117,000</u>	<u>13,125,000</u>	<u>13,604,831</u>	<u>479,831</u>
EXPENDITURES:				
Current-				
Housing and community services	<u>13,100,820</u>	<u>13,106,750</u>	<u>13,617,016</u>	<u>(510,266)</u>
TOTAL EXPENDITURES	<u>13,100,820</u>	<u>13,106,750</u>	<u>13,617,016</u>	<u>(510,266)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>16,180</u>	<u>18,250</u>	<u>(12,185)</u>	<u>(30,435)</u>
OTHER FINANCING USES:				
Transfers out	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>	<u>150,000</u>
TOTAL OTHER FINANCING USES	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>	<u>150,000</u>
NET CHANGE IN FUND BALANCE	<u>\$ (133,820)</u>	<u>\$ (131,750)</u>	<u>(12,185)</u>	<u>\$ 119,565</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>1,299,603</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 1,287,418</u>	

The accompanying notes are an integral part of this statement

City of Mesquite, Texas

Statement of Net Position (Deficit)
Proprietary Funds
September 30, 2019

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Major Funds	Drainage Utility District	Other Enterprise Funds	Totals	
	Water and Sewer				
ASSETS					
Current assets					
Pooled cash and investments	\$ 34,319,176	\$ 3,861,391	\$ 111,335	\$ 38,291,902	\$ 1,993,354
Restricted pooled cash and investments	30,157,540	3,318,659	-	33,476,199	-
Receivables (net of allowance for uncollectibles)	12,320,371	536,026	61,712	12,918,109	134,176
Inventory	297,516	-	56,114	353,630	-
Prepays and other assets	2,179	-	549	2,728	395,134
Accrued interest	63,186	6,429	-	69,615	2,092
Total current assets	77,159,968	7,722,505	229,710	85,112,183	2,524,756
Noncurrent assets					
Revenue bond reserve-					
Restricted pooled cash and investments	290,331	312,440	-	602,771	-
Capital assets-					
Land and construction in progress	9,561,987	2,327,026	9,534,436	21,423,449	-
Other capital assets (net of accumulated depreciation)	150,835,405	39,746,156	9,993,497	200,575,058	-
Total noncurrent assets	160,687,723	42,385,622	19,527,933	222,601,278	-
Total Assets	237,847,691	50,108,127	19,757,643	307,713,461	2,524,756
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charges on refunding	\$ 968,492	\$ 17,579	\$ -	\$ 986,071	\$ -
Deferred pension contributions	553,390	46,116	92,232	691,738	-
Difference in projected and actual earnings on pension assets	1,359,367	113,281	226,562	1,699,210	-
Difference in assumption changes - pension	49,928	4,161	8,322	62,411	-
Difference in assumption changes - OPEB	191,323	15,944	31,888	239,155	-
Change in proportional share - pension	-	8,979	557,637	566,616	-
Total deferred outflows of resources	3,122,500	206,060	916,641	4,245,201	-
LIABILITIES					
Current liabilities					
Accounts payable	2,537,689	1,062,539	108,503	3,708,731	501,939
Estimated claims payable	-	-	-	-	1,852,202
Due to other funds	-	-	47,603	47,603	3,213,006
Deposits and other liabilities	4,182,703	1,056	38,095	4,221,854	-
Accrued compensated absences	203,742	-	-	203,742	-
Total other postemployment benefit liability	104,266	8,689	17,378	130,333	-
Total current liabilities	7,028,400	1,072,284	211,579	8,312,263	5,567,147
Current liabilities payable from restricted assets					
Accounts payable	1,274,409	-	-	1,274,409	-
Accrued interest payable	280,366	33,670	-	314,036	-
Bonds payable	7,052,711	629,999	-	7,682,710	-
Total current liabilities payable from restricted assets	8,607,486	663,669	-	9,271,155	-
Total current liabilities	15,635,886	1,735,953	211,579	17,583,418	5,567,147
Noncurrent liabilities					
Estimated claims payable	-	-	-	-	1,822,004
Bonds payable	83,744,041	8,590,308	-	92,334,349	-
Accrued compensated absences	559,360	60,528	128,304	748,192	-
Net pension liability	8,875,448	739,624	1,479,245	11,094,317	-
Total other postemployment benefit liability	2,140,518	178,377	356,754	2,675,649	-
Total noncurrent liabilities	95,319,367	9,568,837	1,964,303	106,852,507	1,822,004
Total Liabilities	110,955,253	11,304,790	2,175,882	124,435,925	7,389,151
DEFERRED INFLOWS OF RESOURCES					
Difference in expected and actual experience - pension	309,389	25,782	51,564	386,735	-
Difference in expected and actual experience - OPEB	142,103	11,842	23,684	177,629	-
Changes in proportional share - pension	90,774	61,013	13,414	165,201	-
Total deferred inflows of resources	542,266	98,637	88,662	729,565	-
NET POSITION (DEFICIT)					
Net investment in capital assets	96,930,948	35,438,499	19,527,933	151,897,380	-
Restricted for debt service	3,311,331	486,218	-	3,797,549	-
Unrestricted	29,230,393	2,986,043	(1,118,193)	31,098,243	(4,864,395)
Total Net Position (Deficit)	\$ 129,472,672	\$ 38,910,760	\$ 18,409,740	\$ 186,793,172	\$ (4,864,395)
RECONCILIATION TO GOVERNMENT-WIDE STATEMENT OF NET POSITION					
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds				(952,367)	
Total Net Position for Business Type Activities				\$ 185,840,805	

The accompanying notes are an integral part of this statement

City of Mesquite, Texas

Statement of Revenues, Expenses, and Changes in Fund Net Position (Deficit)
Proprietary Funds
For the Year Ended September 30, 2019

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Major Funds	Drainage Utility District	Non-Major Funds Other Enterprise Funds	Totals	
Operating revenues					
Customer charges	\$ 69,273,725	\$ 4,055,242	\$ 2,690,639	\$ 76,019,606	\$ -
Contributions - City	-	-	-	-	16,018,210
Contributions - other	-	-	-	-	2,971,892
Total operating revenues	69,273,725	4,055,242	2,690,639	76,019,606	18,990,102
Operating expenses					
Personal services	6,921,044	439,439	1,496,099	8,856,582	-
Supplies	278,465	7,138	788,292	1,073,895	-
Contractual services	46,507,634	938,652	615,193	48,061,479	18,816,323
Depreciation	6,263,645	1,196,531	648,024	8,108,200	-
Total operating expenses	59,970,788	2,581,760	3,547,608	66,100,156	18,816,323
Operating income (loss)	9,302,937	1,473,482	(856,969)	9,919,450	173,779
Nonoperating revenues (expenses)					
Investment income	1,228,539	113,085	2,730	1,344,354	42,726
Gain or loss on sale of capital assets	13,968	-	(370)	13,598	-
Other nonoperating income (expense)	3,462	-	50,000	53,462	-
Interest expense and fiscal charges	(2,802,001)	(250,614)	-	(3,052,615)	-
Total nonoperating revenues (expenses)	(1,556,032)	(137,529)	52,360	(1,641,201)	42,726
Income (loss) before contributions and transfers	7,746,905	1,335,953	(804,609)	8,278,249	216,505
Capital contributions	821,991	160,350	-	982,341	-
Transfers in	400,000	-	74,858	474,858	-
Transfers out	(1,072,020)	-	(199,810)	(1,271,830)	-
Change in net position (deficit)	7,896,876	1,496,303	(929,561)	8,463,618	216,505
Total net position (deficit) - beginning of year	121,575,796	37,414,457	19,339,301	178,329,554	(5,080,900)
Total net position (deficit) - ending	\$ 129,472,672	\$ 38,910,760	\$ 18,409,740		\$ (4,864,395)

RECONCILIATION TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds	(13,020)
Change in net position of business-type activities	\$ 8,450,598

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

Statement of Cash Flows

Proprietary Funds

For the Year Ended September 30, 2019

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Major Funds	Non-Major Funds			
	Water and Sewer	Drainage Utility District	Other Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 67,405,978	\$ 4,019,178	\$ 2,703,141	\$ 74,128,297	\$ -
Cash received from City funds	-	-	-	-	16,018,210
Cash received from other operating sources	-	-	50,000	50,000	2,926,798
Cash paid to suppliers for goods and services	(46,792,327)	(948,187)	(1,411,913)	(49,152,427)	(5,122,271)
Cash paid to employees for services	(6,343,607)	(442,613)	(1,112,530)	(7,898,750)	-
Cash paid to claimants	-	-	-	-	(13,240,713)
Net cash used in operating activities	14,270,044	2,628,378	228,698	17,127,120	582,024
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Cash loan from (repaid to) other City funds	400,000	-	14,525	414,525	(215,246)
Transfers out to other funds	(1,072,020)	-	(199,810)	(1,271,830)	-
Net cash provided by non capital financing activities	(672,020)	-	(185,285)	(857,305)	(215,246)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from the sale of revenue bonds	15,968,320	8,227,474	-	24,195,794	-
Proceeds from the sale of capital assets	13,968	-	3,721	17,689	-
Transfers in from other funds for capital purchases	-	-	74,858	74,858	-
Acquisition and construction of capital assets	(7,127,088)	(7,043,579)	(85,619)	(14,256,286)	-
Principal paid on revenue bond maturities	(6,135,000)	(360,000)	-	(6,495,000)	-
Interest paid on revenue bonds	(2,929,895)	(39,462)	-	(2,969,357)	-
Bond issuance costs and other debt related activity	(30,356)	(7,910)	-	(38,266)	-
Net cash provided by (used for) capital and related financing activities	(240,051)	776,523	(7,040)	529,432	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on investments	1,205,829	111,271	2,837	1,319,937	42,313
Net cash provided by investing activities	1,205,829	111,271	2,837	1,319,937	42,313
NET INCREASE IN POOLED CASH AND CASH EQUIVALENTS	14,563,802	3,516,172	39,210	18,119,184	409,091
POOLED CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	50,203,245	3,976,318	72,125	54,251,688	1,584,263
POOLED CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 64,767,047	\$ 7,492,490	\$ 111,335	\$ 72,370,872	\$ 1,993,354
RECONCILIATION OF TOTAL POOLED CASH AND CASH EQUIVALENTS					
Current assets					
Pooled cash and investments	\$ 34,319,176	\$ 3,861,391	\$ 111,335	\$ 38,291,902	\$ 1,993,354
Restricted pooled cash and investments	30,157,540	3,318,659	-	33,476,199	-
Noncurrent assets:					
Revenue bond reserve-pooled cash and investments	290,331	312,440	-	602,771	-
	\$ 64,767,047	\$ 7,492,490	\$ 111,335	\$ 72,370,872	\$ 1,993,354

(Continued on following page)

