

City of Midlothian Texas

Attn: City Manager

BY: [Signature]

TITLE: **CHRIS DICK, CITY MANAGER**

DATE: May 28, 2019

ATTEST:

[Signature]

APPROVED AS TO FORM AND LEGALITY:

BY: [Signature]

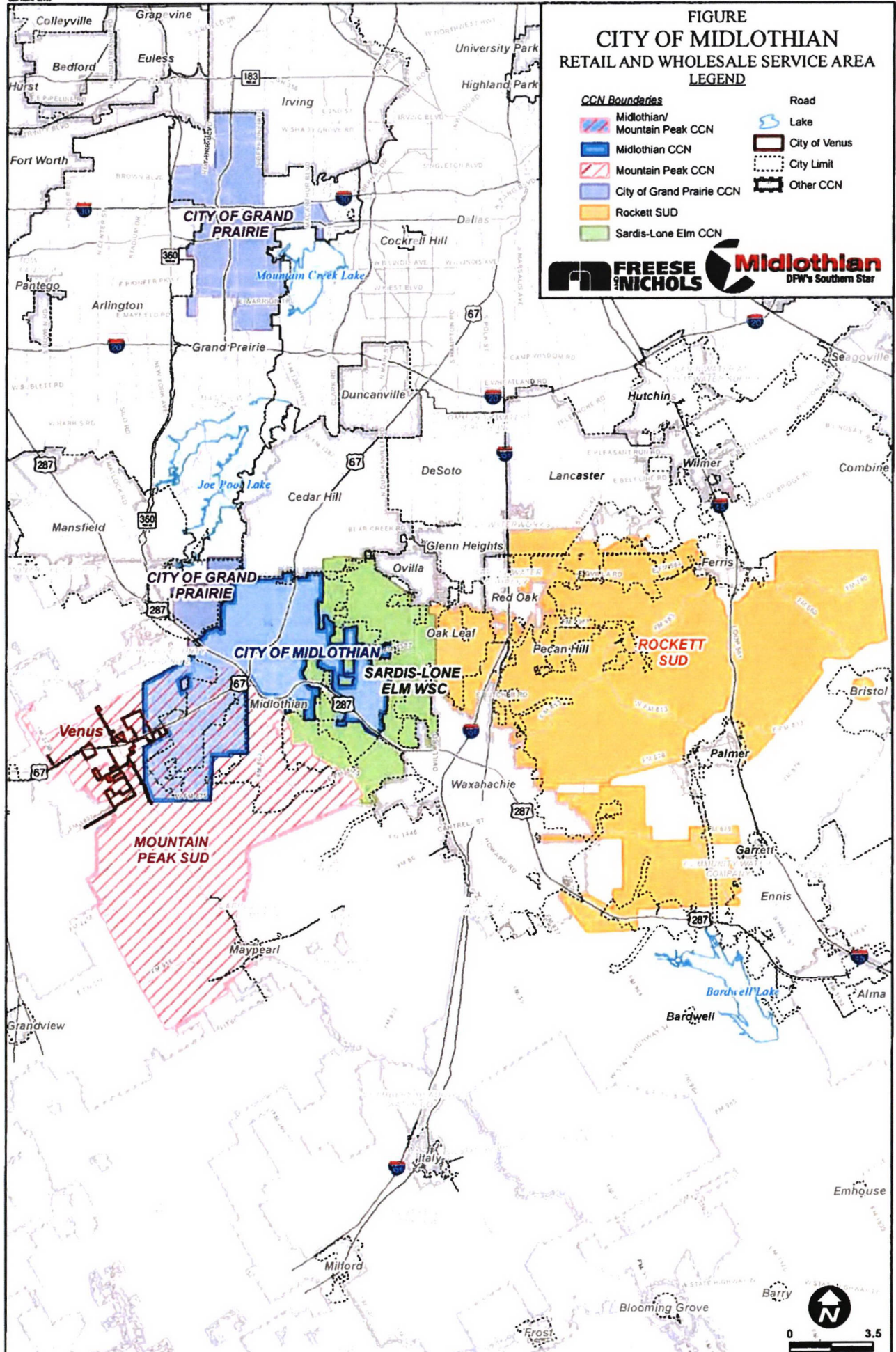
ATTORNEY FOR PURCHASER



**Exhibit 2 Location Map of Service Area**

**FIGURE**  
**CITY OF MIDLOTHIAN**  
**RETAIL AND WHOLESALE SERVICE AREA**  
**LEGEND**

- |                       |                                  |      |               |
|-----------------------|----------------------------------|------|---------------|
| <b>CCN Boundaries</b> |                                  | Road |               |
|                       | Midlothian/<br>Mountain Peak CCN |      | Lake          |
|                       | Midlothian CCN                   |      | City of Venus |
|                       | Mountain Peak CCN                |      | City Limit    |
|                       | City of Grand Prairie CCN        |      | Other CCN     |
|                       | Rockett SUD                      |      |               |
|                       | Sardis-Lone Elm CCN              |      |               |



**Exhibit 3 Authorization to Execute on Behalf of Purchaser**

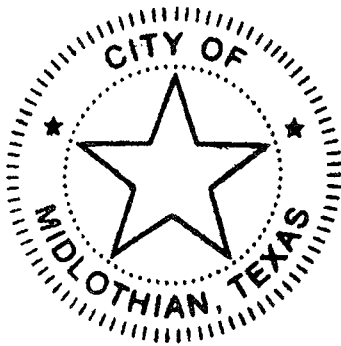
THE STATE OF TEXAS   §

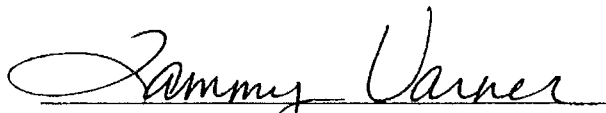
COUNTY OF ELLIS       §

CERTIFICATION

I, Tammy Varner, City Secretary of the City of Midlothian, Texas, do hereby certify that I am custodian of the records of the City of Midlothian, Texas, and that the attached is a true and correct copy of the First Amendment to Additional Party Raw Water Supply Contract Municipal between Tarrant Regional Water District and the City of Midlothian, adopted by the City Council of the City of Midlothian on May 28, 2019. The amendment is for the purchase of additional water from the Cedar Creek and Richland-Chambers Reservoirs and Pipelines.

Witness My Hand and Official Seal of the City of Midlothian, Texas, this the 29 day of May, 2019.



  
Tammy Varner, City Secretary  
City of Midlothian



June 5, 2019

RECEIVED  
JUN 18 2019

BY: .....

Wayne Owen  
Tarrant Regional Water District  
P. O. Box 4508  
Fort Worth, Texas 76164-0508

Re: Amendment to Additional Party Raw Water Supply Contract Municipal  
Midlothian First Amendment

Dear Mr. Owen:

Enclosed please find four (4) executed originals of the Amendment to Additional Party Raw Water Supply Contract Municipal.

If you have any questions, please contact our office at 972-775-7197 or [diana.swiatkowski@midlothian.tx.us](mailto:diana.swiatkowski@midlothian.tx.us).

Sincerely,

A handwritten signature in black ink that reads "Diana Swiatkowski". The signature is written in a cursive, flowing style.

Diana Swiatkowski  
Administrative Assistant III  
City of Midlothian

Enclosure(s)

## 6. Operator List

### City of Midlothian Public Water Supply Operators

<b>Operator</b>	<b>Grade</b>	<b>License Number</b>
Tim Walker	A	WO0027208
Joe Richey	A	WO0030495
Justin Hutto	A	WO0046749
Miguel Munoz	C	WS0013361
DeAndre Martin	C	WS0013572
Vince Howell	C	WS0011852
Jose Estrada	C	WS0011863
Jonathan Bond	C	WS0013936, WD0012508
Clayton Jarosek	C	WS0014390, WO0044596
Ray (Christian Robles)	D	WO0045400
Brian Moore	C	WS0014450



## 7. Facilities Map

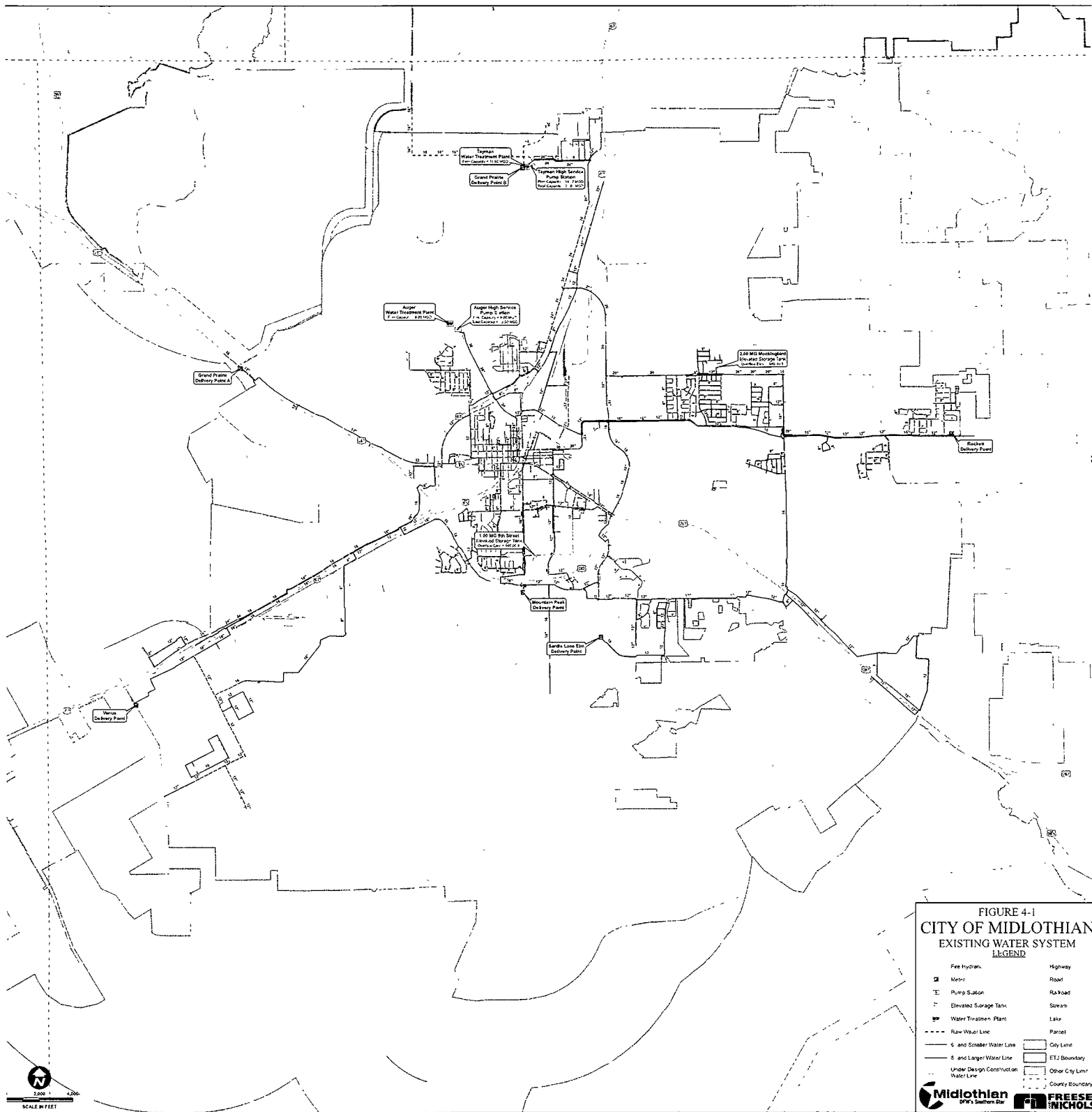
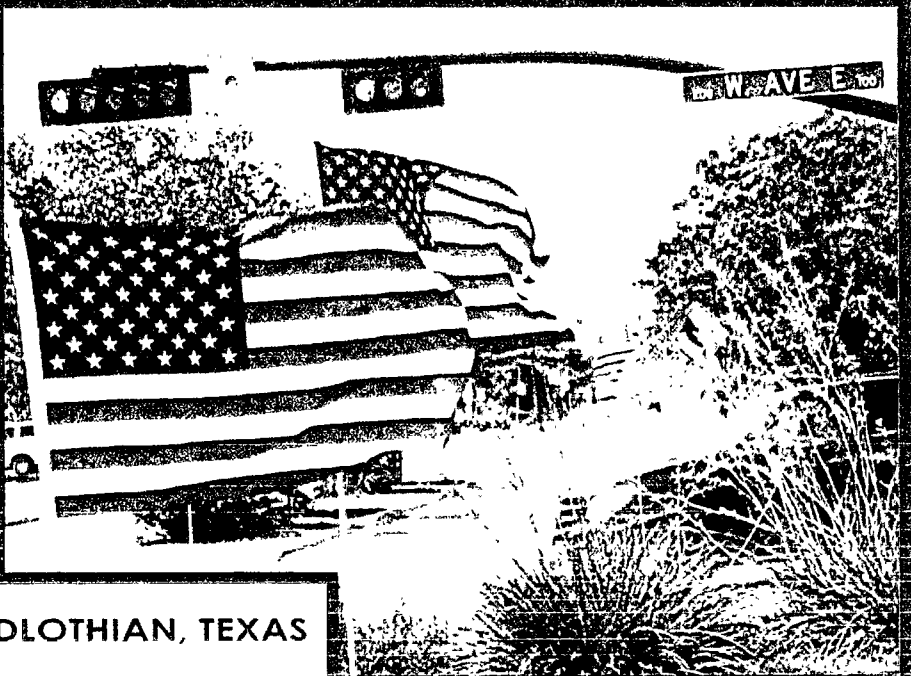
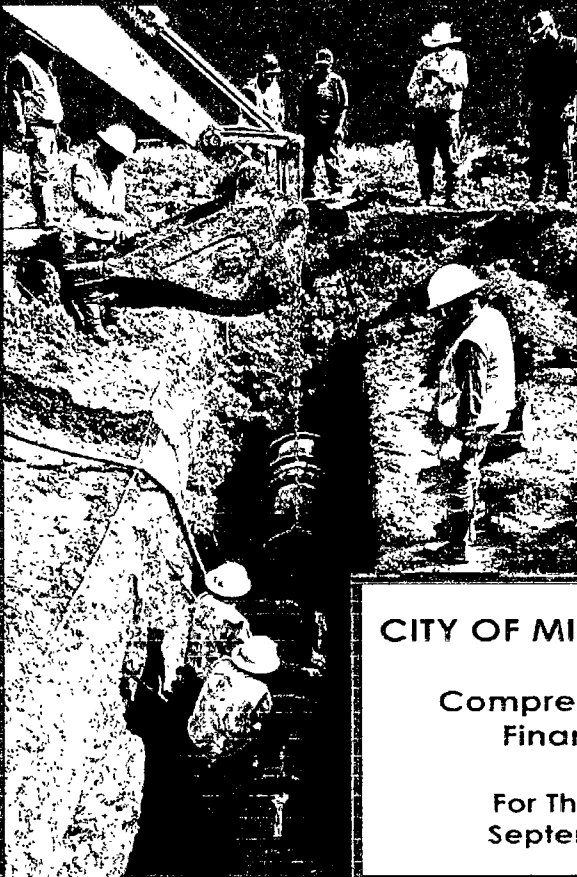