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

Statement of Cash Flows

Proprietary Funds

For the Year Ended September 30, 2019

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Major Funds	Non-Major Funds			
	Water and Sewer	Drainage Utility District	Other Enterprise Funds	Totals	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES					
Operating income (loss)	\$ 9,302,937	\$ 1,473,482	\$ (856,969)	\$ 9,919,450	\$ 173,779
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities-					
Depreciation	6,263,645	1,196,531	648,024	8,108,200	-
Miscellaneous income	-	-	50,000	50,000	-
Changes in assets, deferred outflows of resources, deferred inflows of resources, and liabilities -					
(Increase)decrease in accounts receivable	(2,176,800)	(36,064)	6,624	(2,206,240)	(45,095)
(Increase) decrease in inventory	(23,372)	-	(7,983)	(31,355)	-
(Increase) decrease in prepaid items	(2,179)	-	(549)	(2,728)	(22,124)
(Increase) decrease in deferred outflows of resources	(1,622,665)	(127,550)	(47,990)	(1,798,205)	-
Increase (decrease) in accounts payable	179,415	(763)	31,896	210,548	(70,494)
Increase (decrease) in claims payable	-	-	-	-	545,958
Increase(decrease) in deposits	309,053	-	5,878	314,931	-
Increase(decrease) in accrued compensated absences	(173,734)	(39,784)	27,093	(186,425)	-
Increase (decrease) in deferred inflows of resources	(571,177)	(69,555)	(91,485)	(732,217)	-
Increase (decrease) in total OPEB liability	146,689	12,225	24,450	183,364	-
Increase (decrease) in net pension liability	2,638,232	219,856	439,709	3,297,797	-
Total adjustments	4,967,107	1,154,896	1,085,667	7,207,670	408,245
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 14,270,044	\$ 2,628,378	\$ 228,698	\$ 17,127,120	\$ 582,024
NONCASH CAPITAL ACTIVITIES					
Contribution of capital assets from developers	\$ 821,991	\$ 160,350	\$ -	\$ 982,341	\$ -
Total noncash capital activities	\$ 821,991	\$ 160,350	\$ -	\$ 982,341	\$ -

(Concluded)

The accompanying notes are an integral part of this statement

City of Mesquite, Texas

Statement of Fiduciary Assets and Liabilities

Fiduciary Fund

September 30, 2019

	<u>Agency Fund</u> Tax Clearing <u>Fund</u>
ASSETS:	
Current assets:	
Pooled cash and investments	\$ 184,509
Taxes receivable levied for other governments (net of allowance for uncollectibles)	<u>4,342,361</u>
Total Assets	<u>\$ 4,526,870</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 184,509
Due to other governments	<u>4,342,361</u>
Total Liabilities	<u>\$ 4,526,870</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2019**

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City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mesquite, Texas (the "City") was incorporated on December 3, 1887. It has been a home rule charter city since August 1953, pursuant to Article XI, Section 5 of the State Constitution. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public services, culture, recreation, and community development.

The financial statements of the City have been prepared to conform to generally accepted accounting principles (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies and practices used by the City are described below:

Reporting Entity-The City is a municipal corporation governed by an elected mayor and six-member Council. As required by GAAP, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. In accordance with GASB Statement No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61 and GASB Statement No. 80, the blended component units discussed below have been included in the City's reporting entity because of the significance of their operational or financial relationship with the City. The City has no discretely presented component units.

Mesquite Quality of Life Corporation

The Quality of Life Corporation (the "Corporation") 4B Sales Tax Special Revenue Fund is presented as a "blended" fund in the financial statements. The Corporation is administered by a seven-member City Council appointed board of directors which are removable by the City Council at any time without cause. No more than four of the seven directors may be City Council members or City of Mesquite employees. Presently, all members of the Board are residents who are neither City Council members nor City employees. The purpose of the Corporation is to study and fund permissible projects for public safety, transportation or parks and recreation purposes from a one-half of one percent general sales tax. The Corporation's activities are subject to Council approval and are for the exclusive benefit of the City. In this respect, the Corporation acts as a financing authority to obtain resources for the projects. When the project is completed the capital assets are owned by the City not the Corporation. Complete financial statements for the Quality of Life Corporation are available upon request from the City.

Tax Increment Reinvestment Zones (TIRZ)

The City has ten Tax Increment Reinvestment Zones which provide for public improvements within each zone. The City's Tax Increment Reinvestment program identifies under-performing real estate in the City, creates redevelopment plans, works with private developers to implement these plans and reinvests a portion of property tax revenues generated from new real estate developments in the area to encourage the implementation of the development plan.

Separate financial statements for the individual zones are not prepared.

Rodeo City TIRZ No. 1 – created in 1997 to update essential public infrastructure and to advance economic development to attract businesses and jobs. The Board is comprised of six City Council members and one member of City staff. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

Tax Increment Reinvestment Zones (TIRZ) (continued)

Towne Centre TIRZ No. 2 – created in 1998 to maintain the long-term viability of the Town East Mall retail area and to accelerate the pace of new retail development along the IH-635 corridor. The Zone was expanded in December 2017 to include Downtown Mesquite and the Market East area to encourage further retail, office and industrial development. The Board is comprised of four City Council members and three Mesquite Independent School District (MISD) Board members. The City and the MISD are the two taxing entities participating in the TIRZ. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Lucas Farms TIRZ No. 6 – created in 2008 to provide public infrastructure for a proposed residential development in the Zone. The Board is comprised of seven City Council members. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Skyline TIRZ No. 7 – created in 2015 to provide public infrastructure for a proposed medical district development in the Zone. The Board is comprised of seven City Council members. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Gus Thomasson TIRZ No. 8 – created in 2015 to transform the Zone into an engaging place for new businesses and new households and to promote reinvestment to existing properties. The Zone was expanded in December 2017 to include the IH-30 corridor to eliminate obstacles that impair sound growth of the City in the Zone. The Board is comprised of seven City Council members. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Town East/Skyline TIRZ No. 9 – created in 2016 to support industrial and economic development for industry job creation, cleanliness, and appeal to the industrial character of the Big Town Gateway of the City. The Zone was expanded in December 2017 to include the Big Town area in order to help build on the successful base of the Skyline Industrial park and allow for infrastructure financing to further develop the City's industrial base. The Board is comprised of three members of City Council, one member of City Staff and three members representative of the businesses within the Zone. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Polo Ridge TIRZ No. 10 – created in 2017 to provide public infrastructure for a proposed residential development in the Zone. The Board is comprised of six City Council members and one member of City staff. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Heartland Town Center TIRZ No. 11 – created in 2017 to provide public infrastructure for a proposed residential development in the Zone. The Board is comprised of six City Council members and one member of City staff. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

IH-20 Business Park TIRZ No. 12 – created in 2018 to provide public infrastructure for a proposed business park in the Zone. The Board is comprised of seven City Council members. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

Spradley Farms TIRZ No. 13 – created in 2019 to provide public infrastructure for a proposed residential development in the Zone. The Board is comprised of seven City Council members. The TIRZ is a blended component unit in the Local Finance Capital Project Fund.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

Public Improvement Districts (PIDs)

The City has three Public Improvement Districts. Mesquite's PID program allows for groups of property owners to request special property assessments for the provisions of services above typical City levels. Working with City staff, each PID may select its own budget and categories based on its goals and needs, subject to Chapter 372 of the Texas Local Government Code. This may consist of eligible supplemental activities such as marketing the area, providing additional security, landscaping and lighting, street cleaning, and cultural or recreational improvements. Each PID is operated by a designated management organization.

Separate financial statements for the individual PIDs are not prepared.

Heartland Town Center PID – created in December 2017 to support a residential and retail development along the IH-20 corridor in Mesquite. The PID sold bonds in September 2018 to fund certain infrastructure projects in the District. Payments from bond proceeds must be reviewed and approved by City staff prior to distribution. The PID is a blended component unit in the Local Finance Capital Project Fund.

Polo Ridge PID – created in December 2017 to support a residential development along the IH-20 corridor in Mesquite. The PID sold bonds in July 2019 to fund certain infrastructure projects in the District. Payments from bond proceeds must be reviewed and approved by City staff prior to distribution. The PID is a blended component unit in the Local Finance Capital Project Fund.

Iron Horse PID – created in February 2019 to support residential development along Rodeo Drive in Mesquite. The PID sold bonds in June 2019 to fund certain infrastructure projects in the District. Payments from bond proceeds must be reviewed and approved by City staff prior to distribution. The PID is a blended component unit in the Local Finance Capital Project Fund.

Other Blended Component Units

Other blended component units for the City of Mesquite include the Mesquite Cemetery Board which provides funds to maintain a small cemetery within the City, Historic Mesquite, Inc. which provides funding to maintain historical sites within the City, the Mesquite Arts Council which provides funding for arts and culture to the Mesquite Art Center, and Keep Mesquite Beautiful, Inc. which provides funding for local beautification projects within the City. The City does not have a majority position on these boards, however, the City does have the ability to influence the financial decisions of these groups in that City Council reviews and approves the annual budgets of these entities. The activity of these entities is almost entirely for the benefit of the City as well. Separate financial statements for these entities are not available.

Also included in the financial statements are the operating activities of the Mesquite Housing Finance Corporation, the Mesquite Health Facilities Development Corporation, and the Mesquite Industrial Development Corporation which provide services almost entirely to the primary government. These corporations have substantively the same governing body as the City. The issuance of conduit debt for the corporations is discussed in Note 13. Separate financial statements for these entities are not available.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

Government-Wide Financial Statements- The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the reporting entity. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The effect of inter-fund activity has been removed from these statements with the exception of some vehicle maintenance charges and management information services provided to user departments. The inter-fund services provided and used are not eliminated in this process of consolidation. Governmental activities, which are partially supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the four reported as "net position". Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Mesquite is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the fiscal year. This statement also demonstrates the degree to which the direct expenses of a given activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements- Fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All non-major funds are aggregated and presented in a single column. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Mesquite, like other local governments, uses fund accounting to aid financial management and demonstrate legal compliance.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The City maintains ten governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Housing Grants Special Revenue, Local Finance Capital Project, Bond Finance Capital Project funds and Debt Service, all of which are major funds. Data from the other five funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. Budgetary comparison schedules follow these combining statements for those non-major funds that adopt annual budgets.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

Proprietary funds are maintained for enterprise and internal service operations of the City. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Water and Sewer and the Drainage Utility District funds are considered to be major enterprise funds and the Municipal Airport and Golf Course funds are presented in a separate column as the non-major enterprise funds.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health claims and general liability operations. The activity in these funds is allocated between governmental type activities and business type activities based on proportionate use for presentation in the government wide statements. Both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The resources of these funds are not reflected in the government-wide financial statements because they are not available to support the City's own programs. The City reports only one fiduciary fund, an agency fund used to account for ad valorem taxes collected on behalf of the Mesquite Independent School District. The fiduciary fund, an agency fund, applies the accrual basis of accounting but has no measurement focus.

Measurement Focus and Basis of Accounting- The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. With the economic resources measurement focus, all assets, deferred outflow of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are reported on the statement of net position.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the fiscal year end except investment income, which is recorded as earned. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and other long term liabilities, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisition under capital leases are reported as other financing sources.