FIGURE 4-1  
 CITY OF MIDLOTHIAN  
 EXISTING WATER SYSTEM  
 LEGEND

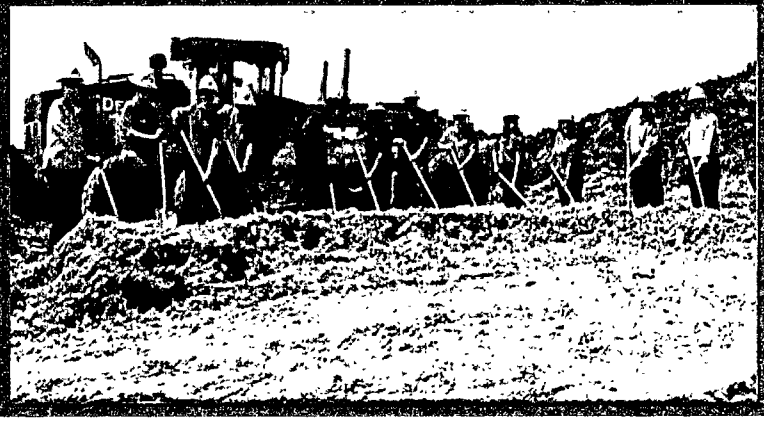
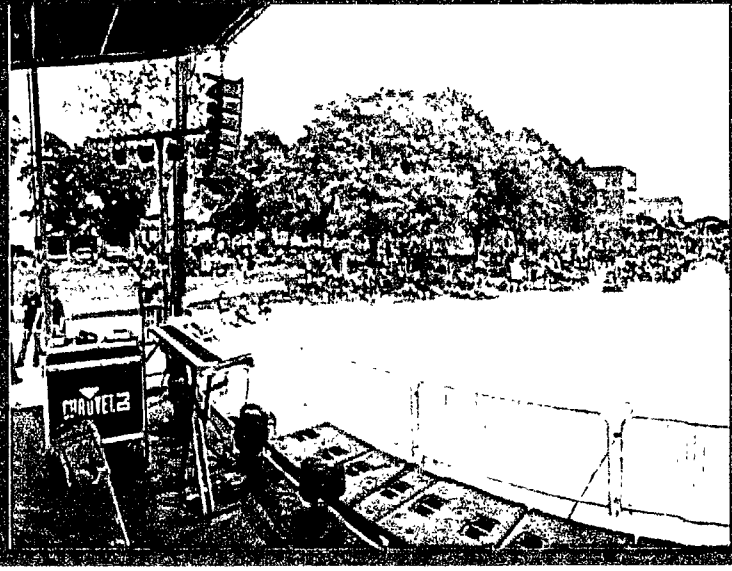
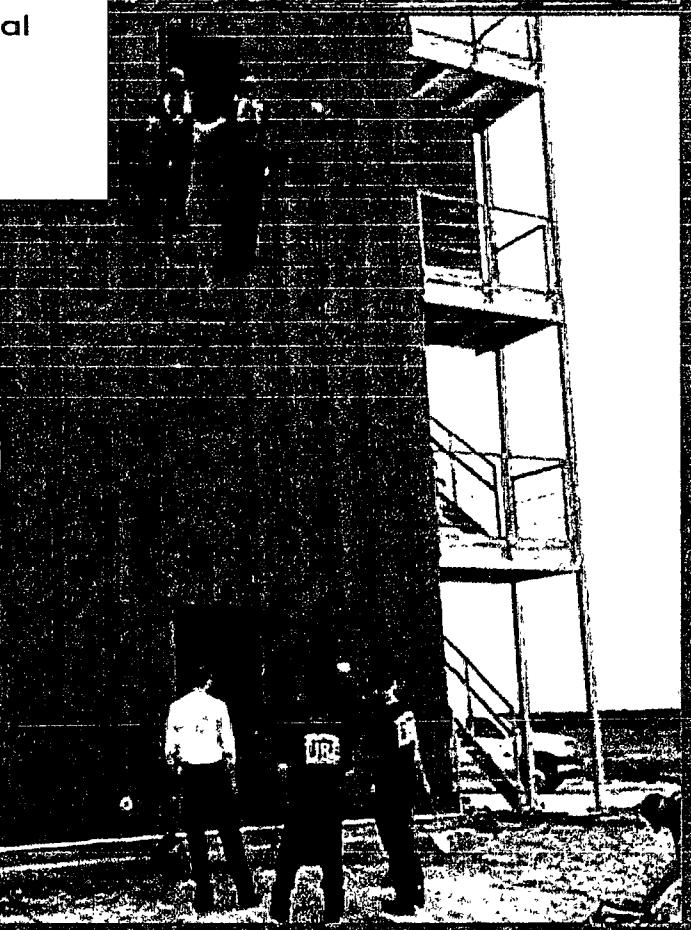
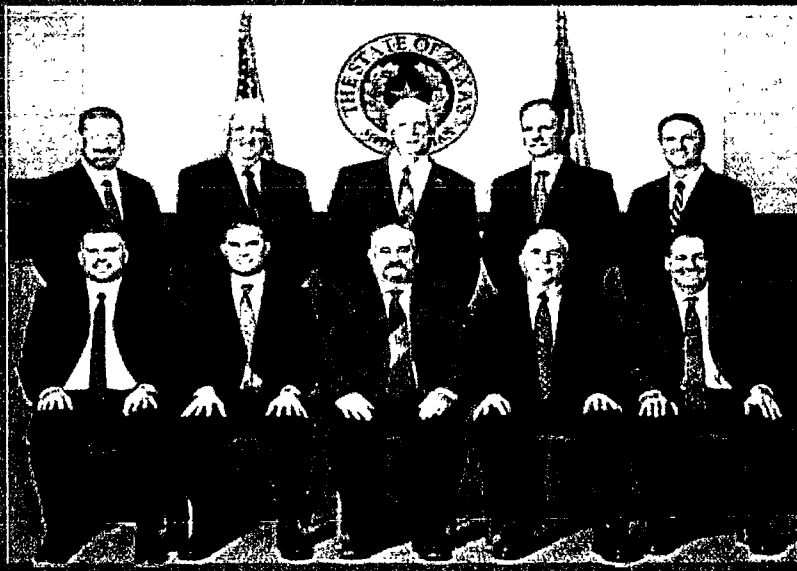
Fire Hydrant	Highway
Metric	Road
Pump Station	Railroad
Elevated Storage Tank	Stream
Water Treatment Plant	Lake
Raw Water Line	Parcel
6" and Smaller Water Line	City Limit
8" and Larger Water Line	ETJ Boundary
Under Design Construction Water Line	Other City Limit
	County Boundary



## **8. Comprehensive Financial Audit**



**CITY OF MIDLOTHIAN, TEXAS**  
**Comprehensive Annual  
Financial Report**  
**For The Year Ended  
September 30, 2019**



**CITY OF MIDLOTHIAN, TEXAS**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2019**

**As Prepared By:**

**Finance Department**

**City of Midlothian, Texas**

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**CITY OF MIDLOTHIAN, TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**SEPTEMBER 30, 2019**

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## **INTRODUCTORY SECTION**

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February 24, 2020

*Citizens of Midlothian, Honorable Mayor and Members of City Council  
City of Midlothian  
Midlothian, Texas*

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the City of Midlothian, Texas (City) for the fiscal year ended September 30, 2019.

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 it has 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.

The City's financial statements have been audited by Pattillo, Brown & Hill, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2019 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and, evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended September 30, 2019, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

### ***Profile of the City***

The City, incorporated in 1888, is located in the northwest part of Ellis County, approximately twenty-five miles southwest of Dallas, on U.S. Highway 67, and ten miles northwest of Waxahachie, on U.S. Highway 287. The City is part of the Dallas/Fort Worth Metroplex and encompasses an approximate area of 64.30 square miles, with an estimated population of 33,807. The City is empowered to levy a property tax on both real and personal properties located within its boundaries.

The City is a home rule city, operating under the Council-Manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and six other members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The council is elected on a non-partisan, at-large basis. Council members serve three (3) year staggered terms so that at least two members are elected every year.

The City provides to its citizens those services that have proven to be necessary and meaningful and which the City can provide at the lowest practicable cost. These services include police and fire protection, emergency ambulance service, water and sewer services, park and recreational facilities, street improvements, and general administrative services. The City includes all government activities, organizations and functions for which the City is financially accountable as defined by the GASB. Based on these criteria other governmental organizations are included in the City's financial statements (see Note 1B of the Notes to the Financial Statements). The discretely presented component units included are Midlothian Economic Development (MED), the Midlothian Community Development Corporation (MCDC) and the Midlothian Development Authority (MDA). The MED and MCDC are governed by separate boards, appointed by the City's elected council. Each of these entities is funded by a one half of one percent sales tax.

The Midlothian Development Authority/Tax Increment Reinvestment Zone (TIRZ) consists of a nine-member board, with five of those being appointed by the City Council. The TIRZ was created for the purpose of facilitating development of a mixed-use industrial park. From properties located within the zone, the City, Ellis County, and the Midlothian Independent School District have agreed to deposit to the TIRZ fund a certain percentage of tax collections generated from their respective taxation. The Authority issues Tax Increment Revenue Bonds to build infrastructure within or associated with the zone. The bonds are limited obligations solely of the Authority and are not obligations of the City, and do not give rise to a charge against the general taxing powers of the City.

The annual budget serves as the foundation for the City's financial planning and control. All agencies of the City are required to submit requests for appropriation to the City Manager. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the Council for review prior to August 1. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than 10 days prior to the beginning of the fiscal year by passage of a budget ordinance. Department heads may make transfers of appropriations within a department. Transfer of appropriations between departments requires the approval of the City Manager. The City Council must approve any revisions that alter the total appropriations of any fund. A budget-to-actual comparison must be provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and the Midtowne PID fund, this comparison is presented on pages 68 and 78, respectively.

### ***Economic Outlook and Financial Condition***

The information presented in the financial statements is perhaps best understood when it is considered within the context with which the City operates.

**Local economy.** Midlothian's location is served by two major highways. US Hwy 67 travels north and south, and US Highway 287 travels east to west. The City is within 15 miles of IH 35 E and IH 20. These major highways provide easy access to Dallas/Fort Worth and the surrounding Metroplex area.