The revenues susceptible to accrual are ad valorem taxes, gross receipts taxes, licensees, charges for services, fines and fees, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or with the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government, as they are deemed immaterial.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewer, drainage utility and other proprietary operations are charges to customers for sales and services. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses that do not meet this definition are reported as non-operating revenues and expenses.

The City of Mesquite reports the following major governmental funds:

- The General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- The Housing Grants special revenue fund is used to account for funds awarded the City by the U. S. Department of Housing and Urban Development (HUD) under their housing assistance program (HAP).
- The Local Finance capital project fund is used to account for financial resources generated from local revenue sources to be expended for various capital projects. This fund includes the resources of the ten Tax Increment Reinvestment Zones, three Public Improvement Districts as well as the Housing Finance, Health Facilities and Industrial Development Corporations. The individual projects within the Local Finance fund are budgeted over the life of the project and not on an annual basis; therefore, budgetary data for these funds have not been presented in the financial statements.
- The Bond Finance capital project fund is used to account for financial resources generated primarily from bond proceeds to be expended for various capital projects. The individual projects are budgeted over the life of the project and not on an annual basis; therefore, budgetary data for these funds have not been presented in the financial statements.
- The Debt Service fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City.

The City of Mesquite reports the following major proprietary funds:

- The Water and Sewer enterprise fund is used to account for the rendering of water and sewer services to the residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including administration, operation, maintenance, debt service, and billing and collecting.
- The Drainage Utility District enterprise fund is used to account for those expenditures incurred as a result of the federally mandated National Pollutant Discharge Elimination System (NPDES) permit program. This federal program requires the City to educate the general public about pollutants and their presence in storm water runoff; adopt a comprehensive storm water ordinance; operate a street sweeping program; design, establish and review storm water drainage improvements; and monitor storm water quality. Funding for the District is from monthly drainage charges to commercial and residential customers, revenue bond proceeds and interest earnings.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

Additionally, the City of Mesquite reports the following fiduciary fund:

- An agency fund is used to account for ad valorem taxes collected on behalf of the Mesquite Independent School District.

Budgetary Data- Budgets are a plan of financial operation providing an estimate of proposed expenditures for a given period and the proposed means of financing them. The budgetary process begins with City department heads (or, in the case of the Quality of Life Corporation, its Board of Directors) developing expenditure budget requests and revenue estimates in April for the fiscal year beginning the following October 1. These requests and estimates are then submitted to the City Manager for review and input. As required by City Charter, the City Manager is to have prepared an annual operating budget by August 15 for the General, Debt Service and certain budgeted Special Revenue funds. The proposed budget is then presented to the City Council for its consideration and adoption through passage of an ordinance.

Between the time the budget is made available to the public and the time it is legally adopted, the City Council provides for several public hearings to gather input from the public. During the public hearings, citizens are encouraged to offer their suggestions and ideas of what programs they would like to be included (or not included) in the budget. During the preparation of the 2018-2019 budget, the City Council conducted three public hearings and held numerous work sessions in an effort to obtain as much citizen input as possible. The adopted budget is reassessed by departments midway through the fiscal year, and revenue and expenditure projections are revised. The City Manager then presents these revisions to the City Council for adoption, resulting in what is termed an amended budget. While infrequent, the City Council may amend the budget prior to or after this mid-year review. All amendments to the budget, however, must be adopted by ordinance. Unexpended appropriations lapse at fiscal year-end.

During 2018-2019 the City Council amended the budget in January and July. Individual amendments were not material in relation to the original appropriations. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that would increase total fund appropriations must be approved by the City Council. Expenditures may not legally exceed budgeted appropriations at the fund level.

Budgets for the General, Debt Service, and the following special revenue funds: Housing Grants, Quality of Life Corporation, Hotel/Motel, Confiscated Drug, and Other Grants are legally adopted on a basis consistent with GAAP on the modified accrual basis of accounting. Accordingly, the budgetary comparison statements and schedules present actual expenditures on a basis consistent with the legally adopted budgets as amended. Capital Project funds are budgeted over the life of the project and not on an annual basis; therefore, budgetary data for these funds have not been presented in the financial statements.

Encumbrances- An encumbrance system is maintained in governmental funds to account for unperformed commitments (i.e., purchase orders, contracts, or other forms of legal commitment). All appropriations and encumbrances lapse at fiscal year-end, and any valid encumbrances outstanding at fiscal year-end are re-appropriated as part of the subsequent year's budget pursuant to state regulations.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

Pooled Cash and Investments- Cash balances of all City funds, excluding the accounts payable account and payroll clearing account are pooled into one bank account in order to maximize investment opportunities. Negative balances, if applicable, incurred in pooled cash at year end are treated as inter-fund receivables of the General Fund and inter-fund payables of the deficit fund.

Investments purchased with pooled cash are classified as pooled cash and investments in the accompanying government-wide and fund financial statements. Earnings from these investments are allocated monthly to each fund based on each fund's relative month-end cash and investment balance, except for the debt service fund, which is allocated to the General Fund. Investments are recorded at amortized cost, and at fiscal year-end investments with original maturity greater than one year are reflected at fair value on the accompanying government-wide and fund financial statements.

The relationship of an individual fund to the pooled cash and investments account is essentially that of a demand deposit account. Individual funds can withdraw cash from the account as needed, and therefore all equity that the fund has in the pooled cash and investments account is highly liquid. For the purpose of the accompanying statement of cash flows, the City has chosen to reconcile to "pooled cash and investments," as all investments of the funds are regarded as cash equivalents. Deposit and investment risk disclosures are in accordance with GASB Statement No. 40 *Deposit and Investment Risk Disclosures*.

Inter-fund Receivables and Payables- Short-term amounts owed between funds are classified as "Due to/from other funds" in the fund financial statements. On the government-wide statement of net position, payables and receivables within governmental and business-type activities are eliminated and balances between these activities are reported on a single line entitled "internal balances."

Transactions Between Funds- Legally authorized transfers are treated as operating transfers and are included in the results of operations of both governmental and proprietary funds.

The City allocates to the housing grants fund, local finance fund, water and sewer fund, and drainage utility district fund an indirect cost percentage of administrative services for those funds but paid through the General fund along with other indirect costs deemed necessary for their operations. During fiscal year ended September 30, 2019, the City's General Fund was reimbursed \$5,905,767 for these services.

Inventory- Inventory is valued at cost using the first-in / first-out (FIFO) method. Inventories are maintained on a perpetual inventory system and adjustments are made at fiscal year-end based upon a physical count. Inventory consists of expendable supplies held for consumption and are recorded as an expenditure upon consumption in governmental funds.

Prepaid Items- Payments made to vendors for services that will benefit periods beyond September 30, 2019, are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are accounted for on the consumption basis in governmental funds.

Restricted Assets- Proceeds of Water and Sewer Fund and Drainage Utility District Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as both current and noncurrent assets in the City's financial accounting system because their use is limited by applicable bond covenants. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

Capital Assets- Capital assets, which includes land, buildings, infrastructure, improvements, equipment, and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Construction in progress is not depreciated until the assets are placed into service.

The City's capitalization policy requires that assets capitalized have an original cost of \$5,000 or more and a useful life of at least five years. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	25 - 50 years
Infrastructure/improvements	15 - 50 years
Equipment	5 - 20 years

Estimated Claims Payable- Property, general liability, and workers' compensation insurance coverage is accounted for in the General Liability Fund, an internal service fund. At year end, the estimated settlement value of claims reported and of claims incurred but not reported in excess of liability insurance limits is classified as estimated claims payable. Group health insurance is accounted for in the Health Claims Fund, an internal service fund. At year end, an estimate of unpaid claims that were incurred prior to September 30, 2019 is accrued based on past claims experience.

Accrued Compensated Absences- City employees earn vacation and sick leave in varying amounts. Vacation leave accrues for employees with less than five years of service at the annual rate of 10 working days. Upon attaining five years of service, employees are awarded 15 working days annually until 15 years of service when vacation leave is earned at an annual rate of 20 days. Employees with over 25 service years accrue 25 days annually. Any employee leaving the City in good standing following one year of continuous service is paid for accumulated vacation leave not to exceed 20 working days at their current pay rate. Sick leave accrues at an annual rate of 15 working days. Upon termination, unused accumulated sick leave is paid to employees with three to five years of service at one-third, employees with five to six years of service at two-thirds, and six years and over is paid all accumulated sick leave up to a maximum of 90 days. Police and firemen are reimbursed upon termination for all unused accumulated sick leave up to the maximum of 90 days no matter how long they were employed by the City as required by State Civil Service law.

The measurement of the liability for compensated absences was determined by applying a vesting method approach to accumulated vacation and sick leave balances at fiscal year-end and includes additional salary related payments for Social Security, Medicare, and retirement contributions, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. No liability is recorded in the fund statements of governmental funds unless they have matured, as payment of this liability will not be made with expendable available financial resources unless an employee has terminated employment as of the end of a fiscal year. In the government-wide financial statements and proprietary fund statements, the liability for employees with over 20 years of service is recorded as a current liability as these employees are eligible for retirement regardless of their age.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

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.

Postemployment Benefits Other Than Pensions (OPEB)– For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources, and expense associated with the City’s OPEB Plan, information has been determined on the same basis as they are reported by the OPEB plan. For this purpose, the City recognizes benefit payments when due and payable with the benefit terms.

Long-Term Debt – In the government-wide financial statements and the fund level proprietary financial statements, long-term debt is reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized using the interest method over the life of the bonds. In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources (uses) during the current period. The face amount of debt issued is recorded as other financing sources. Issuance costs are reported as expenditures in the funds receiving the bond proceeds.

Nature and Purpose of Classifications of Fund Equity– Governmental Funds fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by City management based on Council direction according to the City’s fund balance policy. Fund balances classified as non-spendable are resources that cannot be spent because of their form or because they must be maintained intact.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available. When assigned and unassigned amounts are available, expenditures from other than the assigned purpose will be spent from unassigned fund balance first.

Net Position– In the government-wide financial statements and proprietary funds, net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. The net position is reported in three components (1) net investment in capital assets, (2) restricted, and (3) unrestricted. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Deferred Outflows/Inflows of Resources – In addition to assets, the statements of net position and/or balance sheet 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 has the following items that qualify for reporting in this category:

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

- Deferred loss on refunding - A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred pension contributions – These contributions are deferred and recognized in the following fiscal year.
- Difference in assumption changes – pension – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they incurred.
- Difference in assumption changes – OPEB – This difference is deferred and amortized over the average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the period in which the difference occurred.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.
- Difference in proportional share – pension – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they were incurred.

In addition to liabilities, the statements of net financial position and or balance sheet 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 has the following items that qualify for reporting in this category:

- Difference in expected and actual pension experience – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which the difference occurred.
- Difference in expected and actual OPEB experience – This difference is deferred and amortized over the average remaining service life of all participants in the OPEB plan and recorded as a component of OPEB expense beginning with the period in which the difference occurred.
- Unavailable revenue – This item is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues the following sources: ambulance, ad valorem taxes, court fines and fees, grass and weed mowing, HUD vouchers, and other receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Difference in proportional share – pension – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they were incurred.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

New Accounting Pronouncements – The Governmental Accounting Standards Board (GASB) has issued the following new statements to be implemented in future years.