Midlothian is home to a diversified group of manufacturing and distribution firms. Products manufactured range from cement to steel, a gas-fired power plant, along with retail development of food establishments, grocery stores, retail lumber and building supply store, and a new hospital. In 2019, Google began constructing a Data Center located in RailPort with total construction taking approximately five years. In addition, a new senior assisted living apartment complex is near completion. Several new restaurants, a national retail tire store, and new fast food and convenient stores opened in 2019.

The City is 54% developed with a projected 2020 growth rate of 5.53% and also benefits from a well-educated and affluent workforce. Midlothian's average household effective buying income is \$105,113.

Advanced education is available with the 2006 opening of Navarro Community College. Navarro has also partnered with Texas A&M Commerce and Tarleton State to offer a four-year degree program at the Midlothian Campus. Additional college opportunities within a 60-mile radius include Southern Methodist University, Texas Christian University, University of North Texas, University of Texas at Arlington and many others. In addition, there are several trades, industrial and technical schools located throughout the area. The Midlothian Independent School District is one of the fastest growing districts in the State of Texas, making the City a sought-after environment with small town appeal.

Air transportation is available at nearby Dallas/Fort Worth International Airport and Love Field for national and international travel. Mid-Way Regional Airport is located within three miles of downtown Midlothian, for private/commercial services. The Mid-Way airport is jointly owned by the cities of Midlothian and Waxahachie.

Medical services are available, with the largest hospital located in Ellis County, Baylor Medical Center, located within minutes of Midlothian. Services are also available through several primary care medical providers located in the City limits. The Metroplex area is served by more than seventy hospitals offering specialized services, including major trauma care. A new five story hospital, with professional medical offices is now under construction in Midlothian. The medical offices are scheduled to open in November 2020.

The City has 282 acres of undeveloped park land, and 188 acres of developed park land that provide soccer fields, baseball fields, tennis courts, and playground areas. The City also operates a sports park jointly with the Midlothian Independent School District. The voters approved a bond package in May 2006 for a new multi-use community park facility to encompass baseball, football, soccer fields and tennis courts, as well as a walking trail and picnic area. This park is expected to be approximately 104 acres when completed. The first phase of the park opened on February 3, 2017. The voters approved a bond election to fund the final phase (\$16.1 million) to complete the park. The first debt issuance in August 2018 is being used for engineering and design plans. The second debt issuance in September 2019 will be the construction phase of completing the park. Phase 2 of the park will include baseball fields, regional splash pad, amphitheater and expanded playgrounds. This project is anticipated to take approximately 18 months to completion. In addition, The Midlothian Community Development Corporation donated 6 acres of land and funded the construction of a new Dog Park which held a grand opening in January 2019. This park encompasses 3.9 acres with restrooms, a fenced concrete area with an obstacle course, an area designated for small dogs, Wi-Fi, walking trails and shade trees.

The Dallas Fort Worth Metroplex hosts several professional sports teams including the Dallas Cowboys, Dallas Mavericks, Texas Rangers and Dallas Stars. Access to these professional sports teams are within a thirty-minute drive from Midlothian. The Dallas/Fort Worth area offers a variety of cultural opportunities such as: museums, botanical gardens, Six Flags over Texas, and Texas Motor Speedway. There are several 18-hole championship golf courses located within a short driving distance of the City.

### ***Long-Term Financial Planning***

The City has a Comprehensive Plan with goals and objectives that will help to shape and direct growth and development for the next twenty years and beyond. The plan is based upon a shared vision of the citizenry and stakeholders. A new updated Comprehensive Plan was presented to the Planning and Zoning Committee and adopted by City Council on May 22, 2018. In fiscal year 2019, building permits were approved for 468 single-family homes with an estimated median value of \$223,478. There are currently 1,400 platted residential lots approved and ready to build.

The City's five-year Strategic Plan identifies personnel, equipment and capital project needs and is revised annually. The five-year plan for revenue is projected based on population estimates, along with housing and business growth. Annual population growth has averaged approximately 5-7% for the past five years. In 2019, the growth was approximately 8.8%; with a five-year growth of 33% overall due to a large annexation in 2017. Sales tax increased by 15.6% during the current year, and the economic conditions are projected to increase 32% with a budget to collect \$5,500,000 during the 19-20 fiscal year which is a large increase compared to fiscal year ended September 30, 2019. Revenue for Building permits increased by 145% compared to fiscal year end 2018 and is expected to decrease in 2019-2020. This increase is attributed to the large five story hospital and Google construction beginning in 2019.

Department Directors are responsible for reviewing historical performance measures and planning for the five-year financial needs to continue to provide the existing level of services to the citizens. The Finance Director and Budget Analyst are responsible for preparing long-term revenue and expenditure forecasts. The department performance measures are evaluated to assist with calculating long term financial needs. The un-issued debt is calculated based on construction plans and is also included in the five-year plan. This enables the City Manager and Finance Director to evaluate and forecast the tax rate for not only maintenance and operations, but for the debt as well. Capital improvements that may require a future bond election are also taken into consideration when setting long term financial plans.

The City continues to maintain a healthy fund balance. The General Fund's unassigned fund balance is \$20,070,909; of that amount, a 90 day "reserve" of \$9,168,026 for 2019-2020 budget year is maintained. Within the FY 2019-2020 budget, Council approved the use of unassigned funds for \$1,360,250 for prior year encumbrances and one-time capital expenditures.

A bond election was held in November 2017 when the voters approved a \$47,400,000 bond package for building a new fire station and firefighting training facility (\$9,100,000) constructing and improving streets (\$22,200,000) and Park construction and improvements (\$16,100,000). The first issuance was in September 2018 for \$13,525,000 to construct the fire station and training facility, engineering design of the second phase of the community park and to begin street construction. This year, the second issuance drawn from this election for \$20,220,000 for the construction phase of the park (\$13,547,400) and for street improvements (\$6,672,600).

### ***Awards and Acknowledgements***

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 for its comprehensive annual financial report for the fiscal year ended September 30, 2018. This was the fourteenth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized comprehensive annual financial report that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated October 1, 2018. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

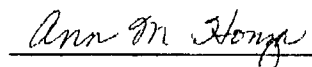
The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We wish to express our appreciation to all members of the Department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

*Respectfully submitted,*



Chris Dick, City Manager

*Chris Dick, CPA  
City Manager*



Ann Honza, CPA, Finance Director

*Ann Honza, CPA  
Finance Director/CFO/HR Director*



Government Finance Officers Association

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

Presented to

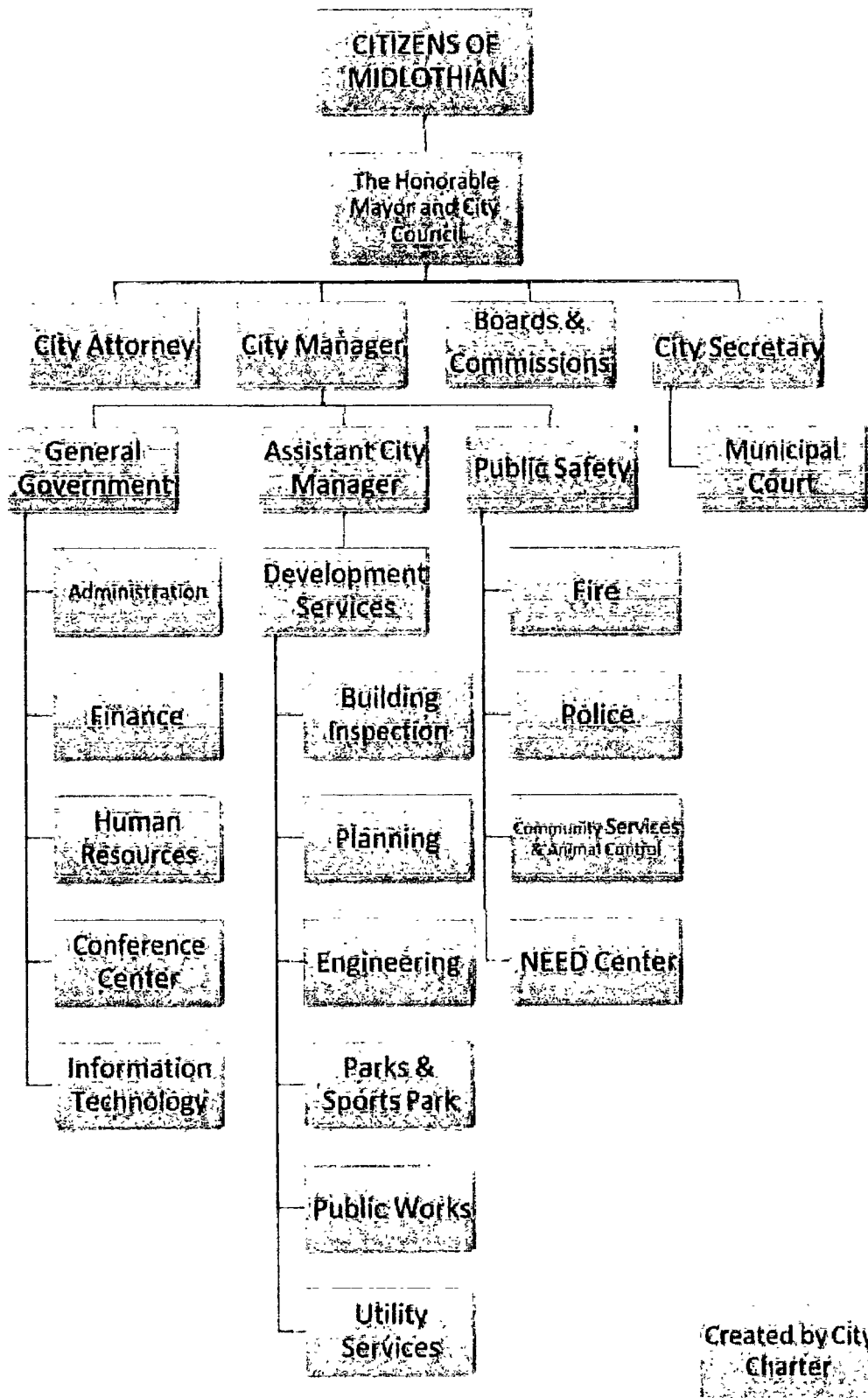
**City of Midlothian  
Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2018**

*Christopher P. Morill*

Executive Director/CEO



Created by City Charter



**CITY OF MIDLOTHIAN, TEXAS**

**PRINCIPAL OFFICERS**

**SEPTEMBER 30, 2019**

**MAYOR**

**Richard Reno**

**MAYOR PRO-TEM**

**Justin Coffman**

**CITY COUNCIL**

**Wayne Sibley  
Mike Rodgers  
Ted Miller  
Clark Wickliffe  
Art Pierard**

**CITY MANAGER**

**Chris Dick, CPA**

**FINANCE DIRECTOR/CFO/HR DIRECTOR**

**Ann Honza, CPA**

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## **FINANCIAL SECTION**

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## Independent Auditor's Report

Honorable Mayor  
and Members of the City Council  
City of Midlothian, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Midlothian, Texas, 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 as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

#### OFFICE LOCATIONS

TEXAS • Waco • Temple • Hillsboro • Houston  
NEW MEXICO • Albuquerque

## **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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, as presented 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 combining and individual nonmajor fund financial statements and schedules and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules 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 them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Pattillo, Brown & Hill, L.L.P.*

Waco, Texas  
February 24, 2020

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## CITY OF MIDLOTHIAN, TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2019

As management of the City of Midlothian (the "City"), 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.

### FINANCIAL HIGHLIGHTS

- The assets plus deferred outflows of resources of the City exceeded its liabilities plus deferred inflows of resources at the close of the most recent fiscal year by \$285,442,822 (net position). Of this amount, \$53,874,814 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net position increased by \$26,208,120 for the current fiscal year, which resulted primarily from ad valorem, sales and franchise taxes of \$35,717,261 and capital contributions of \$26,611,249.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$61,913,701. Thirty-two percent (32%) of this total amount, or \$20,070,909, is unassigned and available for use within the City's policies.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$20,070,909, or 51%, of total General Fund expenditures.
- The City's long-term debt increased \$10,740,024, or 11%, due to the issuance of debt, offset by annual principal debt payments.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City'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.

The Statement of Net Position presents information on all of the City's assets, deferred inflows/outflows of resources, and liabilities, 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 future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, public works and cultural and recreation. The business-type activities of the City include Water and Sewer operations. The government-wide financial statements can be found on pages 12–14 of this report.

## **CITY OF MIDLOTHIAN, TEXAS**

Management's Discussion and Analysis  
For the Year Ended September 30, 2019

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 of the funds of the City can be divided into two categories - governmental funds and proprietary 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 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 10 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, Debt Service, and Capital Project Funds, all of which are considered to be major funds. Data from 7 additional 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. The basic governmental funds financial statements can be found on pages 16–18.

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 an enterprise fund to account for its Water and Sewer Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer fund which is considered to be a major fund of the City. The basic proprietary fund financial statements can be found on pages 20–24 of this report.

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 to the financial statements can be found on pages 29–67.

Required Supplementary Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's pension and OPEB plans and a General Fund budgetary schedule. Required supplementary information can be found on pages 68–73 of this report.

The combining statements and individual fund schedule referred to earlier in connection with non-major governmental funds are presented following the required supplementary information. These can be found on pages 74–78 of this report.

### **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, assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$285,442,822 as of September 30, 2019.

## CITY OF MIDLOTHIAN, TEXAS

### Management's Discussion and Analysis For the Year Ended September 30, 2019

The largest portion of the City's net position \$214,312,730 (75%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), 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 future 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. Current assets increased overall by \$18,415,083 due to increased contract water sales in the Water and Sewer Fund by \$1,063,364, an increase in property and sales tax revenues by \$5,587,600, and a cash increase due to the issuance of debt of \$20,220,000. Long-term liabilities increased by \$15,133,278 for the fiscal year ended September 30, 2019 primarily due to the issuance of debt and offset by the annual principal payments for the current year.

An additional portion of the City's net position of \$17,255,278 (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position of \$53,874,814, which may be used to meet the City's ongoing obligations to citizens and creditors.

As of September 30, 2019, the City is able to report positive balances in all three categories of net position, both for the primary government as a whole, as well as for its separate governmental and business-type activities.

The following table provides a summary of the City's Statement of Net Position for the year ended September 30, 2019.

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 83,348,163	\$ 72,450,043	\$ 42,719,690	\$ 35,202,727	\$ 126,067,853	\$ 107,652,770
Capital assets	164,021,585	149,472,246	124,588,335	113,724,470	288,609,920	263,196,716
Total assets	247,369,748	221,922,289	167,308,025	148,927,197	414,677,773	370,849,486
Total deferred outflows of resources	4,665,006	2,755,565	886,210	656,912	5,551,216	3,412,477
Long-term liabilities	98,674,388	81,557,327	23,873,999	25,857,782	122,548,387	107,415,109
Other liabilities	9,166,315	4,554,605	2,955,953	1,859,755	12,122,268	6,414,360
Total liabilities	107,840,703	86,111,932	26,829,952	27,717,537	134,670,655	113,829,469
Total deferred inflows of resources	100,649	1,063,346	14,863	134,446	115,512	1,197,792
Net investment in capital assets	114,682,283	103,682,036	104,180,382	91,436,058	214,312,730	188,168,159
Restricted for						
Debt service	3,358,995	3,477,907	713,187	1,693,017	4,072,182	5,170,924
Capital improvements	-	-	12,414,828	9,569,184	12,414,828	9,569,184
Other purposes	768,268	668,437	-	-	768,268	668,437
Unrestricted (deficit)	25,283,856	29,674,196	24,041,023	19,033,867	53,874,814	55,657,998
Net position	\$ 144,093,402	\$ 137,502,576	\$ 141,349,420	\$ 121,732,126	\$ 285,442,822	\$ 259,234,702

**CITY OF MIDLOTHIAN, TEXAS**

Management's Discussion and Analysis  
For the Year Ended September 30, 2019

The following table provides a summary of the City's Statement of Activities for the year ended September 30, 2019.

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Program revenues:						
Fees, fines and charges for services	\$ 8,460,779	\$ 5,753,359	\$ 19,039,623	\$ 17,976,259	\$ 27,500,402	\$ 23,729,618
Operating grants and contributions	962,653	2,024,787	-	-	962,653	2,024,787
Capital grants and contributions	9,803,361	15,814,761	16,807,888	6,473,658	26,611,249	22,288,419
General revenues:						
Ad valorem taxes	27,778,205	22,713,070	-	-	27,778,205	22,713,070
Sales taxes	4,766,454	4,243,989	-	-	4,766,454	4,243,989
Franchise taxes	3,172,602	2,952,747	-	-	3,172,602	2,952,747
Other taxes	233,048	215,154	-	-	233,048	215,154
Investment earnings	1,258,741	539,448	819,801	452,247	2,078,542	991,695
Miscellaneous	213,194	439,006	-	-	213,194	439,006
Total revenues	<u>56,649,037</u>	<u>54,696,321</u>	<u>36,667,312</u>	<u>24,902,164</u>	<u>93,316,349</u>	<u>79,598,485</u>
Expenses:						
General government	20,548,620	8,265,542	-	-	20,548,620	8,265,542
Public safety	16,932,290	13,494,731	-	-	16,932,290	13,494,731
Public works	10,023,500	10,642,230	-	-	10,023,500	10,642,230
Cultural and recreation	2,521,015	2,210,187	-	-	2,521,015	2,210,187
Interest on long-term debt	2,628,010	2,272,564	-	-	2,628,010	2,272,564
Water and Sewer	-	-	14,454,794	13,527,539	14,454,794	13,527,539
Total expenses	<u>52,653,435</u>	<u>36,885,254</u>	<u>14,454,794</u>	<u>13,527,539</u>	<u>67,108,229</u>	<u>50,412,793</u>
Increases in net position before transfers	3,995,602	17,811,067	22,212,518	11,374,625	26,208,120	29,185,692
Transfers	<u>2,595,224</u>	<u>2,995,393</u>	<u>( 2,595,224)</u>	<u>( 2,995,393)</u>	<u>-</u>	<u>-</u>
Change in net position	6,590,826	20,806,460	19,617,294	8,379,232	26,208,120	29,185,692
Net position - beginning	137,502,576	116,410,502	121,732,126	113,276,230	259,234,702	229,686,732
Prior period adjustment	-	285,614	-	76,664	-	362,278
Net position - ending	<u>\$ 144,093,402</u>	<u>\$ 137,502,576</u>	<u>\$ 141,349,420</u>	<u>\$ 121,732,126</u>	<u>\$ 285,442,822</u>	<u>\$ 259,234,702</u>

Governmental activities - Governmental activities increased the City's net position by \$6,590,826. Overall total revenues for fiscal year 2019 were 4% higher than the previous fiscal year and the City experienced increases and decreases in several categories of revenue. The largest increase came from Ad Valorem taxes as the City has experienced growth in both residential and commercial in 18-19 construction resulting in an increase of \$5,065,135, or by 22%, along with retail growth, which has contributed to an increase in sales tax by 12%. The City has realized an increase in interest revenue due to higher interest rates compared to fiscal year-end 2018. An increase in franchise tax revenue of \$219,855 was expected due to the housing growth and thriving local economy. The City's operating expenses for 2019 increased by \$15,768,181 due to a 26.42% increase in payroll to maintain a competitive market pay, new positions in public safety, building inspections and public works. Funding was increased for 6 new police officers, two new school resource officer positions, three firefighters and one new Fire inspector new police officers and five vehicles. A new Console was budgeted to replace the old communication system in the public safety dispatch center. A 41% increase in street rehab was budgeted. Overall net position increased by \$6,590,826 due to a large increase in total assets.

## CITY OF MIDLOTHIAN, TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2019

Business-type activities - Business-type activities increased the City's net position by \$19,617,294. The increase is partly due to an increase in demand and growth from development for all business-type activities consisting primarily of water, sewer and contract water sales. There was a substantial increase of \$10,334,230 in capital contributions. A new water and sewer line relocation provided by the Midlothian Development Authority was the largest contribution. Interest revenue increased by \$367,554 (81%) due to higher interest rates. The City has three water suppliers within the City limits, which may result in growth for sewer revenue only, therefore developer contributions can fluctuate based on the geographical area of new infrastructure. Operating expenses increased by \$927,255 with a payroll increase of 4% and an increase in contractual costs to pay for sewer operations. The overall change in net position recognized an increase of \$19,617,294, which included a 6% increase in water and sewer sales, with the largest increase from capital grants and contributions.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds - The focus of the City's governmental funds is to provide information on 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 \$61,913,701. Approximately 32% of this total amount (\$20,070,909) constitutes unassigned fund balance. Restricted fund balance is primarily comprised of restrictions for capital improvements in the capital projects fund (\$31,928,611) and restricted for debt service (\$959,357). Additional restricted amounts are for police imprest/special response team, tourism, court technology and building security, and grants totaling \$768,154. The General Fund has a nonspendable amount of \$7,040 for prepaid items. In the General Fund, \$1,302,584 is assigned for community improvements, next year's budget deficit, and a conference center. Additionally, \$6,200,287 is assigned to committed construction for capital improvement projects for the 19-20 budget.

The increase in fund balance of \$4,424,946 for the General Fund is due primarily from revenues exceeding expectations. Tax collections contributed to the fund balance increase, showing an increase of 27% in the 18-19 fiscal year, which resulted from an increased tax levy, combined with growth and increased appraisal values. Sales tax also had a large increase from the prior year by 15%. Additionally, investment income was above budget expectations due to the increase in interest rates and investment opportunities. The City Council approved an increase to 15% for the use of commercial paper in the investment policy, which allowed for short-term 90-day investments to achieve better rates for cash flow needs. The expenditures were below budget due to cost fluctuations in hiring/terminations of payroll.

The fund balance for the Capital Projects Fund increased by \$12,451,031 (48%). This was due to the issuance of debt in 2019 by a voter approved 2017 bond election.

The Debt Service Fund balance increased by \$137,469 (17%) due to additional investment income and delinquent payments for tax collections.

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.

**CITY OF MIDLOTHIAN, TEXAS**

Management’s Discussion and Analysis  
For the Year Ended September 30, 2019

The unrestricted net position of the Water and Sewer Fund is \$24,041,023. Factors affecting the performance of the fund during the year include an increase in water usage and an increase in sewer collections, along with an increase in costs for the new water treatment plant.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Original Budget Compared to Final Budget - The difference between the original budgeted expenditures and the final amended budget in the General Fund was \$8,982,032 and was the result of the City Council approving budget amendments for goods or services and a one-time payout for the State of Texas highway agreement. This was a reimbursement to the Midlothian Development Authority.

Final Budget Compared to Actual Results - The increase in fund balance for the General Fund is due primarily from revenues exceeding expectations by \$1,888,323 above the budgeted amount of \$41,193,581 and expenditures fell below budgeted amount of \$41,887,942 by \$2,582,684. Tax collections contributed to the fund balance increase, exceeding budget by 5%. The main reason if for continued strong growth and increased appraisal values. Additionally, investment income was 248% above budget expectations due to the increase in interest rates. The City Council approved the use of commercial paper in the investment policy, which allowed for short term 90-day investments to achieve better rates for cash flow needs. The expenditures were below budget due to a cost saving from fluctuations in hiring/terminations of payroll.

**CAPITAL ASSETS**

The City of Midlothian’s investment in capital assets for its governmental and business-type activities as of September 30, 2019, amounts to \$288,609,920 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, infrastructure and construction in progress. The total increase in the City’s investment in capital assets for the current fiscal year was \$25,413,204, (a 10% increase for governmental activities and a 9.6% increase in business-type activities). The increase in the governmental activities is primarily from infrastructure, developer contributions, the addition of a new fire training facility, and the purchase of public safety vehicles and equipment. A significant increase for street and drainage improvements in 18-19 was from contributions by developers for \$7,621,676, and new streets and drainage rehab constructed by the City using bond funds for \$11,195,358. The increase in the business-type activities, excluding the change in accumulated depreciation, is primarily due to utility rehab construction, and developer contributions and the reline of water and sewer lines contributed by the Midlothian Development Authority \$8,692,000, water tank rehab for 9<sup>th</sup> Street and Tayman drive in the amount of \$474,128.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Land	\$ 28,308,447	\$ 26,886,003	\$ 812,778	\$ 812,778	\$ 29,121,225	\$ 27,698,781
Buildings	19,849,620	17,367,880	4,107,544	4,107,544	60,927,164	58,445,424
Equipment	18,562,752	17,012,835	5,430,941	5,387,574	23,993,693	22,400,409
Improvements	33,543,487	33,294,519	-	-	33,543,487	33,294,519
Infrastructure	150,993,481	131,728,308	72,135,819	58,861,759	223,129,300	190,590,067
Water rights	-	-	29,949,793	29,949,793	29,949,793	29,949,793
Wastewater rights	-	-	18,051,922	18,051,922	18,051,922	18,051,922
Construction in progress	7,092,486	9,542,741	1,380,109	768,565	8,472,595	10,311,306
Accumulated depreciation	( 94,328,688)	( 86,360,040)	( 44,250,571)	( 41,185,465)	( 138,579,259)	( 127,545,505)
Total	\$ <u>164,021,585</u>	\$ <u>149,472,246</u>	\$ <u>124,588,335</u>	\$ <u>113,724,470</u>	\$ <u>288,609,920</u>	\$ <u>263,196,716</u>

**CITY OF MIDLOTHIAN, TEXAS**

Management’s Discussion and Analysis  
 For the Year Ended September 30, 2019

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

- Contribution by Midlothian Development Authority for realign water/sewer line - \$8,692,001
- Tayman Drive and 9<sup>th</sup> Street Water Tank rehab - \$474,128
- Street and drainage additions (developer contributions) - \$7,621,676
- Senior Citizen’s Center expansion - \$1,250,675
- New Fire Training Facility - \$1,108,869
- Street and Drainage rehab and new streets - \$11,195,358
- New Public Safety vehicles - \$1,222,000
- Dog Park contribution by Midlothian Community Development - \$257,613

Additional information regarding the City’s capital assets can be found in Note 6 on pages 45-47 of this report.