Statement No. 84: Fiduciary Activities

GASB Statement No. 84: Fiduciary Activities was issued January 2017. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary components units and postemployment benefit arrangements that are fiduciary activities. This standard becomes effective for the City in fiscal year 2020.

Statement No. 87: Leases

GASB Statement No. 87: Leases provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and corresponding liability. The liability will be based on payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months.

Contracts that contain lease and non-lease components will need to be separated so each component is accounted for accordingly. This standard becomes effective for the City in fiscal year 2021.

Statement No. 91: Conduit Debt Obligations

GASB Statement No. 91: Conduit Debt Obligations has the primary objectives of providing a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This standard becomes effective for the City in fiscal year 2022.

Statement No. 92: Omnibus 2020

GASB Statement No. 92: Omnibus 2020 has the primary objectives to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This standard becomes effective for the City in fiscal year 2021.

2. DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that combines cash of the various funds in order to maximize investment opportunities. The amounts reflected below include the revenue bond reserve cash and investments reflected on the government-wide and proprietary fund financial statements of net position.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

Deposits

At September 30, 2019, the carrying amount of the City's demand deposits and certificates of deposit totaled \$4,640,728 and the bank balance was \$5,877,627. Cash on hand for the City was \$16,315. The carrying amount of cash for the Fiduciary fund was \$184,509. The carrying amount of cash for the Public Improvement Districts was \$28,289,664.

Investments

The City's investments at September 30, 2019, are:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Managed Pools:		
Texpool	\$ 4,882,679	0.00009
Texpool Prime	47,558,570	0.00086
Texstar	6,700,374	0.00012
Texas Class	46,722,550	0.00084
Money Market:		
Wells Fargo (Morgan Stanley)	10,440,428	0.00019
US Agency Securities	36,042,847	0.28797
Total	<u>\$ 152,347,448</u>	

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from increasing interest rates, the City's investment policy establishes the portfolio's maximum average dollar-weighted maturity to no more than one year. By policy, the City will not directly invest in securities maturing more than three years from the date of purchase.

Credit Risk. The City's investment policy helps minimize credit risk by requiring the City to limit investments to the safest types of securities, pre-qualify the financial institutions and broker/dealers with which the City will do business, and diversify the investment portfolio so that potential losses on individual securities will be minimized. The City's investments in U.S. Agency securities (FHLB, FFCB, and FHLMC) are rated at least AA by Standard and Poor's and Aaa by Moody's Investor's Service at the date of purchase. The investment in Texas Local Government Pools (Texpool, Texpool Prime, Texstar, and Texas Class) carried a credit rating of AAAM by Standard and Poor's as of September 30, 2019. Texpool and Texpool Prime are overseen by the Texas State Comptroller of Public Accounts, and the fair value is the same as the value of the pool shares. Texstar is overseen by a Governing Board consisting of individuals from participating Government Entities in the pool, and the fair value is the same as the value of the pool shares. Texas Class is overseen by a Board of Trustees consisting of individuals from active participating Government Entities in the pool that are elected by the participants, and the fair value is the same as the value of the pool shares. The City's investments in Morgan Stanley's Money Market fund through Wells Fargo carried a credit rating of AAAM by Standard and Poor's and Aaa-mf by Moody's Investor's Service as of September 30, 2019.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

Concentration of Credit Risk. With the exception of U.S. Treasury securities, the City's investment policy limits the amount that may be invested in any single security type. Investment Policy limits investment portfolio to no more than 80% investment pools, 20% certificates of deposit, 50% money market funds, 20% obligations of the state of Texas, its agencies, counties, cities, and other political subdivisions, and 20% repurchase agreements of the total investment portfolio. As of September 30, 2019, the City's total investments are in the following: US agency issues (23.66%) consisting of FHLB (38.84%), FNMA (11.07%), Farm Credit (44.54%), and FHLMC (5.55%); investment pools (69.49%); and money market funds (6.85%).

Custodial Credit Risk. Pursuant to provisions of both the Texas Public Funds Investment Act and the Public Funds Investment Policy of the City, deposits of the City that exceed the federal depository insurance coverage levels are materially collateralized with securities held by a third party custodian in the City's name. Investments, other than investments that are obligations of the U.S. government, its agencies and instrumentalities, are insured or registered in the City's name and held by a third party custodian. In order to anticipate market changes and to provide a level of security for all funds, the collateralization level will be 102% (on a market value basis) of principal and accrued interest on the deposits.

3. FAIR VALUE OF ASSETS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019:

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
U.S. agency securities	\$ 36,042,847	\$ -	\$ 36,042,847	\$ -
Total investments by fair value level	36,042,847	-	36,042,847	-
Investments measured at net asset value				
Texas Class	46,722,550			
TexStar	6,700,374			
Money Market Fund	10,440,428			
	63,863,352			
Investments measured at amortized cost				
TexPool	4,882,679			
TexPool Prime	47,558,570			
	52,441,249			
Total investments	152,347,448			

Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for the applicable external investment pool balances. Additionally, the City has investments in governmental pools as listed above, which are recorded at amortized cost.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At September 30, 2019, no investments here held by the City meeting the Level 3 hierarchy classification.

Investment in State Investment Pools – During the year, the City invested in multiple public fund investment pools, including TexSTAR, TexPool, TexPool Prime, and Texas CLASS. The fair value of the position of TexClass and TexStar are measured at net asset value and is designed to approximate the share value. Each pool's governing body is comprised of individuals who are employees, officers, or elected officials of participants in the funds or who do not have a business relationship with the fund and are qualified to advise. Investment objective and strategies of the pools are to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. Pools offer same day access to investment funds.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

4. AD VALOREM TAXES

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraised value less applicable exemptions authorized by the City Council. Appraised values are established by the Dallas Central Appraisal District and the Kaufman Central Appraisal District at 100% of estimated market value. The total assessed value for the tax roll of January 1, 2018, upon which the 2019 fiscal year levy was based, was \$8,064,590,021. Taxes are due October 1, immediately following the January 1 lien date and are delinquent after the following January 31st. A delinquent tax incurs a penalty of 6% beginning February 1, plus 1% for each additional month the tax remains unpaid to a maximum of 12% on July 1. A delinquent tax accrues interest at a rate of 1% for each month or portion of a month until the taxes are paid. Current tax collections for the year ended September 30, 2019, were \$56,590,089 or 95.6% of the current tax levy and total tax collections (including collections on previous years) were \$56,867,040 or 96.1% of the current tax levy.

In Texas, countywide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 3.5%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 3.5% above the tax rate of the previous year.

The City Charter does not provide for a debt limit; therefore, no computation of legal debt margin can be made. However, at September 30, 2019, the City had a tax margin of \$1.7660 for every \$100 of valuation based upon a maximum ad valorem tax rate of \$2.50 for every \$100 of valuation imposed by Texas Constitutional law.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2019**

5. RECEIVABLES

Receivables at September 30, 2019 for the government's individual major funds, which have receivables and non-major in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Housing Grants</u>	<u>Local Finance</u>	<u>Water and Sewer</u>	<u>Drainage Utility District</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:							
Accounts	\$17,319,914	\$ 84,937	\$ 31,903	\$ 12,678,665	\$ 554,259	\$ 220,895	\$ 30,890,573
Ad valorem taxes	2,870,904	-	-	-	-	-	2,870,904
Other taxes	1,891,255	-	-	-	-	60,298	1,951,553
Note receivable	804,560	-	-	-	-	-	804,560
Intergovernmental	5,754,624	-	-	-	-	4,894,448	10,649,072
Gross receivables	28,641,257	84,937	31,903	12,678,665	554,259	5,175,641	47,166,662
Less: allowance for uncollectibles	(9,136,054)	-	-	(358,294)	(18,233)	(2,450)	(9,515,031)
Net total receivables	<u>\$ 19,505,203</u>	<u>\$ 84,937</u>	<u>\$ 31,903</u>	<u>\$ 12,320,371</u>	<u>\$ 536,026</u>	<u>\$ 5,173,191</u>	<u>\$ 37,651,631</u>

The governmental funds report unavailable revenues from the following sources:

<u>Source of revenue</u>	<u>Total</u>
General fund - ambulance accounts receivable	\$ 1,419,340
General fund - ad valorem taxes receivable	1,721,776
General fund - court fines receivable	1,960,901
General fund - accounts receivable, grass and weed mowing	1,855,890
Housing Grants fund - HUD vouchers	84,937
Local Finance capital projects fund - other receivable	19,800
Nonmajor funds - intergovernmental receivable	2,595,763
Total unavailable revenues for governmental funds	<u>\$ 9,658,407</u>

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2019**

6. CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended September 30, 2019:

	Beginning Balance	Additions and Transfers	Deletions and Transfers	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	23,762,942	1,431,717	530,409	24,664,250
Construction in progress	32,634,433	25,609,385	28,365,977	29,877,841
Total capital assets, not being depreciated	56,397,375	27,041,102	28,896,386	54,542,091
Capital assets, being depreciated:				
Buildings	101,624,421	386,634	-	102,011,055
Infrastructure	282,954,773	25,528,696	-	308,483,469
Improvements	23,457,371	812,974	9,768	24,260,577
Equipment	68,585,798	14,297,172	3,144,651	79,738,319
Total capital assets, being depreciated	476,622,363	41,025,476	3,154,419	514,493,420
Less accumulated depreciation for:				
Buildings	34,798,298	2,428,556	-	37,226,854
Infrastructure	154,825,800	5,083,154	-	159,908,954
Improvements	12,587,198	1,023,176	4,422	13,605,952
Equipment	51,833,401	5,193,462	3,118,108	53,908,755
Total accumulated depreciation	254,044,697	13,728,348	3,122,530	264,650,515
Total capital assets, being depreciated, net	222,577,666	27,297,128	31,889	249,842,905
Governmental activities capital assets, net	278,975,041	54,338,230	28,928,275	304,384,996
Business-type activities:				
Capital assets, not being depreciated:				
Land	12,442,946	-	-	12,442,946
Construction in progress	17,342,585	12,916,562	21,278,644	8,980,503
Total capital assets, not being depreciated	29,785,531	12,916,562	21,278,644	21,423,449
Capital assets, being depreciated:				
Buildings	9,798,623	-	-	9,798,623
Infrastructure	283,532,278	22,730,484	-	306,262,762
Improvements	4,570,855	305,807	-	4,876,662
Equipment	11,405,888	652,262	242,449	11,815,701
Total capital assets, being depreciated	309,307,644	23,688,553	242,449	332,753,748
Less accumulated depreciation for:				
Buildings	3,195,852	221,306	-	3,417,158
Infrastructure	112,613,043	6,589,819	-	119,202,862
Improvements	989,741	299,387	-	1,289,128
Equipment	7,514,303	997,688	242,449	8,269,542
Total accumulated depreciation	124,312,939	8,108,200	242,449	132,178,690
Total capital assets, being depreciated, net	184,994,706	15,580,353	-	200,575,058
Business-type activities capital assets, net	214,780,238	28,496,915	21,278,644	221,998,507