**DEBT ADMINISTRATION**

At the end of the current fiscal year, the City had total bonded debt, notes payable, and other long-term debt of \$110,371,020.

A bond election was held in November 2017 when the voters approved a \$47,400,000 bond package for building a new fire station and firefighting training facility (\$9,100,000), constructing and improving streets (\$22,200,000), and park construction and improvements (\$16,100,000). The first issuance was in September 2018 for \$13,525,000 to construct the fire station and training facility, engineering design of the second phase of the community park and to begin street construction. The second issuance was in September 2019 for \$20,220,000 to begin construction on the community park and streets.

At September 30, 2019, the City’s long-term liabilities consisted of the following:

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Tax notes	\$ -	\$ 285,000	\$ -	\$ -	\$ -	\$ 285,000
General obligation bonds	71,113,979	60,145,864	21,075,955	10,014,057	92,189,934	70,159,921
Accreted interest	9,467,343	8,674,361	-	-	9,467,343	8,674,361
Certificates of obligation	1,670,000	1,975,000	-	-	1,670,000	1,975,000
Revenue bonds	-	-	-	14,045,000	-	14,045,000
Capital leases	612,881	-	-	-	612,881	-
Bond premiums	3,496,820	2,263,503	1,041,611	540,030	4,538,431	2,803,533
Compensated absences	1,758,666	1,551,172	133,765	137,009	1,892,431	1,688,181
<b>Total</b>	<b>\$ 88,119,689</b>	<b>\$ 74,894,900</b>	<b>\$ 22,251,331</b>	<b>\$ 24,736,096</b>	<b>\$ 110,371,020</b>	<b>\$ 99,630,996</b>

Additional information on the City’s long-term debt can be found in Note 7 on pages 48–52 of this report.

**COMPONENT UNITS**

Financial reports for the City’s component units are located at the City of Midlothian, Finance Department 104 West Ave. E Midlothian, Texas 76065.

## **CITY OF MIDLOTHIAN, TEXAS**

Management's Discussion and Analysis  
For the Year Ended September 30, 2019

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

For the 2019-2020 fiscal year, General Fund revenues and transfers in from other funds are budgeted to decrease by 11% from the 2018-2019 budgeted amounts, with property taxes making up about 46.7% of General Fund budgeted revenues. Total ad valorem tax revenues are projected to increase 12% over the preceding year. This is due to the amount of retail and residential growth in 2019. Sales tax revenue is forecasted to increase in fiscal year 2019-2020 by 32% as compared to the 18-19 budgeted amount. The City has budgeted for a 14% increase in garbage franchise tax for the 19-20 fiscal year based on current growth. Interest revenue has been budgeted to increase 78% with rates remaining healthy for 2019. Council also approved the portfolio increase from 10% to 15% for investment of commercial paper (90-day maturity restriction) in the 2018-19 Investment Policy to assist with short term investing. Licenses and Permits are budgeted to increase 56% with building permits making up 42% of this increase. The City anticipates a 5% growth rate in 2020.

The development services department expects growth for the 19-20 budget year; thus, the City budgeted a 245% increase in plan review revenues. There are 1,400 lots platted, approved and available at this time. The voters approved a \$47,400,000 bond package in November 2017 to include the final phase of the community park, street improvements and relocate and replace fire station #1. The first issuance was in August 2018, and \$20,220,000 was issued in 2019.

The City Council has begun appointing members of the community to form a bond steering committee in March 2020. This committee will review and discuss the capital improvement needs of the city and recommend a possible bond election. The City Council authorized the use of unassigned fund balance in the amount of \$1,072,230 in 2019-2020 for large capital equipment purchases and street improvements. In addition, the City continues to maintain over 180 days in fund balance which is in excess of the 90-day reserve as required in the finance policy. Certified tax values for 2019-2020 are \$4,133,383,622 less \$661,450,082 captured by the tax increment. The City Council approved a new property tax ceiling for persons age 65 years of age and older commencing with tax year 2018. This is in addition to a \$70,000 property value exemption that has been in place for many years and it was the desire of council to provide both benefits for the age 65 and older community.

The net increase in taxable value is approximately 10.6%. The tax rate for 2019-2020 is \$0.685000 per \$100 valuation, which was a slight reduction from the overall 18-19 tax rate of .708244 which was a council goal for the 19-20 budget year.

The Water and Sewer Fund is funded by water/wastewater fees and other utility services. The Water and Sewer Fund saw a 5.2% increase in utility revenues for the 2019 fiscal year as compared to fiscal year 2018. This is attributed to the growth during 2019. The City has an agreement with Trinity River Authority (TRA) to provide wastewater services at the Mountain Creek Regional Wastewater System. The water treatment plant #1 and #2 is budgeted to account for 14% of the Water and Sewer Fund expenditures, wastewater 6%, and support services 69.7%. The water operations department maintains and repairs over 100 miles of water main lines, however only accounts for 6.3% of the utility expenses. Revenues are budgeted to have a ten percent increase due to growth; however unpredicted weather patterns can contribute significantly to revenue fluctuations. The City adopted \$7,200,000 in the 19-20 budget to transfer to the Utility Capital Improvement fund. This project is for the expansion of the water plant from 8 MGD to 13 MGD. The Utility Billing department implemented WaterSmart, an online customer portal and app to assist customers with water usage, leak detection and conservation efforts. There are currently 20% of the water customers signed up for the program. The Watersmart software also has a leak detection email module which notifies any utility customer that has high usage. The city is preparing to implement a paperless system for customer accounts.

### **REQUESTS FOR INFORMATION**

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's finances. If you have questions about this report or need any additional information, contact the Department of Finance, Attn: Finance Director, at 104 W. Ave E, Midlothian, Texas 76065 or call (972) 775-3481.



## **BASIC FINANCIAL STATEMENTS**

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# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**CITY OF MIDLOTHIAN, TEXAS**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2019**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 47,643,902	\$ 8,335,515	\$ 55,979,417	\$ 18,956,144
Investments	20,379,660	14,422,970	34,802,630	23,716,757
Receivables:				
Taxes, net of allowance	209,623	-	209,623	-
Accounts, net of allowance	1,272,526	2,757,267	4,029,793	158,351
Other	-	205,952	205,952	-
Due from other governments	1,397,550	-	1,397,550	1,013,950
Direct financing lease	3,150,266	-	3,150,266	-
Note receivable	-	-	-	4,186,656
Due from component units	37,799	-	37,799	-
Internal balances	( 20,534)	20,534	-	-
Prepaid items	7,040	-	7,040	-
Restricted assets:				
Cash and cash equivalents	-	13,729,223	13,729,223	562,991
Investments	-	3,248,229	3,248,229	6,666,790
Investment in joint venture	9,270,331	-	9,270,331	-
Land/development held for sale	-	-	-	3,475,158
Capital assets:				
Nondepreciable	35,400,933	32,142,680	67,543,613	1,745,894
Depreciable, net	128,620,652	92,445,655	221,066,307	4,183,298
Total assets	<u>247,369,748</u>	<u>167,308,025</u>	<u>414,677,773</u>	<u>64,665,989</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pension	3,845,837	486,255	4,332,092	88,410
Deferred outflows related to OPEB	31,004	9,726	40,730	70
Deferred losses on bond refundings	788,165	390,229	1,178,394	1,947,351
Total deferred outflows of resources	<u>4,665,006</u>	<u>886,210</u>	<u>5,551,216</u>	<u>2,035,831</u>

CITY OF MIDLOTHIAN, TEXAS

Exhibit 1

STATEMENT OF NET POSITION

SEPTEMBER 30, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
Accounts payable	\$ 3,583,211	\$ 1,794,518	\$ 5,377,729	\$ 621,399
Accrued liabilities	568,589	52,923	621,512	-
Accrued interest payable	325,654	93,200	418,854	473,653
Retainage payable	244,990	28,371	273,361	420,875
Due to other governments	3,496	2,201	5,697	-
Due to primary government	-	-	-	37,799
Deposits payable	3,935,109	984,740	4,919,849	-
Unearned revenue	505,266	-	505,266	-
Noncurrent liabilities:				
Due within one year:				
Long-term debt	8,539,267	2,523,131	11,062,398	4,310,179
Due in more than one year:				
Long-term debt	79,580,422	19,728,200	99,308,622	36,691,239
Net pension liability	9,024,627	1,141,043	10,165,670	207,464
Total OPEB liability	<u>1,530,072</u>	<u>481,625</u>	<u>2,011,697</u>	<u>8,539</u>
Total liabilities	<u>107,840,703</u>	<u>26,829,952</u>	<u>134,670,655</u>	<u>42,771,147</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	89,687	11,339	101,026	2,062
Deferred inflows related to OPEB	<u>10,962</u>	<u>3,524</u>	<u>14,486</u>	<u>295</u>
Total deferred inflows of resources	<u>100,649</u>	<u>14,863</u>	<u>115,512</u>	<u>2,357</u>
<b>NET POSITION</b>				
Net investment in capital assets	114,682,283	104,180,382	214,312,730	5,929,192
Restricted for:				
Debt service	3,358,995	713,187	4,072,182	6,950,102
Capital improvements	-	12,414,828	12,414,828	-
Other purposes	768,268	-	768,268	10,550,373
Unrestricted	<u>25,283,856</u>	<u>24,041,023</u>	<u>53,874,814</u>	<u>498,649</u>
Total net position	<u>\$ 144,093,402</u>	<u>\$ 141,349,420</u>	<u>\$ 285,442,822</u>	<u>\$ 23,928,316</u>

Note: The City has issued bonds to acquire capital assets that are reported in business-type activities but expects the bonds to be repaid by governmental activities. Accordingly, the capital asset and related borrowing are reported in different activity columns but within the same primary government total column. As a result, the amount of net investment in capital assets and unrestricted net position do not crossfoot.

**CITY OF MIDLOTHIAN, TEXAS**

STATEMENT OF ACTIVITIES

SEPTEMBER 30, 2019

<u>Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 20,548,620	\$ 2,897,180	\$ 153,549	\$ -
Public safety	16,932,290	2,489,630	693,766	59,054
Public works	10,023,500	2,927,256	-	9,744,307
Culture and recreation	2,521,015	146,713	115,338	-
Interest on long-term debt	2,628,010	-	-	-
Total governmental activities	<u>52,653,435</u>	<u>8,460,779</u>	<u>962,653</u>	<u>9,803,361</u>
Business-type activities:				
Water and sewer	14,454,794	19,039,623	-	16,807,888
Total business-type activities	<u>14,454,794</u>	<u>19,039,623</u>	<u>-</u>	<u>16,807,888</u>
Total primary government	<u>\$ 67,108,229</u>	<u>\$ 27,500,402</u>	<u>\$ 962,653</u>	<u>\$ 26,611,249</u>
Component units:				
Midlothian Economic Development	\$ 806,908	\$ -	\$ -	\$ -
Midlothian Community Development Corporation	1,026,033	-	-	-
Midlothian Development Authority	<u>11,308,176</u>	<u>-</u>	<u>8,270,967</u>	<u>-</u>
Total component units	<u>\$ 13,141,117</u>	<u>\$ -</u>	<u>\$ 8,270,967</u>	<u>\$ -</u>
General Revenues:				
Taxes:				
Ad valorem				
Sales				
Franchise				
Other				
Grants and contributions not restricted to specific programs				
Unrestricted investment income				
Miscellaneous				
Transfers				
			Total general revenues and transfers	
				Change in net position
				Net position - beginning
				Net position - ending

**Net (Expenses) Revenues and  
Changes in Net Position**

<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>	<b>Component Units</b>
\$( 17,497,891)	\$ -	\$( 17,497,891)	\$ -
( 13,689,840)	-	( 13,689,840)	-
2,648,063	-	2,648,063	-
( 2,258,964)	-	( 2,258,964)	-
( 2,628,010)	-	( 2,628,010)	-
( 33,426,642)	-	( 33,426,642)	-
-	21,392,717	21,392,717	-
-	21,392,717	21,392,717	-
( 33,426,642)	21,392,717	( 12,033,925)	-
			( 806,908)
			( 1,026,033)
			( 3,037,209)
			( 4,870,150)
27,778,205	-	27,778,205	9,080,314
4,766,454	-	4,766,454	4,948,850
3,172,602	-	3,172,602	-
233,048	-	233,048	-
-	-	-	34,126
1,258,741	819,801	2,078,542	1,088,007
213,194	-	213,194	-
2,595,224	( 2,595,224)	-	-
40,017,468	( 1,775,423)	38,242,045	15,151,297
6,590,826	19,617,294	26,208,120	10,281,147
137,502,576	121,732,126	259,234,702	13,647,169
<u>\$ 144,093,402</u>	<u>\$ 141,349,420</u>	<u>\$ 285,442,822</u>	<u>\$ 23,928,316</u>



## CITY OF MIDLOTHIAN, TEXAS

Exhibit 3

BALANCE SHEET -  
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2019

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 11,698,674	\$ 1,006,856	\$ 34,214,174	\$ 724,198	\$ 47,643,902
Investments	14,891,185	-	5,488,475	-	20,379,660
Receivables:					
Taxes, net	84,501	80,293	-	44,829	209,623
Accounts, net	1,205,567	-	17,378	49,581	1,272,526
Due from other governments	1,390,050	-	-	7,500	1,397,550
Due from component units	37,799	-	-	-	37,799
Direct financing lease	-	3,150,266	-	-	3,150,266
Prepaid items	7,040	-	-	-	7,040
Total assets	<u>29,314,816</u>	<u>4,237,415</u>	<u>39,720,027</u>	<u>826,108</u>	<u>74,098,366</u>
<b>LIABILITIES</b>					
Accounts payable	1,907,276	47,500	1,591,129	37,306	3,583,211
Accrued liabilities	568,589	-	-	-	568,589
Due to other funds	-	-	-	20,534	20,534
Due to other governments	3,496	-	-	-	3,496
Deposits payable	3,935,109	-	-	-	3,935,109
Unearned revenue	-	505,266	-	-	505,266
Total liabilities	<u>6,414,470</u>	<u>552,766</u>	<u>1,591,129</u>	<u>57,840</u>	<u>8,616,205</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue	843,054	2,725,292	-	114	3,568,460
Total deferred inflows of resources	<u>843,054</u>	<u>2,725,292</u>	<u>-</u>	<u>114</u>	<u>3,568,460</u>
<b>FUND BALANCES</b>					
Nonspendable:					
Prepaid items	7,040	-	-	-	7,040
Restricted for:					
Law enforcement	-	-	-	293,885	293,885
Tourism	-	-	-	132,440	132,440
Court	-	-	-	127,637	127,637
City Beautification	-	-	-	55,907	55,907
Grant	-	-	-	108,971	108,971
Community improvements	-	-	-	49,314	49,314
Capital improvements	-	-	31,928,611	-	31,928,611
Debt service	-	959,357	-	-	959,357
Committed - construction projects	676,759	-	-	-	676,759
Assigned to:					
Capital improvements	-	-	6,200,287	-	6,200,287
Community improvements	13,532	-	-	-	13,532
Conference center	216,822	-	-	-	216,822
Budget deficit	1,072,230	-	-	-	1,072,230
Unassigned	20,070,909	-	-	-	20,070,909
Total fund balances	<u>22,057,292</u>	<u>959,357</u>	<u>38,128,898</u>	<u>768,154</u>	<u>61,913,701</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 29,314,816</u>	<u>\$ 4,237,415</u>	<u>\$ 39,720,027</u>	<u>\$ 826,108</u>	<u>\$ 74,098,366</u>

**CITY OF MIDLOTHIAN, TEXAS**

**Exhibit 4**

RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2019

Total fund balances - governmental funds	\$	61,913,701
Amounts reported for governmental activities in the statement of net position are different because:		
The investment in joint venture is not a current financial resource and, therefore, is not reported in the governmental funds balance sheet.		9,270,331
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.		164,021,585
Deferred losses on refundings of debt are not recognized on the balance sheet for governmental funds.		788,165
Interest payable on long-term debt does not require current financial resources, and, therefore, is not reported as a liability in the governmental funds balance sheet.	(	325,654)
Revenues earned but not available within sixty days of the fiscal year-end are not recognized as revenue in the fund financial statements.		3,568,460
Deferred inflows and outflows related to pensions and OPEB are not recognized on the governmental funds balance sheet.		3,776,192
Compensated absences, other post-employment benefits, net pension liability and certain retainage payable are not due and payable in the current period and therefore are not reported in the fund financial statements.		
Retainage payable	(	244,990)
Net pension liability	(	9,024,627)
Total OPEB liability	(	1,530,072)
Compensated absences	(	1,758,666)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the fund financial statements.	(	<u>86,361,023)</u>
Net position of governmental activities	\$	<u>144,093,402</u>

CITY OF MIDLOTHIAN, TEXAS

Exhibit 5

STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2019

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 22,167,358	\$ 12,184,593	\$ -	\$ 228,955	\$ 34,580,906
Licenses and permits	3,956,922	-	-	-	3,956,922
Intergovernmental	12,030,853	50,000	103,549	158,263	12,342,665
Charges for services	1,720,295	-	-	73,186	1,793,481
Fines	644,708	-	-	-	644,708
Investment income	559,898	114,207	573,555	11,091	1,258,751
Contributions and donations	22,250	-	700,188	157,432	879,870
Direct financing lease	-	299,775	-	-	299,775
Miscellaneous	91,297	84,364	-	-	175,661
Total revenues	<u>41,193,581</u>	<u>12,732,939</u>	<u>1,377,292</u>	<u>628,927</u>	<u>55,932,739</u>
<b>Expenditures</b>					
Current:					
General government	14,535,943	-	105,989	591,098	15,233,030
Public safety	17,130,165	-	-	-	17,130,165
Public works	4,155,998	-	-	-	4,155,998
Culture and recreation	1,648,188	-	-	-	1,648,188
Intergovernmental:					
Payment to TIRZ	1,834,964	801,678	-	-	2,636,642
Capital outlay	-	-	10,897,558	-	10,897,558
Debt service:					
Principal retirement	-	9,841,885	-	-	9,841,885
Interest charges	-	1,764,069	-	-	1,764,069
Fiscal agent's fees and debt issuance costs	-	17,388	392,908	-	410,296
Total expenditures	<u>39,305,258</u>	<u>12,425,020</u>	<u>11,396,455</u>	<u>591,098</u>	<u>63,717,831</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,888,323</u>	<u>307,919</u>	<u>(10,019,163)</u>	<u>37,829</u>	<u>( 7,785,092)</u>
<b>Other financing sources (uses)</b>					
Issuance of debt	-	-	20,220,000	-	20,220,000
Insurance recoveries	-	-	-	13,752	13,752
Bond premium	-	-	1,456,936	-	1,456,936
Capital lease	612,881	-	-	-	612,881
Transfers in	2,855,236	-	846,820	84,674	3,786,730
Transfers out	( 931,494)	( 170,450)	( 53,562)	( 36,000)	( 1,191,506)
Total other financing sources (uses)	<u>2,536,623</u>	<u>( 170,450)</u>	<u>22,470,194</u>	<u>62,426</u>	<u>24,898,793</u>
<b>Net change in fund balances</b>	4,424,946	137,469	12,451,031	100,255	17,113,701
<b>Fund balances - beginning</b>	<u>17,632,346</u>	<u>821,888</u>	<u>25,677,867</u>	<u>667,899</u>	<u>44,800,000</u>
<b>Fund balances - ending</b>	<u>\$ 22,057,292</u>	<u>\$ 959,357</u>	<u>\$ 38,128,898</u>	<u>\$ 768,154</u>	<u>\$ 61,913,701</u>

**CITY OF MIDLOTHIAN, TEXAS**

**Exhibit 6**

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

SEPTEMBER 30, 2019

Net change in fund balances - total governmental funds \$ 17,113,701

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital outlay in the current period. 14,675,018

Depreciation expense on capital assets is reported in the statement of activities, and does not require the use of current financial resources; therefore, depreciation expense is not reported as expenditures in the governmental funds. ( 9,083,137)

Governmental funds do not recognize capital assets contributed by developers, component units or other fund types. However, in the statement of activities the acquisition value of those assets are recognized as revenue, then allocated over their estimated useful lives and reported as depreciation expense. 9,057,594

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position. ( 13,346)

The investment in joint venture reported in the statement of net position does not require the use of current financial resources; therefore, the current year net change in the investment is not reported in the governmental funds. 15,535

The issuance of long-term debt (e.g. bonds) 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 the 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.

    Issuance of debt ( 22,289,817)

    Repayment of principal of long-term debt 9,841,885

    Amortization of:

        Premium on bond issuance ( 569,363)

        Loss on refunding ( 219,438)

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 until they are paid. These expenses relate to the following:

    Compensated absences liability ( 207,494)

    Net pension liability ( 652,176)

    Total OPEB liability ( 148,520)

Current year changes in accrued interest payable do not require the use of current financial resources; therefore, they are not reported as expenditures in the ( 75,140)

Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. ( 10,854,476)

    Change in net position of governmental activities \$ 6,590,826

CITY OF MIDLOTHIAN, TEXAS

Exhibit 7

STATEMENT OF FUND NET POSITION -  
 PROPRIETARY FUND

SEPTEMBER 30, 2019

	<u>Water and Sewer Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 8,335,515
Investments	14,422,970
Receivables:	
Accounts receivable, net	2,757,267
Other receivables	205,952
Due from other governments	20,534
Restricted assets:	
Cash and cash equivalents	13,729,223
Investments	3,248,229
Total current assets	<u>42,719,690</u>
Noncurrent assets:	
Capital assets:	
Land and land improvements	812,778
Construction in progress	1,380,109
Buildings and improvements	41,077,544
Waterworks and sewer system	72,135,819
Machinery and equipment	5,430,941
Water and wastewater rights	48,001,715
Accumulated depreciation	( 44,250,571)
Total capital assets, net of accumulated depreciation	<u>124,588,335</u>
Total noncurrent assets	<u>124,588,335</u>
<b>TOTAL ASSETS</b>	<u>167,308,025</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pension	486,255
Deferred outflows related to OPEB	9,726
Deferred loss on refunding	<u>390,229</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>886,210</u>

**CITY OF MIDLOTHIAN, TEXAS**

**Exhibit 7**

STATEMENT OF FUND NET POSITION -  
 PROPRIETARY FUND

SEPTEMBER 30, 2019  
 (Continued)

	<u>Water and Sewer Fund</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 1,822,889
Accrued liabilities	52,923
Accrued interest payable	93,200
Due to other governments	2,201
Customer deposits	984,740
Noncurrent liabilities due within one year:	
Long-term debt	<u>2,523,131</u>
Total current liabilities	<u>5,479,084</u>
Noncurrent liabilities due in more than one year:	
Long-term debt	19,728,200
Net pension liability	1,141,043
Total OPEB liability	<u>481,625</u>
Total noncurrent liabilities	<u>21,350,868</u>
<b>TOTAL LIABILITIES</b>	<u>26,829,952</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pension	11,339
Deferred inflows related to OPEB	<u>3,524</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>14,863</u>
<b>NET POSITION</b>	
Net investment in capital assets	104,180,382
Restricted for:	
Debt service	713,187
Capital improvements	12,414,828
Unrestricted	<u>24,041,023</u>
<b>TOTAL NET POSITION</b>	<u>\$ 141,349,420</u>

**CITY OF MIDLOTHIAN, TEXAS**

**Exhibit 8**

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

SEPTEMBER 30, 2019

	<u>Water and Sewer Fund</u>
<b>Operating revenues</b>	
Water sales	\$ 11,542,724
Sewer sales	7,025,544
Tap fees, penalties and other	471,355
Total operating revenue	<u>19,039,623</u>
<b>Operating expenses</b>	
Cost of sales and services	8,455,846
Administrative	1,380,263
Depreciation	3,725,195
Total operating expenses	<u>13,561,304</u>
Operating income	5,478,319
<b>Nonoperating revenues (expenses)</b>	
Investment income	819,801
Interest expense and agent fees	( 876,632)
Loss on the disposal of assets	( 16,858)
Total nonoperating revenues (expenses)	<u>( 73,689)</u>
Income before contributions and transfers	5,404,630
Capital contributions	16,807,888
Transfers in	1,324,074
Transfers out	<u>( 3,919,298)</u>
Change in net position	19,617,294
<b>Net position - beginning</b>	<u>121,732,126</u>
<b>Net position - ending</b>	<u>\$ 141,349,420</u>

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**CITY OF MIDLOTHIAN, TEXAS**

**Exhibit 9**

STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND

SEPTEMBER 30, 2019

	<u>Water and Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 18,851,982
Cash paid to employees	( 2,254,219)
Cash paid to suppliers	<u>( 6,461,232)</u>
Net cash provided by operating activities	<u>10,136,531</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	1,324,074
Transfers to other funds	<u>( 3,919,298)</u>
Net cash used in noncapital financing activities	<u>( 2,595,224)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from capital related debt	14,248,742
Principal paid on debt	( 16,613,102)
Interest and fees paid on debt	( 959,109)
Acquisition and construction of capital assets	( 3,141,366)
Capital contributions	<u>5,343,336</u>
Net cash used in capital and related financing activities	<u>( 1,121,499)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from investments	16,163,649
Purchases of investments	( 18,411,253)
Interest on investments	<u>819,801</u>
Net cash used in investing activities	<u>( 1,427,803)</u>
Net change in cash	4,992,005
Cash and cash equivalents, beginning of year	<u>17,072,733</u>
Cash and cash equivalents, end of year	\$ <u>22,064,738</u>