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

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

Governmental activities:	
General government	\$ 2,478,468
Fire services	1,016,827
Police services	1,582,464
Public Services	6,692,674
Library services	113,848
Parks and recreation	1,596,760
Community services	247,307
Total governmental activities	<u>\$ 13,728,348</u>
Business-type activities:	
Water and sewer	\$ 6,263,645
Drainage utility	1,196,531
Municipal airport	444,253
Golf Course	203,771
Total business-type activities	<u>\$ 8,108,200</u>

Construction Commitments

The City has active construction projects as of September 30, 2019. Projects include street construction, parks and recreation improvements, fire improvement, as well as improvements in water storage and distribution facilities. Construction in progress has been categorized by the primary revenue source being used to fund the construction as follows:

	Spent-to-date	Remaining Construction Commitments
Governmental activities:		
Projects funded by general obligation bonds:		
General government	\$ -	\$ 63,582
Fire improvement	2,693,799	5,593
Municipal building	-	21,678
Planning and development	-	39,010
Parks and recreation	52,017	52,190
Public works	204,650	589,692
Projects funded by local finance sources:		
PIDs	5,783,820	27,385,115
Fire services	18,492	3,681
Projects funded by general sales tax (4B portion):		
Fire improvement	-	1,099,232
Projects funded by grant funds:		
Fire improvement	-	17,997
Total governmental activities		<u>\$ 29,277,770</u>
Business-type activities:		
Projects funded by revenue bonds:		
Water and sewer	\$ 8,117,847	\$ 17,000
Projects funded by general sales tax (4B portion):		
Municipal airport	174,208	30,104
Total business-type activities		<u>\$ 47,104</u>

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2019

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Due to/from other funds-

These amounts represent intergovernmental revenue accrued but not received in the Other Grants Special Revenue fund under the "Other Governmental Funds" and amounts for loans to the Health Claims and Golf Funds to cover additional cash needed. The current portion of lending/ borrowing arrangements outstanding at September 30, 2019 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Grants Special Revenue Fund	\$ 169,843
General Fund	Health Claims Fund	\$ 3,213,006
General Fund	Golf Fund	\$ 47,603

Transfers-

Transfers were as follows for the fiscal year ended September 30, 2019:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 1,183,917	\$ 19,012,661
Local Finance	642,661	1,300,000
Bond Finance	2,786	-
Debt Service	21,671,830	2,786
Non-Major Governmental Funds	-	2,388,775
Water and Sewer	400,000	1,072,020
Non-Major Enterprise Fund	74,858	199,810
	<u>\$ 23,976,052</u>	<u>\$ 23,976,052</u>

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2019**

The transfers were for the following purposes:

<u>Transfer from Fund / Purpose</u>	<u>Transfer to Fund</u>	<u>Amount</u>
General Fund-		
Property tax debt service levy	Debt Service	\$ 18,370,000
Public Safety projects	Local Finance	392,661
4B developer participation agreement	Local Finance	200,000
Furniture replacement	Local Finance	50,000
Local Finance Fund-		
Impact fees	Debt Service	850,000
Impact fees	Water/Sewer	400,000
General obligation debt allocation	Debt Service	50,000
Debt Service Fund-		
Close GO2017 refunding bond	Bond Finance	2,786
Non-Major Governmental Funds-		
Other Special Revenue -		
9-1-1 operations subsidy	General	850,000
Traffic enforcement	General	200,000
Child safety fees	General	133,917
Mesquite Quality of Life Corporation	Debt Service	1,130,000
Capital Improvements	Airport	74,858
Water and Sewer Enterprise Fund-		
General obligation debt allocation	Debt Service	1,072,020
Non-Major Enterprise Fund-		
Airport general obligation debt allocation	Debt service	199,810
	Total	<u>\$ 23,976,052</u>

8. LONG-TERM DEBT

Various types of long-term debt have been issued by the City for the acquisition and construction of major capital facilities and equipment as follows:

- General obligation bonds have been issued in prior years pursuant to voter authorization for infrastructure and facility projects accounted for in a governmental capital project fund. There are no general obligation bonds issued in the current year.
- Certificate of obligation debt is similar to general obligation bonds in their usage and retirement but do not require voter authorization and are not used for refunding debt. Included in the May 2019 bond sale was \$10,065,000 for (i) acquire City Information Technology equipment and infrastructure; (ii) design, engineer, develop, construct, improve and repair, and extend/expand City infrastructure such as streets, drainage, and traffic controls; (iii) acquire City vehicles for police, public works, and park and recreation purposes; (iv) design, develop, construct, improve, and renovate City buildings and facilities, including parks, recreation, and arts facilities and Fire Station 4; (v) pay for legal, fiscal, engineering and other professional fees in connection with such projects. Certificates still outstanding may be called in whole or in part at the City's option on or after ten years from the date of issuance.
- Special Assessment bonds are issued to provide funds for improvements within the City's Public Improvement Districts (PIDs). The Iron Horse PID sold bonds in June 2019 to fund certain improvements \$10,050,000, of the Iron Horse development. The bonds will be partially paid by a special assessment tax to be levied on each property in the District along with ad valorem taxes from the Rodeo City Tax Increment Reinvestment Zone No. 1. The Polo Ridge PID sold bonds in July 2019 to fund certain improvements in Phase 1, \$7,040,000, and Phase 2, \$7,500,000, of the Polo Ridge development. The bonds will be partially paid by a special assessment tax to be levied on each property in the District along with ad valorem taxes from the Polo Ridge Tax Increment Reinvestment Zone No. 10.
- Water and sewer revenue bonds are issued to provide funds for certain improvements to the water distribution and wastewater collection systems as well as to refund prior water and sewer debt issues. These bonds are reported in the Water and Sewer fund as the debt will be repaid from revenues of this enterprise fund operation. Included in the May 2019 bond sale was \$15,260,000 to (i) provide funds for improvements, additions and extension to the system; (ii) fund the additional amount required to be accumulated in the Revenue Reserve Fund as a result of the issuance of the bonds; and (iii) to pay the costs of issuance of the bonds. Bonds still outstanding may be called in whole or in part at the City's option on or after ten years from the date of issuance.
- Municipal drainage utility system revenue bonds are issued to provide funds for drainage improvements, including the acquisition and construction of structures, equipment, and facilities for the Drainage Utility District. These bonds are reported in the Drainage Utility District fund as the debt for this enterprise operation is being repaid from revenues generated from customer charges. Included in the May 2019 bond sale was \$7,910,000 to (i) provide funds for improvements, additions and extension to the drainage system; (ii) fund the additional amount required to be accumulated in the Revenue Reserve Fund as a result of the issuance of the bonds; and (iii) to pay the costs of issuance of the bonds. Bonds still outstanding may be called in whole or in part at the City's option on or after ten years from the date of issuance.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

Long-term bonded debt at September 30, 2019, includes the following individual issues:

Governmental Activities	Issued Amount	Interest Rate (%)	Maturity Date	Amount Outstanding	Due Within One Year
General Obligation Bonds-					
Series 2009 refunding	\$ 4,245,000	2.00-4.60	2/15/2029	\$ 625,000	\$ 35,000
Series 2010 refunding	1,320,000	2.00-3.625	2/15/2023	680,000	160,000
Series 2011 refunding	12,715,000	2.00-5.00	2/15/2028	12,395,000	-
Series 2012 refunding	3,765,000	2.00-3.00	2/15/2024	2,500,000	475,000
Series 2013 refunding	7,635,000	2.00-3.00	2/15/2025	5,760,000	1,005,000
Series 2014 refunding	9,080,000	3.00-4.00	2/15/2026	6,300,000	750,000
Series 2015 refunding	2,935,000	2.00-4.00	2/15/2025	1,735,000	300,000
Series 2016 refunding	40,565,000	1.75-5.00	2/15/2036	35,765,000	2,910,000
Series 2017 refunding	7,600,000	2.50-5.00	2/15/2029	7,600,000	415,000
Series 2018 refunding	31,475,000	1.83-3.20	2/15/2038	27,380,000	1,025,000
				<u>100,740,000</u>	<u>7,075,000</u>
Certificate of Obligation Bonds-					
Series 2009	\$ 11,260,000	2.00-4.60	2/15/2029	\$ 1,660,000	\$ 90,000
Series 2010	12,340,000	3.00-4.5	2/15/2030	8,040,000	600,000
Series 2011	11,575,000	2.00-4.125	2/15/2026	6,905,000	455,000
Series 2012	7,235,000	2.00-3.375	2/15/2032	4,580,000	470,000
Series 2013	5,450,000	2.00-3.00	2/15/2033	3,145,000	380,000
Series 2014	9,715,000	3.00-4.00	2/15/2034	7,770,000	375,000
Series 2015	14,835,000	2.00-5.00	2/15/2035	11,385,000	795,000
Series 2016	11,815,000	2.00-5.00	2/15/2036	7,600,000	680,000
Series 2017	8,285,000	1.000-3.670	2/15/2037	4,515,000	315,000
Series 2018	16,050,000	4.00-5.00	2/15/2038	14,720,000	625,000
Series 2019	10,065,000	3.00-4.00	2/15/2039	10,065,000	2,815,000
				<u>80,385,000</u>	<u>7,600,000</u>
Special Assessment Bonds-					
Series 2018 - Heartland Phase 1	\$ 5,410,000	4.375-5.375	9/1/2048	\$ 5,410,000	\$ -
Series 2018 - Heartland Phase 2	1,835,000	5.125-5.625	9/1/2048	1,835,000	-
Series 2019 - Iron Horse	10,050,000	5.00-6.00	9/15/2049	10,050,000	-
Series 2019 - Polo Ridge Phase 1	7,040,000	4.25-5.125	9/15/2048	7,040,000	-
Series 2019 - Polo Ridge Phases 2-6	7,500,000	5.125-6.125	9/15/2048	7,500,000	-
				<u>31,835,000</u>	<u>-</u>
Total governmental activities long-term bonded debt				212,960,000	14,675,000
Add: Net premium/discounts on bonds				11,634,912	1,574,034
Net governmental activities long-term bonded debt				<u>\$224,594,912</u>	<u>\$ 16,249,034</u>

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2019**

Long-term bonded debt at September 30, 2019 continued:

Business-type Activities	Issued Amount	Interest Rate (%)	Maturity Date	Amount Outstanding	Due Within One Year
Water and Sewer Revenue Bonds-					
Series 2010 improvements	8,270,000	2.00-4.25	3/1/2030	5,295,000	395,000
Series 2011 refunding and improvements	14,240,000	2.00-4.125	3/1/2031	6,495,000	1,110,000
Series 2012 refunding and improvements	7,945,000	2.00-3.375	3/1/2032	4,765,000	480,000
Series 2013 refunding and improvements	7,090,000	2.00-3.25	3/1/2033	4,495,000	430,000
Series 2014 refunding and improvements	11,655,000	3.00-4.00	3/1/2034	9,555,000	930,000
Series 2015 refunding and improvements	10,325,000	2.00-5.00	3/1/2035	6,505,000	670,000
Series 2016 refunding and improvements	15,785,000	2.00-5.00	3/1/2036	12,555,000	955,000
Series 2017 refunding and improvements	12,555,000	2.00-5.00	3/1/2037	12,080,000	680,000
Series 2018 refunding and improvements	8,920,000	4.00-5.00	3/1/2038	8,645,000	385,000
Series 2019 improvements	15,260,000	3.00-5.00	3/1/2039	15,260,000	405,000
				<u>85,650,000</u>	<u>6,440,000</u>
Drainage Utility System Revenue Bonds-					
Series 2011 refunding	4,385,000	2.00-3.750	3/1/2022	815,000	370,000
Series 2019 improvements	7,910,000	2.00-4.00	3/1/2039	7,910,000	215,000
				<u>8,725,000</u>	<u>585,000</u>
Total business-type activities long-term debt				94,375,000	7,025,000
Add: Net premium/discounts on bonds				5,642,059	657,710
Net business-type activities long-term debt				<u>\$ 100,017,059</u>	<u>\$ 7,682,710</u>

Annual debt service requirements to maturity for long-term bonded debt are as follows:

Fiscal Year Ending September 30,	Governmental Activities		Business-type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 14,675,000	\$ 9,101,758	\$ 7,025,000	\$ 3,630,621
2021	13,110,000	8,436,319	6,885,000	3,208,518
2022	13,830,000	7,958,693	6,725,000	2,988,752
2023	14,625,000	7,425,141	6,200,000	2,775,709
2024	14,510,000	6,848,617	6,420,000	2,557,806
2025-2029	60,240,000	25,740,323	28,300,000	9,039,569
2030-2034	40,215,000	15,091,747	20,235,000	4,057,472
2034-2039	25,535,000	7,225,488	12,585,000	926,675
2040-2044	7,625,000	3,822,594	-	-
2045-2049	8,595,000	1,373,988	-	-
Total	\$ 212,960,000	\$ 93,024,667	\$ 94,375,000	\$ 29,185,121

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

Advance Refundings- The City's May 2019 bond issues included no advance refundings. In prior years, the City defeased certain general obligation and other bonds by using the proceeds of new bonds to purchase direct obligations of the U. S. government that were placed in separate irrevocable trusts for the purpose of generating resources for all future debt service payments of the debt being refunded. As a result, the refunded bonds are considered to be defeased and the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The principal balance of refunded bonds still outstanding at September 30, 2019 was \$14,665,000 for general obligation bonds and \$8,535,000 for water and sewer bonds.

Compensated Absences – Compensated absences represent the estimated liability for employees' accrued vacation and sick leave for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund, Housing Grants Fund, Other Grants Fund, and Enterprise Funds based on the assignment of an employee at termination.

Net Pension and Other Postemployment Benefit – Net pension and Other Post Employment Benefit (OPEB) represent the estimated liability for employees' retirement obligation for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund and Enterprise Funds based on the assignment of an employee at termination.

Long-term liabilities activity for the year ended September 30, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 108,940,000	\$ -	\$ 8,200,000	\$ 100,740,000	\$ 7,075,000
Certificates of obligation	76,200,000	10,065,000	5,880,000	80,385,000	7,600,000
Special assessment bonds	7,245,000	24,590,000	-	31,835,000	-
Total bonds payable	192,385,000	34,655,000	14,080,000	212,960,000	14,675,000
Add net premium or discount	12,808,171	564,965	1,738,224	11,634,912	1,574,034
Net bonds payable	205,193,171	35,219,965	15,818,224	224,594,912	16,249,034
Other General Fund long-term liability:					
Net pension liability	96,157,063	40,672,777	-	136,829,840	-
Total OPEB liability	32,345,621	2,261,463	-	34,607,084	1,607,428
Accrued compensated absences	19,892,318	616,991	169,328	20,339,981	7,894,271
Estimated claims payable	3,128,248	13,786,671	13,240,713	3,674,206	1,852,202
	<u>\$ 356,716,421</u>	<u>\$ 92,557,867</u>	<u>\$ 29,228,265</u>	<u>\$ 420,046,023</u>	<u>\$ 27,602,935</u>
Business-type activities:					
Bonds payable:					
Revenue bonds - water/sewer	\$ 76,525,000	\$ 15,260,000	\$ 6,135,000	\$ 85,650,000	\$ 6,440,000
Revenue bonds - drainage	1,175,000	7,910,000	360,000	8,725,000	585,000
Total revenue bonds payable	77,700,000	23,170,000	6,495,000	94,375,000	7,025,000
Add: net premium or discount	4,773,464			5,642,059	657,710
Net revenue bonds payable	82,473,464	23,170,000	6,495,000	100,017,059	7,682,710
Net pension liability	7,796,519	3,297,798	-	11,094,317	-
Total OPEB liability	2,622,618	183,364	-	2,805,982	130,333
Accrued compensated absences	1,138,359	27,092	213,517	951,934	203,742
	<u>\$ 94,030,960</u>	<u>\$ 26,678,254</u>	<u>\$ 6,708,517</u>	<u>\$ 114,869,292</u>	<u>\$ 8,016,785</u>

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

9. RETIREMENT PLAN

Plan Description- The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid agent multiple-employer defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

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 the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Plan provisions for the City were as follows:

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
A member is vested after	5 years
Updated Service Credit	100%, Transfers
Annuity Increases to Retirees	50% of CPI

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: 5 years/age 60; 20 years/any age.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

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

Inactive employees or beneficiaries currently receiving benefits	815
Inactive employees entitled to but not yet receiving benefits	422
Active employees	1,117
	<u>2,354</u>

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.50% for October 2018 through December 2018 and 16.51% for January 2019 through September 2019. The City's contributions to TMRS for the year ended September 30, 2019, were \$11,983,043, and were equal to the required contributions.

Net Pension Liability- The City's net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

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

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment rate of return	6.75% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013.

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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.30%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.39%
Real Return	10.00%	3.78%
Real Estate	10.00%	4.44%
Absolute Return	10.00%	3.56%
Private Equity	5.00%	7.75%
	<u>100.00%</u>	

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.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2019**

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at September 30, 2018	\$543,721,947	\$ 439,768,365	\$ 103,953,582
Changes for the year			
Service cost	12,586,575	-	12,586,575
Interest (on the total pension liability)	36,211,912	-	36,211,912
Difference between expected and actual experience	(2,963,966)	-	(2,963,966)
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(27,084,928)	(27,084,928)	-
Administrative expense	-	(254,593)	254,593
Contributions - member	-	5,222,645	(5,222,645)
Contributions - employer	-	10,072,245	(10,072,245)
Net investment income (loss)	-	(13,163,050)	13,163,050
Other	-	(13,301)	13,301
Net Changes	18,749,593	(25,220,982)	43,970,575
Balance at September 30, 2019	\$562,471,540	\$ 414,547,383	\$ 147,924,157

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

The following table presents the sensitivity of the net pension liability to changes in the discount rate when calculating it at 1-percentage-point-lower (5.75%) and 1-percentage-point-higher (7.75%).

	1% Decrease 5.75%	Current Rate Assumption 6.75%	1% Increase 7.75%
Discount rate	\$ 222,872,559	\$ 147,924,157	\$ 86,029,718

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued TMRS financial report which may be obtained at www.tmrs.com.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2019**

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

For the year ended September 30, 2019, the City recognized pension expense of \$21,772,548.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ -	\$ 5,156,476
Difference between projected and actual investment earnings on pension plan investments	22,656,121	-
Changes in assumptions	832,134	-
Change in proportional share	613,050	613,050
Employer contributions subsequent to the measurement date	9,223,166	-
	<u>\$ 33,324,471</u>	<u>\$ 5,769,526</u>

\$9,223,166 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	
2020	\$ 7,109,433
2021	1,674,063
2022	1,629,517
2023	7,924,681
2024	(5,915)
Thereafter	-
	<u>\$ 18,331,779</u>

Allocation of Pension Items

The City allocates pension items between governmental activities and business-type activities on the basis of employee payroll funding.

Required Supplementary Information - Required supplementary information for the schedule of changes in net pension liability and related ratios and schedule of contributions is presented immediately following the Notes to the Basic Financial Statements.

10. REGIONAL SYSTEMS FOR WATER SUPPLY AND WASTEWATER TREATMENT

The City secures substantially all of its water supply and sewer services from the North Texas Municipal Water District (the "District"). The District has police, taxation, and eminent domain powers and is authorized to issue revenue bonds with State approval and functions as a political subdivision independent of the City. The District is governed by a 25-member board (the "Board"), the City being authorized by statute to appoint two of those members. The Board has full power and discretion to establish its budget and to set the rates for services it provides by contracts with its member cities and customers. The Board is empowered by statute and contract, or otherwise permitted by law, to discontinue a facility or to enforce payment of an unpaid charge, fee, or rental due to the District. A portion of the outstanding bonds of the District are contract revenue bonds based on contracts with certain member cities of the District. The City provides for the payment of its contractual obligations with the District from revenue generated by its waterworks and sewer systems. Such contractual payments provide for the payment of the principal and interest requirements on specified indebtedness and associated operation and maintenance expenses of the District. Because of the factors mentioned above the District is not included in the City's basic financial statements.

Water Supply- On August 1, 1988, the City entered into a contract with the District whereby the District agreed to provide water supply for the benefit of the City. The provisions of this contract are similar in concept, essence and intent to the provisions of the contract originally entered into on December 12, 1953. In return for this service, the City agreed to pay the District at a rate per 1,000-gallon basis, subject to minimum annual payments which approximated \$22.948 million for the fiscal year ended September 30, 2019.

Wastewater Treatment- On October 1, 1975, the City entered into a contract with the District whereby the District agreed to provide a wastewater treatment and disposal system for the benefit of the City and other cities located in Dallas, Collin, Kaufman and Rockwall Counties, Texas. Each member city annually pays its proportionate share of operating expenses and debt service of the District. The City's annual payment for the year ended September 30, 2019, was approximately \$10.013 million.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

11. SELF-INSURANCE

Group Health Insurance – The City established the Group Medical Insurance internal service fund in 1984 to account for the provision of group life and health insurance coverage for employees and their dependents. The City's health insurance program is a "self-insured" plan funded by both the City and participating employees. The City makes a predetermined contribution to the plan each biweekly payroll for group life and health insurance coverage for qualifying City employees and a subsidy toward employee dependent coverage. Employees contribute through payroll deductions for the balance of dependent health insurance coverage. The City's health insurance program includes stop loss coverage with a \$300,000 deductible per individual with an unlimited liability limit per claim. According to the Health Care Reform Act lifetime maximums are no longer allowed. The coverage is consistent with prior years, and settled claims did exceed this self-insured coverage in fiscal year 2019 by \$915,000.

All claims are reviewed and processed by an independent insurance company. The insurance company pays claims based on the health plan, and the City reimburses the insurance company for the amount of each claim paid. The insurance company charges the City a fee for each claim processed.

The Group Medical Insurance internal service fund began the fiscal year with (\$4,591,722) in unrestricted net deficit after inclusion of \$1,013,124 of estimated outstanding health claims payable. During the year, operating and non-operating revenues exceeded operating and non-operating expenses by \$242,808 resulting in a (\$4,348,914) balance in unrestricted net deficit at year end. Actual claims paid totaled \$11,553,992. The increase in net position was due to an increase in the City's contributions to the plan and an increase in employees' premiums. The City has continued a contract with an outside firm to assist the City in controlling and monitoring medical claims. The City plans to continue eliminating the deficit fund balance through proposed plan changes, increased premium charges, and increased City contributions to the plan.

The estimated claims payable of \$1,376,040 reported in the Group Medical Insurance internal service fund is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (GASB No. 10), which requires that a liability be reported if information prior to the issuance of the financial statements indicated that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability for unpaid claims includes allocated loss adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2018 and 2019 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2018	\$ 1,191,354	\$ 9,844,859	\$ 10,023,089	\$ 1,013,124
2019	\$ 1,013,124	\$ 11,281,651	\$ 11,009,310	\$ 1,285,465

Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provision for reported claims and for claims incurred but not yet reported is determined by the City.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

General Liability Insurance – 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. During 1985, the City established the General Liability internal service fund to account for the provision of property, general liability, and workers' compensation insurance. The City's insurance coverage is through scheduled specific policies with large deductibles with the primary carrier being the Texas Municipal League Risk Pool. Under this program, the General Liability Fund provides coverage for up to a maximum of \$10,000 retention for each real and personal property claim and a scheduled limit on coverage, \$10,000 retention for each mobile equipment claim and a scheduled limit on coverage, \$10,000 retention for each auto physical damage claim and a scheduled limit on coverage, \$100,000 retention for each auto catastrophe claim and a \$7,700,000 limit on coverage, \$50,000 retention for each law enforcement claim and a \$5,000,000 limit on coverage, \$50,000 retention for each general liability claim and a \$1,000,000 limit on coverage, \$2,500 retention for each airport hangar-keeper claim and a \$1,000,000 limit on coverage, \$50,000 retention for each auto liability claim and a \$1,000,000 limit on coverage, \$100,000 retention for each errors and omission claim and a \$5,000,000 limit on coverage with a \$10,000,000 annual aggregate, \$300,000 retention for each worker's compensation claim, \$25,000 retention for each crime coverage claim with a \$500,000 limit on coverage, and \$10,000 retention for each storage tank pollution claim with a \$1,000,000 limit on coverage with a \$2,000,000 annual aggregate. The General Liability Fund is funded through revenues from participating governmental and proprietary funds of the City. The above coverage is consistent with prior years and settled claims have not exceeded the self-insured coverage in any of the past three fiscal years.

The General Liability fund began the fiscal year with unrestricted net position of (\$489,178). During the year, operating expenses exceeded operating and non-operating revenues by \$26,303, resulting in a (\$515,481) balance in unrestricted net deficit at year end. Actual claims paid were \$2,505,020. The estimated claims payable of \$2,388,741 reported in the General Liability internal service fund is based on the requirements of GASB No. 10. The liability for unpaid claims includes allocated loss adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2018 and 2019 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2018	\$ 2,189,118	\$ 1,384,155	\$ 1,458,149	\$ 2,115,124
2019	\$ 2,115,124	\$ 2,505,020	\$ 2,231,403	\$ 2,388,741

Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provisions for reported claims and for claims incurred but not yet reported are determined by an independent consultant.

Notes to Basic Financial Statements
September 30, 2019

12. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information about the OPEB Plan

Plan description- In addition to the pension benefits described in Note 9, the City provides postretirement healthcare benefits to retirees and their dependents through a single-employer defined benefit healthcare. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No.75. The plan does not issue a separate financial report.

Benefits provided- These benefits are provided to retired employees and their dependents under the same plan options as active employees in accordance with City ordinances. To be eligible for City-subsidized coverage, retired employees who were hired before October 1, 2004 must have 20 years of full-time service with the City or 10 years of service and be at least 60. Former employees age 60 and over with at least 5 years of service may participate in the plan after retirement. However, the City makes no contribution towards those benefits unless the employee had at least 10 years of service with the City.

Employees hired on and after October 1, 2004 may retire with City-subsidized coverage after the later of 15 years of service and attainment of age 55.

Prior to Medicare eligibility, retirees can remain in a high-deductible health plan (HDHP) with a \$5,000 deductible. Effective January 1, 2018, the City no longer makes contributions to the HSA account for retirees.

Retirees over the age of 65 are offered coverage in one of two fully-insured Medicare Supplement plans ("High Option" and "Low Option") issued by United American.

Participating retirees must make monthly contributions. The contribution rates are set by the City, and generally change on each January 1. The retiree's contribution rate for the HDHP depends on the dependents covered. The retiree's contribution rate may also vary based on the number of years of service at retirement, depending on the date of retirement. The Medicare Supplement policies are funded by both city and retiree contributions.

Employees covered by benefit terms – At September 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	347
Inactive employees entitled to but not yet receiving benefits	-
Active employees	1,071
	<u>1,418</u>

Total OPEB Liability – The City's total OPEB liability of \$37,413,066 was measured as of September 30, 2019 and was determined by an actuarial valuation as of September 30, 2018.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2019**

Actuarial assumptions and other inputs – The total OPEB liability in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.40%
Salary increases	3.0%, average, including inflation
Discount rate	2.79%
Prior year discount rate	3.83%
Healthcare cost trend rates - pre-65	19.90% for 2019, decreasing annually, to an ultimate rate of 3.9% for 2076 and later years
Healthcare cost trend rates - post-65	No increases are assumed
Retirees' share of benefit-related costs	Future contributions for pre-65 retirees are assumed to increase at the same rate as medical trend.

The discount rate of 2.79% was based on the September 30, 2019 Fidelity General Obligation AA 20-Year Yield . The prior year discount rate was 3.83%, based on the Fidelity General Obligation AA 20-Year Yield.

Mortality rates for employees and retirees were based on the PubG.H-2010 Mortality Table, Projected to 2049 with Scale MP-2019, for males or females, as appropriate.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance as of 10/01/18	\$ 34,968,239
Changes for the year	
Service cost	770,475
Interest	969,513
Differences between expected and actual experience	(2,617,929)
Changes in assumptions/inputs	4,251,618
Benefit payments	(928,850)
Net changes	2,444,827
Balance at 9/30/19	\$ 37,413,066

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate- The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.79%) or 1-percentage-point higher (3.79%) than the current discount rate:

1% Decrease (1.79%)	Discount Rate (2.79%)	1% Increase (3.79%)
\$ 41,456,012	\$ 37,413,066	\$ 33,943,191

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2019**

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates- The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Healthcare Cost	
	Trend Rates	
<u>1% Decrease</u>		<u>1% Increase</u>
\$ 31,358,137	\$ 37,413,066	\$ 44,611,732

OPEB Expense and Deferred Inflows of Resources Related to OPEB – For the year ended September 30, 2019, the City recognized OPEB expense of \$2,013,434. At September 30, 2019, the City reported deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference in expected and actual experience	\$ -	\$ 2,368,379
Changes in assumptions	3,188,713	-

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

Year ended September 30,	
2020	\$ 273,445
2021	273,445
2022	273,445
2023	-
2024	-
Total	<u>\$ 820,335</u>

Required Supplementary Information - Required supplementary information for the schedule of changes in the City's total OPEB liability and related ratios is presented immediately following the Notes to the Basic Financial Statements.

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2019

13. COMMITMENTS AND CONTINGENT LIABILITIES

Encumbrances- As discussed in Note 1 Summary of Significant Accounting Policies - Encumbrances, encumbrances are commitments related to underperformed contracts for goods or services (i.e. purchase orders). At year end, the encumbrances expected to be honored upon performance by the vendor in the next year are as follows:

Fund	Encumbrance
General	\$ 53,702
4B	1,099,232
Hotel Occupancy Tax	203,686
Other Grants	17,997
Confiscated - State	227,792
Court Technology	89,563
Local Finance	11,081
Bonds	762,005
Water/Sewer	160,757
General Liability	25,548
	<u>\$ 2,651,363</u>

Pending Litigation- Various lawsuits pending against the City involve claims relating to general liability, automobile liability, workers' compensation, civil rights action, and various contractual matters. In the opinion of the City's management, the outcome of the pending litigation will not have a material adverse effect on the City's financial position or operations.

Arbitrage Rebate Requirements- The Tax Reform Act of 1986 imposes a rebate requirement with respect to some bonds issued by the City. Under this requirement, an amount equal to the sum of (a) the excess of the aggregate amount earned on all investments over the amount that would have been earned if all investments were invested at a rate equal to the yield on the bonds and (b) any income earned on the excess described in (a) is required to be rebated to the United States Treasury, in order for the interest on the bonds to be excluded from federal taxation. Regulations implementing the rebate requirement were released by the Internal Revenue Service on May 12, 1989. Rebutable arbitrage is computed as of each installment computation date. The last computation date for the City was performed for financial information as of June 19, 2019. No rebate liability was due to the federal government. Information for the next computation period is due in March of 2020. Management does not anticipate there will be a material liability once the computation is completed.

Grant Audit- The City receives federal and state grants for specific purposes that are subject to review and audit by federal and state agencies. Such audits could result in a request for reimbursement by the federal and state agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of City management, such disallowances, if any, will not be significant to the City's financial statements.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

Conduit Debt Obligations- From time to time, various legally separate component units of the City have issued bonded debt obligations to provide financial assistance to private-sector entities. The bonds were issued to acquire and construct medical and health facilities (Mesquite Health Facilities Corporation). The bonds are secured by the property financed and are payable solely from payments received on the underlying debt obligations. Upon repayment of the bonds, ownership of the acquired capital assets transfers to the private-sector entity served by the bond issuance. Even though some of the bonds are outstanding, there is no liability to the City or the component unit (no commitment debt), as all liability transfers to the trustee of the bond issue. A summary of outstanding conduit debt by component unit at September 30, 2019, is as follows.