CITY OF MIDLOTHIAN, TEXAS

Exhibit 9

STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND

SEPTEMBER 30, 2019

(continued)

	<u>Water and Sewer Fund</u>		<u>Statement of</u>
	<u>Current</u>	<u>Restricted</u>	<u>Cash Flows</u>
	<u>Assets</u>	<u>Assets</u>	<u>Totals</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF NET POSITION</b>			
Cash and cash equivalents - beginning	\$ 8,212,204	\$ 8,860,529	\$ 17,072,733
Net change	<u>123,311</u>	<u>4,868,694</u>	<u>4,992,005</u>
Cash and cash equivalents - ending	<u>\$ 8,335,515</u>	<u>\$ 13,729,223</u>	<u>\$ 22,064,738</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
			<b><u>Water and</u></b>
			<b><u>Sewer Fund</u></b>
Operating income			\$ 5,478,319
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation			3,725,195
Change in assets and liabilities:			
Decrease (increase) in customer receivable			( 527,278)
Decrease (increase) in other receivable			249,924
Increase (decrease) in accounts payable			994,708
Increase (decrease) in other liabilities			29
Increase in customer deposits			89,713
Increase (decrease) in compensated absences			( 3,244)
Increase (decrease) in net pension liability			85,983
Increase (decrease) in total OPEB liability			<u>43,182</u>
Net cash provided by operating activities			<u>\$ 10,136,531</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>			
Donations of capital assets			<u>\$ 11,464,552</u>

**CITY OF MIDLOTHIAN, TEXAS**

**Exhibit 10**

COMBINING STATEMENT OF NET POSITION  
DISCRETELY PRESENTED COMPONENT UNITS

SEPTEMBER 30, 2019

	<b>Midlothian Economic Development</b>	<b>Midlothian Community Development Corporation</b>	<b>Midlothian Development Authority</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,720,525	\$ 4,261,423	\$ 9,974,196	\$ 18,956,144
Investments	2,475,727	1,501,528	19,739,502	23,716,757
Receivables, net of allowance:				
Accounts receivable	24,158	11,160	123,033	158,351
Due from other governments	506,983	506,967	-	1,013,950
Notes	-	4,186,656	-	4,186,656
Land/development held for sale	3,475,158	-	-	3,475,158
Restricted assets:				
Cash and cash equivalents, restricted	-	-	562,991	562,991
Investments, restricted	-	-	6,666,790	6,666,790
Capital assets:				
Land	141,006	26,095	-	167,101
Buildings and improvements	7,540	-	-	7,540
Furniture and fixtures	5,516	-	-	5,516
Infrastructure	-	-	7,693,429	7,693,429
Construction in progress	-	-	1,578,793	1,578,793
Accumulated depreciation	<u>( 13,056)</u>	<u>-</u>	<u>( 3,510,131)</u>	<u>( 3,523,187)</u>
Total assets	<u>11,343,557</u>	<u>10,493,829</u>	<u>42,828,603</u>	<u>64,665,989</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pension	88,410	-	-	88,410
Deferred outflows related to OPEB	70	-	-	70
Deferred outflows related to loss on refunding	<u>-</u>	<u>48,959</u>	<u>1,898,392</u>	<u>1,947,351</u>
Total deferred outflows of resources	<u>88,480</u>	<u>48,959</u>	<u>1,898,392</u>	<u>2,035,831</u>

CITY OF MIDLOTHIAN, TEXAS

Exhibit 10

COMBINING STATEMENT OF NET POSITION  
DISCRETELY PRESENTED COMPONENT UNITS  
(Continued)  
SEPTEMBER 30, 2019

	<b>Midlothian Economic Development</b>	<b>Midlothian Community Development Corporation</b>	<b>Midlothian Development Authority</b>	<b>Total</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 12,173	\$ 825	\$ 608,401	\$ 621,399
Accrued interest payable	108,221	21,687	343,745	473,653
Due to primary government	29,850	4,817	3,132	37,799
Retainage payable	-	-	420,875	420,875
Noncurrent liabilities:				
Due within one year:				
Long-term debt	485,179	500,000	3,325,000	4,310,179
Due in more than one year				
Long-term debt	5,260,186	4,616,053	26,815,000	36,691,239
Net pension liability	207,464	-	-	207,464
Total OPEB liability	<u>8,539</u>	<u>-</u>	<u>-</u>	<u>8,539</u>
Total liabilities	<u>6,111,612</u>	<u>5,143,382</u>	<u>31,516,153</u>	<u>42,771,147</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pension	2,062	-	-	2,062
Deferred inflows related to OPEB	<u>295</u>	<u>-</u>	<u>-</u>	<u>295</u>
Total deferred inflows of resources	<u>2,357</u>	<u>-</u>	<u>-</u>	<u>2,357</u>
<b>NET POSITION</b>				
Net investment in capital assets	141,006	26,095	5,762,091	5,929,192
Restricted for debt service	-	-	6,950,102	6,950,102
Restricted for economic development	5,177,062	5,373,311	-	10,550,373
Unrestricted	<u>-</u>	<u>-</u>	<u>498,649</u>	<u>498,649</u>
Total net position	<u>\$ 5,318,068</u>	<u>\$ 5,399,406</u>	<u>\$ 13,210,842</u>	<u>\$ 23,928,316</u>

**CITY OF MIDLOTHIAN, TEXAS**

COMBINING STATEMENT OF ACTIVITIES  
DISCRETELY PRESENTED COMPONENT UNITS

SEPTEMBER 30, 2019

	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expenses) Revenues and Change in Net Position</u>	
		<u>Operating Grants and Contributions</u>	<u>Midlothian Economic Development</u>	<u>Midlothian Community Development Corporation</u>
<b>Midlothian Economic Development</b>				
General government	\$ 584,954	\$ -	\$( 584,954)	\$ -
Interest on long-term debt	<u>221,954</u>	<u>-</u>	<u>( 221,954)</u>	<u>-</u>
Total Midlothian Economic Development	<u>806,908</u>	<u>-</u>	<u>( 806,908)</u>	<u>-</u>
<b>Midlothian Community Development Corporation</b>				
General government	783,142	-	-	( 783,142)
Interest on long-term debt	<u>242,891</u>	<u>-</u>	<u>-</u>	<u>( 242,891)</u>
Total Midlothian Community Development Corporation	<u>1,026,033</u>	<u>-</u>	<u>-</u>	<u>( 1,026,033)</u>
<b>Midlothian Development Authority</b>				
General government	1,600,669	8,270,967	-	-
Public works	8,692,001	-	-	-
Interest on long-term debt	<u>1,015,506</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Midlothian Development Authority	<u>11,308,176</u>	<u>8,270,967</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 13,141,117</u>	<u>\$ 8,270,967</u>	<u>\$( 806,908)</u>	<u>\$( 1,026,033)</u>
General revenues:				
Ad valorem taxes			\$ -	\$ -
Sales taxes			2,474,425	2,474,425
Grants and contributions not restricted to specific programs			-	-
Unrestricted investment income			<u>144,976</u>	<u>204,307</u>
			<u>2,619,401</u>	<u>2,678,732</u>
Change in net position			1,812,493	1,652,699
Net position - beginning			<u>3,505,575</u>	<u>3,746,707</u>
Net position - ending			<u>\$ 5,318,068</u>	<u>\$ 5,399,406</u>

**Net (Expenses) Revenues  
and Change in Net Position**

<u>Midlothian Development Authority</u>	<u>Total</u>
\$ -	\$ ( 584,954)
-	( 221,954)
-	( 806,908)
-	( 783,142)
-	( 242,891)
-	( 1,026,033)
6,670,298	6,670,298
( 8,692,001)	( 8,692,001)
( 1,015,506)	( 1,015,506)
( 3,037,209)	( 3,037,209)
\$( 3,037,209)	\$( 4,870,150)
\$ 9,080,314	\$ 9,080,314
-	4,948,850
34,126	34,126
738,724	1,088,007
9,853,164	15,151,297
6,815,955	10,281,147
6,394,887	13,647,169
\$ 13,210,842	\$ 23,928,316

## **NOTES TO FINANCIAL STATEMENTS**

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**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the City**

The City of Midlothian (the City) is a "home rule city" incorporated in 1888. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, water and sewer, public improvements, planning and zoning, and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB). The more significant accounting policies of the City are described below.

**B. Financial Reporting Entity**

As required by accounting principles generally accepted in the United States of America, these financial statements include the primary government and organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the primary government. Complete financial statements for the individual component units may be obtained at the City's office; 104 W. Avenue E, Midlothian, TX 76065.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**Discretely Presented Component Units**

The following entities were found to be component units of the City and are included in the basic financial statements:

Midlothian Economic Development (MED) serves all citizens of the City and is governed by a board appointed by the City's elected council. The City can impose its will on the MED and affect the day-to-day operations of the MED by removing appointed board members at will. The scope of public service of the MED benefits the City and its citizens and is operated primarily within the geographic boundaries of the City.

The Midlothian Community Development Corporation (MCDC) serves all citizens of the City and is governed by a board appointed by the City's elected council. The City can impose its will on the MCDC and affect the day-to-day operations of the MCDC by removing appointed board members at will. The scope of public service of the MCDC benefits the City and its citizens and is operated primarily within the geographic boundaries of the City.

The Midlothian Development Authority (MDA) serves all citizens of the City and is governed by a nine-member board, five of which are appointed by the City's elected council. The City can impose its will on the MDA and affect the day-to-day operations of the MDA by removing appointed board members at will. The scope of public service of the MDA benefits the City and its citizens and is operated primarily within the geographic boundaries of the City and Tax Increment Reinvestment Zone No. 2.

**C. Government-Wide and Fund Financial Statements**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Fund Financial Statements**

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all nonmajor funds are aggregated and presented in a single column.

**CITY OF MIDLOTHIAN, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS

**Governmental Funds**

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

**General Fund**

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

**Debt Service Fund**

The Debt Service Fund is used to account for the accumulation of 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 of the Debt Service Fund is restricted to signify the amounts that are restricted exclusively for debt service expenditures.

**Capital Projects Fund**

The Capital Projects Fund is used to account for funds received and expended for the construction and renovation of thoroughfares, arterial streets and drainage improvements in the City and construction, renovation, expansion and major improvement of various City facilities, acquisition of land and other large nonrecurring projects.

In addition, the City presents the following nonmajor governmental funds:

**Police Imprest Fund**

The Police Imprest Fund is used to account for funds accumulated through restricted police forfeitures.

**Hotel / Motel Tax Fund**

The Hotel / Motel Tax Fund was established to account for local hotel and motel occupancy tax receipts which are restricted by state statute.

**City Beautification Fund**

The City Beautification Fund was established to account for monies collected from the leasing of kiosks to be used for the beautification of the City of Midlothian.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**MidTowne PID**

This fund was established to account for the restricted revenues and expenditures associated with the MidTowne Public Improvement District (PID). The MidTowne PID was established as part of the MidTowne Planned Development District (PD-42) to fund improvements and/or services undertaken by the district for the benefit of property owners within the district.

**Municipal Court Fund**

The Municipal Court Fund was established to account for the accumulation of funds to be used for court building security, court technology, judicial efficiency and child safety programs which are restricted by state statute.

**Police Regional Response Fund**

The SRRG/SRT (Southern Regional Response Group) is a mutual aid agreement to enhance emergency planning and response capabilities. Participating cities recognize that this agreement will allow for better coordination of effort to provide adequate equipment and personnel to respond to incidents requiring a specialized police response. This interlocal cooperation agreement was adopted by City Council with limitations for use of incidents involving hostage, terrorists and live shooter scenarios.

**Grant Fund**

The Grant Fund was established to account for various grants with which the City of Midlothian participates. These funds are restricted by federal, state, or local awarding entity.

**Proprietary Fund**

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary fund:

**Water and Sewer Fund**

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of long-term debt principal and interest for water and sewer debt. The majority of costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary, to ensure integrity of the funds.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions for the proprietary funds include contributions of capital assets and impact fees.

**D. Measurement Focus and Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and deferred outflows of resources, and liabilities and deferred inflows of resources (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

**E. Cash and Investments**

The City's cash and cash equivalents includes cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Because the City, at its option, can withdraw funds within a twenty-four hour period from TexPool and TexSTAR, investments in TexPool and TexSTAR are considered to be cash equivalents. Investments for the City are reported at fair value, except for the position in investment pools.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligation of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (A) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (B) secured by obligations that are described by (1) – (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1), pledged with third party selected or approved by the City, and placed through a primary government securities dealer. The City's investments are governed by the same state statutes.