<u>Series</u>	<u>Mesquite Health Facilities Corporation</u>
2014	300,000
2014	1,670,000
2014	4,985,000
2014	3,800,000
2014	19,030,000
2016	3,065,000
2016	6,225,000
2016	420,000
2016	3,355,000
2016	815,000
2016	10,500,000
Total	<u>\$ 54,165,000</u>

Contingent Liability for Service Agreement- The City entered into separate agreements with the North Texas Municipal Water District (the "District") and Kingsborough Municipal Utility District Nos. 1, 2, 3, 4, and 5 (the MUDs) to provide sewer service within the City's extraterritorial jurisdiction. As a member city of the District, the City's involvement was required to develop capacity for a wastewater service requirement of 13.1 million gallons per day to service the area. The District has agreed to construct and operate a project known as the Lower East Fork Sewer Interceptor System and obtained financing on August 24, 2006 in the amount of \$19,190,000. The City's share of the debt service payments on the project is \$105,584 per month over 20 years and is being passed through to the MUDs. The City is not liable for this debt. As additional security for the payments due the City, the MUDs agreed to establish, levy, and collect an ad valorem tax on all taxable property within the MUDs.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2019**

14. FUND BALANCES

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory, prepaids, and notes receivable that will be collectible in subsequent years) or are required to be maintained intact (such as trust principal).

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

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

Unassigned fund balance - amounts that are available for any purpose.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2019**

Details of the Governmental Funds fund balances as of year-end are as follows:

Description	General Fund	Housing Grants	Local Finance	Bond Finance	Debt Service	Other Governmental Funds	Total Governmental Funds
NONSPENDABLE							
Prepays	\$ 41,069	\$ -	\$ 50	\$ -	\$ -	\$ 26,758	\$ 67,877
Inventory	1,080,403	-	-	-	-	-	1,080,403
Cemetery trust principal	-	-	-	-	-	101,112	101,112
Long-term note receivable	804,560	-	-	-	-	-	804,560
Total Nonspendable	1,926,032	-	50	-	-	127,870	2,053,952
RESTRICTED							
Debt retirement	-	-	-	-	4,167	-	4,167
Housing grant programs	-	1,287,418	-	-	-	-	1,287,418
4B sales tax use	-	-	-	-	-	2,902,508	2,902,508
Bond capital projects	-	-	-	37,146,548	-	-	37,146,548
Confiscated drug activity	-	-	-	-	-	1,110,681	1,110,681
Other grant programs	-	-	-	-	-	843,597	843,597
50/50 program	-	-	-	-	-	181,565	181,565
Hotel/motel tax use	-	-	-	-	-	2,378,845	2,378,845
Other special revenue							
911 Fund	-	-	-	-	-	50,793	50,793
Court Technology Fund	-	-	-	-	-	110,086	110,086
Photo Enforcement Fund	-	-	-	-	-	115,711	115,711
Child Safety Fund	-	-	-	-	-	652	652
Cemetery Trust Fund	-	-	-	-	-	461,738	461,738
Contributions & Donations	-	-	-	-	-	31,259	31,259
Community Access Fund	-	-	-	-	-	612,063	612,063
Park Improvement Fund	-	-	-	-	-	8,249	8,249
Local finance projects							
Roadway impact fees	-	-	220,044	-	-	-	220,044
Tax Increment							
Reinvestment Zones	-	-	12,313,818	-	-	-	12,313,818
Public Improvement							
Districts	-	-	27,385,115	-	-	-	27,385,115
Interlocal capital projects	-	-	41,008	-	-	-	41,008
Developers deposits	-	-	1,694,220	-	-	-	1,694,220
Housing assistance trust	-	-	280,714	-	-	-	280,714
Housing finance corp	-	-	18,470	-	-	-	18,470
Industrial development corp	-	-	54,004	-	-	-	54,004
Health facility corp	-	-	38,358	-	-	-	38,358
Convention center capital replacement	-	-	585,186	-	-	-	585,186
Total Restricted	-	1,287,418	42,630,937	37,146,548	4,167	8,807,747	89,876,817
ASSIGNED							
General fund encumbrances	56,269	-	-	-	-	-	56,269
Capital projects public safety	-	-	14,400	-	-	-	14,400
Contributions & Donations	-	-	-	-	-	506,064	506,064
Local finance projects							
Council capital projects	-	-	1,193,608	-	-	-	1,193,608
Arts center capital replacement	-	-	33,147	-	-	-	33,147
Total Assigned	56,269	-	1,241,155	-	-	506,064	1,803,488
UNASSIGNED	20,712,994	-	-	-	-	-	20,712,994
TOTAL FUND BALANCES	\$22,695,295	\$1,287,418	\$43,872,142	\$37,146,548	\$ 4,167	\$ 9,441,681	\$ 114,447,251

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2019

City Council establishes, modifies and/or rescinds fund balance commitments by passage of an ordinance. Assigned fund balance is established by City Manager based on Council direction according to the City's fund balance policy. During fiscal year 2019, City Council approved a new General Fund Reserve Policy. The new policy requires maintaining a minimum unassigned fund balance equivalent to 60 days of working capital. Per the policy, the City acknowledges that initially, the General Fund may not meet the requirements for the working capital days but will be considered compliant as long as the financial position shows continuous improvement each fiscal year.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available. When assigned and unassigned amounts are available, expenditures for other than the assigned purpose will be spent from unassigned fund balance first.

It is the desire of the City to maintain adequate General fund balance to maintain liquidity and in anticipation of economic downturns or natural disasters.

15. TAX ABATEMENT DISCLOSURES

The City of Mesquite enters into sales tax and property tax abatement agreements with desired businesses under the authority of Chapter 380 of the Texas Local Government Code. These businesses may be manufacturing, office, retail, commercial, or mixed-use projects. The agreements allow the City to refund a portion of property taxes and sales taxes paid, issue incentive payments, and/or reduce fees. The offer of an incentive is tied to an analysis of the impact on community services and to the goals of the community as established by the Mesquite City Council. The City Council has final authority on the implementation of City business incentives.

The City will consider an application for an economic development incentive for any project that would attract new business or industry to the City and/or for any project involving the expansion, modernization, and/or retention of an existing business. However, the City will not grant an incentive unless it will benefit the City and will accomplish the public purpose of promoting local economic development and stimulating business and commercial activity in the City. In the event of default on an agreement, the City does include a clawback provision in the contract.

For the fiscal year ended September 30, 2019, the City of Mesquite had sixteen economic development agreements that included sales and/or property tax abatement provisions. In total, \$541,676 in sales tax and \$110,395 in property tax was abated.

In addition to tax abatements, the City occasionally makes additional commitments in its economic development incentive agreements. The following additional commitments have been made:

- The City has agreed to refund impact fees up to \$100,000 related to a project in which the company intends to invest at least \$16.5 million in new capital improvements to construct a 237,743 square foot facility and lease at least 79,000 square feet of the facility to one or more tenants.
- The City has agreed to refund roadway impact fees up to \$367,000 related to a project in which the company intends to construct 227 townhomes and related infrastructure on a 26-acre site.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2019**

16. SUBSEQUENT EVENTS

Changes in Financing - Early in fiscal year 2020, the City issued Series 2019 General Obligation Refunding Bonds in the amount of \$27,685,000 and Series 2019A Waterworks and Sewer System Revenue Refunding Bonds in the amount of \$9,035,000, both dated December 1, 2019, bearing interest rates ranging from 2.00% to 3.00%. Proceeds from the sale of the bonds will be used for refunding a portion of the City's outstanding debt to achieve debt service savings and for paying costs related to issuance of the bonds.

End of Notes to Basic Financial Statements

City of Mesquite, Texas

Required Supplementary Information (Unaudited)
September 30, 2019

Texas Municipal Retirement System Plan (TMRS)
Schedule of Changes in Net Pension Liability and Related Ratios

	Measurement Year 2014	Measurement Year 2015	Measurement Year 2016	Measurement Year 2017	Measurement Year 2018
Total pension liability:					
Service cost	\$ 10,206,837	\$ 11,282,680	\$ 11,607,011	\$ 15,375,279	\$ 12,586,575
Interest (on the Total Pension Liability)	32,088,206	33,164,585	33,628,738	35,019,294	36,211,912
Difference between expected and actual experience	(5,189,415)	(721,632)	(265,481)	(3,377,576)	(2,963,966)
Change in assumptions	-	3,677,030	-	-	-
Benefit payments, including refunds of employee contributions	(21,934,850)	(22,598,587)	(23,683,590)	(28,823,538)	(27,084,928)
Net change in total pension liability	15,170,778	24,804,076	21,286,678	18,193,459	18,749,593
Total pension liability - beginning	464,266,956	479,437,734	504,241,810	525,528,488	543,721,947
Total pension liability - ending (a)	\$ 479,437,734	\$ 504,241,810	\$ 525,528,488	\$ 543,721,947	\$ 562,471,540
Plan fiduciary net position:					
Contributions - employer	6,999,796	7,390,890	7,083,990	8,804,273	10,072,245
Contributions - employee	4,533,599	4,872,185	4,819,479	5,010,566	5,222,645
Net investment income (loss)	21,993,586	584,061	26,059,766	55,376,389	(13,163,050)
Benefit payments, including refunds of employee contributions	(21,934,850)	(22,598,587)	(23,683,590)	(28,823,538)	(27,084,928)
Administrative expense	(229,654)	(355,783)	(294,412)	(287,093)	(254,593)
Other	(18,881)	(17,572)	(15,862)	(14,550)	(13,301)
Net change in plan fiduciary net position	11,343,596	(10,124,806)	13,969,371	40,066,047	(25,220,982)
Plan fiduciary net position - beginning	384,514,157	395,857,753	385,732,947	399,702,318	439,768,365
Plan fiduciary net position - ending (b)	\$ 395,857,753	\$ 385,732,947	\$ 399,702,318	\$ 439,768,365	\$ 414,547,383
Net pension liability - ending (a) - (b)	\$ 83,579,981	\$ 118,508,863	\$ 125,826,170	\$ 103,953,582	\$ 147,924,157
Plan fiduciary net position as a percentage of total pension liability	82 57%	76 50%	76 06%	80 88%	73 70%
Covered payroll	\$ 64,709,631	\$ 69,261,386	\$ 68,843,479	\$ 71,579,511	\$ 74,609,215
Net pension liability as a percentage of covered payroll	129 16%	171 10%	182 77%	145 23%	198 27%

Other Information:

For the 2015 valuation, inflation used was 2.5%, investment rate of return and discount rate used was 6.75% and actuarial studies were updated through December 31, 2014.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's measurement date (December 31).

City of Mesquite, Texas

**Required Supplementary Information (Unaudited)
September 30, 2019**

**Texas Municipal Retirement System Plan (TMRS)
Schedule of Contributions**

	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019
Actuarially determined contribution	\$ 7,094,555	\$ 7,128,122	\$ 8,324,268	\$ 9,712,228	\$ 11,983,043
Contribution in relation of the actuarially determined contribution	7,094,555	7,128,122	8,324,268	9,712,228	11,983,043
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 66,484,370	\$ 68,679,246	\$ 70,725,844	\$ 73,676,746	\$ 76,307,643
Contributions as a percentage of covered payroll	10.67%	10.38%	11.77%	13.18%	15.70%

Notes to Schedule of Contributions

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	27 years
Asset Valuation Method	10 Year smoothed market: 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5%, 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 2015 valuation pursuant to an experience study of the period 2010 -
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes

Adopted 100% repeating USC with transfer

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's most recent fiscal year-end (September 30).