Investments are generally recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

**F. Inventory and Prepaid Items**

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Prepaid items represent costs such as postage deferred to subsequent periods.

**G. Interfund Receivables and Payables**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements; however, interfund services that are provided and used are not eliminated in the process of consolidation. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

**H. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on general capital assets.

Assets capitalized have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	10-40 Years
Improvements other than buildings	10-40 Years
Water and Sewer System	40 Years
Infrastructure	7-20 Years
Machinery and Equipment	3-20 Years
Wastewater rights	40 Years

**CITY OF MIDLOTHIAN, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS

**I. Accumulated Vacation, Compensated Time and Sick Leave**

All full-time employees are granted vacation and other leave time benefits, and compensatory time for overtime worked by non-exempt (hourly) employees in varying amounts. In the event of termination, an employee is entitled to receive accumulated vacation and compensatory pay. Accumulated vacation pay for all full-time employees and compensatory pay for all non-exempt employees are recorded in the government-wide statements for governmental funds and at the fund level for proprietary funds. Vested or accumulated vacation leave are recorded as an expense and liability of those funds as the benefits accrue to employees.

**J. Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent debt 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.

**K. Joint Venture**

The Midlothian/Waxahachie Airport Joint Venture was created by an agreement in 1989. Under the agreement, both cities equally share ownership, rights and obligations. The City recognizes its joint venture equity in the government-wide financial statements. Increases and decreases from operations of the joint venture are included in fees, fines and charges for services and expenses of the general government activity, respectively. Summary financial information of the joint venture is included in Note 12.

**L. Fund Equity**

The following classifications describe the relative strength of the spending constraints:

- **Nonspendable fund balance** - amounts that are not in spendable form (such as inventory or prepaids) or are required to be maintained intact.
- **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.
- **Committed fund balance** - amounts constrained to specific purposes by the City Council, using its highest level of decision-making authority (i.e., resolution). To be reported as committed, amounts cannot be used for any other purpose unless the City Council takes the same highest-level action by a resolution to remove or change the constraint.
- **Assigned fund balance** - amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. The City Council has given this authority to the Assistant City Manager.
- **Unassigned fund balance** - amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

City Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

In circumstances where an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the order for which amounts will be expended is as follows: restricted, followed by committed, assigned and lastly unassigned.

In the General Fund, the City adopted a policy by resolution to maintain an unassigned fund balance to be used for unanticipated emergencies of at least 25% of the actual GAAP basis expenditures and other financing uses.

**M. Pensions**

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City-specific information about its fiduciary net position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

**N. Other Post-Employment Benefits (OPEB)**

For purposes of measuring the total OPEB liability under the Retiree Health Care Plan (RHCP), related deferred outflows and inflows of resources, and total OPEB expense, information about the plan is provided through a report prepared for the City provided by the City's actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Similarly, information concerning the total OPEB liability, related deferred outflows and inflows of resources, and total OPEB expense, for the Texas Municipal Retirement System Supplemental Death Benefit Fund (SDBF), is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Statement No. 75.



**CITY OF MIDLOTHIAN, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS

**O. Property Taxes and Other Receivables**

The City's property tax is levied each October 1, on the assessed value listed as of the prior January 1 for all real property located in the City. The appraisal of property within the City is the responsibility of the Ellis Central Appraisal District as required by legislation passed by the Texas Legislature. The Appraisal Districts are required under such legislation to assess all property within their Appraisal District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The assessed value upon which the completed tax year 2018 levy was based was approximately \$3,694,812,190. The value of property within the Appraisal District must be reviewed every five 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.

General property taxes are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The combined tax rate to finance general governmental service and debt service for the year ended September 30, 2019, was \$0.708244 per \$100 of assessed valuation.

Property taxes attach as an enforceable lien on property as of January 1 following the levy date. Taxes are due by January 31 following the levy date. Tax liens are automatic on January 1, each year. Penalties and interest are included for any payment received after January 31.

Property taxes levied for 2019 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during 2019 and those considered "available" at year-end are recognized as revenues in 2019. The City considers property taxes available if they are collected within 60 days after year-end. Prior year levies were recorded using these same principles. The remaining receivables are reflected as deferred inflows of resources in the fund financial statements.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is based on the average collection rate of delinquent taxes over the last 10 years. All other allowances for uncollectible accounts are based on historical collection rates.

Property taxes are imposed nonexchange revenue. Assets from imposed nonexchange transactions are recorded when the entity has enforceable legal claim to the asset, or when the entity receives resources, whichever comes first. The enforceable legal claim date for property taxes is the assessment date. The assessment date has been designated in the enabling legislation as October 1.

**P. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial 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.

- Deferred loss on debt refundings – 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.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

- Pension and OPEB (Other Post-Employment Benefits) contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Differences between expected and actual economic experience for the City's pension and OPEB – These effects on the net pension liability and total OPEB liability are deferred and amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension and OPEB plans (active employees and inactive employees).
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.
- Changes of economic and demographic actuarial assumptions or of other inputs included in determining the OPEB liability – These effects are deferred and amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees).

In addition to liabilities, the statement of 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 types of items that qualify for reporting in this category.

- Differences between expected and actual economic experience for the City's pension and OPEB – These effects on the net pension liability and total OPEB liability are deferred and amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension and OPEB plans (active employees and inactive employees).
- Changes of economic and demographic actuarial assumptions or of other inputs included in determining the pension liability and OPEB liability – These effects on the net pension liability and total OPEB liability are deferred and amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension and OPEB plans (active employees and inactive employees).
- Unavailable revenue – arises only under the modified accrual basis of accounting and is reported in the governmental funds balance sheet. These are balances that do not meet the availability criteria for revenue recognition.

**Q. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS**

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

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

The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Cash and investments as of September 30, 2019, are classified in the accompanying financial statements as follows:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	3 years	80%	None
U.S. Agencies and Instrumentalities	3 years	75%	None
Fully Insured or collateralized Certificates of Deposits	2 years	40%	None
Repurchase Agreements	180 days	10%	None
Money Market Funds	None	40%	None
Local Government Investment Pools	2 years	100%	10% of Pool
State and Local government GO debt	3 years	40%	None
Commercial Paper	90 days	15%	None

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Cash and investments as of September 30, 2019, consist of the following:

Statement of net position:	
Primary Government:	
Cash and cash equivalents	\$ 55,979,417
Investments	34,802,630
Restricted cash and cash equivalents	13,729,223
Restricted investments	<u>3,248,229</u>
Total primary government	<u>\$ 107,759,499</u>
Component Units:	
Cash and cash equivalents	\$ 19,519,135
Investments	<u>30,383,547</u>
Total component units	<u>\$ 49,902,682</u>
Primary Government:	
Deposits with financial institutions	\$ 19,687,872
Texpool	44,093,994
TexSTAR	3,937,167
Government agency notes	18,962,604
Certificates of deposit	19,088,255
Commercial Paper	<u>1,989,607</u>
Total cash and investments	<u>\$ 107,759,499</u>

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter-term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets and liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included in Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

As of September 30, 2019, the City had the following cash and investments:

	9/30/2019	Fair Value Measurements Using		Weighted Average Maturity (Days)
		Level 1	Level 2	
Cash and cash equivalents.				
Deposits with financial institutions	\$ 19,687,872			
Commercial Paper	<u>1,989,607</u>	\$ -	\$ 1,989,607	69
Total cash and cash equivalents	<u>\$ 21,677,479</u>	<u>\$ -</u>	<u>\$ 1,989,607</u>	
Investments measured at net asset value:				
Investment pools:				
Texpool	\$ 44,093,994			34
TexSTAR	<u>3,937,167</u>			115
Total investments measured at net asset value	<u>\$ 48,031,161</u>			
Investments by fair value level:				
U.S. Agency Securities:				
U.S. Treasury	\$ 1,998,283	\$ 1,998,283		10
Federal Farm Credit Bank	11,993,137	7,997,223	\$ 3,995,914	221
Federal National Mortgage Association	4,971,184		4,971,184	120
Certificate of deposit	<u>19,088,255</u>	<u>-</u>	<u>19,088,255</u>	132
Total investments by fair value	<u>\$ 38,050,859</u>	<u>\$ 9,995,506</u>	<u>\$ 28,055,353</u>	701
Total cash and investments	<u>\$ 107,759,499</u>	<u>\$ 9,995,506</u>	<u>\$ 30,044,960</u>	

Of the investments categorized by fair value level, \$30,044,960 were priced using the present value of expected future cash flows and \$9,995,506 were priced using documented trade history in the exact security.

As of September 30, 2019, the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
Texpool	\$ 44,093,994	N/A	AAAm
TexSTAR	3,937,167	N/A	AAAm
Government agency notes	18,962,604	N/A	AAA
Commercial Paper	1,989,607	N/A	A1/P1
Certificates of deposit	<u>19,088,255</u>	N/A	Not rated
Total	<u>\$ 88,071,627</u>		

**Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer with the exception of investment pools, which are limited to 10% of the total funds held by the investment pool. As of September 30, 2019, the certificates of deposit exceed 5% of total investments and are held by more than one issuer. Each issuer holds amounts exceeding 5% of total investments. In addition, the funds at external investment pools and the government agency notes also represent over 5% of investments held by one issuer.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

**CITY OF MIDLOTHIAN, TEXAS**  
NOTES TO THE BASIC FINANCIAL STATEMENTS

**Investment in State Investment Pools**

The City is a voluntary participant in TexPool and TexSTAR. Both are public funds investment pools operating in full compliance with the Public Funds Investment Act, to include oversight by an established advisory board composed of both participants and other persons who do not have a business relationship with the pools. The City's investment in the pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. Accordingly, the fair value of the position in the pools is the same as the value of the shares.

TexPool and TexStar each have a redemption notice period of one day and may redeem daily. The investment pools' authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

**NOTE 3. RESTRICTED ASSETS**

Restricted assets in the Water and Sewer Fund are held for the following purposes in accordance with bond ordinances or other legal restrictions:

Debt Service - Interest and Sinking Fund	\$ 713,187
Construction	15,279,525
Refundable water and sewer deposits	<u>984,740</u>
Total	<u>\$ 16,977,452</u>

**NOTE 4. RECEIVABLES**

**Notes Receivable**

During 2004, the City entered into a 25-year lease purchase agreement with Navarro College (the College) whereby the City originally issued \$4,750,000 of combination tax and revenue bonds Series 2005 in order to construct and equip a building within the City limits to be leased to the College. These bonds were refunded in fiscal year 2015. Under the terms of the agreement, the College agrees to make semi-annual lease payments to the City in the amount of the scheduled debt service payments of Series 2005. The City, in turn, pays the bondholder(s). Upon final payment by the College to the City of the entire refunded indebtedness of \$3,450,000, plus accrued interest, on a timely schedule, title to the building will be transferred to the College. During fiscal year 2006, the building was completed and occupied by the College.

Accordingly, the City has recorded a receivable in the Debt Service Fund for the remaining balance owed by the College under the agreement.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

The annual amounts due from the College are as follows as of September 30, 2019:

Year Ending September 30,	Principal	Interest	Total
2020	\$ 220,000	\$ 85,575	\$ 305,575
2021	230,000	78,975	308,975
2022	240,000	72,075	312,075
2023	245,000	64,875	309,875
2024	255,000	57,524	312,524
2025-2029	1,455,000	146,242	1,601,242
	<u>\$ 2,645,000</u>	<u>\$ 505,266</u>	<u>\$ 3,150,266</u>

**Accounts Receivable**

Receivables at year-end for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Debt Service	Capital Projects	Nonmajor Governmental	Water and Sewer	Total
Taxes	\$ 94,272	\$ 88,674	\$ -	\$ 115	\$ -	\$ 183,061
Accounts	4,271,298	-	17,378	94,295	3,114,857	7,497,828
Other	-	-	-	-	205,952	205,952
	<u>4,365,570</u>	<u>88,674</u>	<u>17,378</u>	<u>94,410</u>	<u>3,320,809</u>	<u>7,886,841</u>
Less: allowance for uncollectibles	(3,075,502)	( 8,381)	-	-	( 357,590)	(3,441,473)
Totals	<u>\$ 1,290,068</u>	<u>\$ 80,293</u>	<u>\$ 17,378</u>	<u>\$ 94,410</u>	<u>\$ 2,963,219</u>	<u>\$ 4,445,368</u>

**NOTE 5. DEFERRED INFLOWS OF RESOURCES**

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. At the end of the current fiscal year, the various components of deferred inflows reported in the governmental funds were as follows:

	General	Debt Service	Nonmajor Governmental	Totals
Delinquent property taxes	\$ 84,501	\$ 80,292	\$ 114	\$ 164,907
Ambulance fees	694,879	-	-	694,879
Court fines	63,674	-	-	63,674
Direct financing lease	-	2,645,000	-	2,645,000
Totals	<u>\$ 843,054</u>	<u>\$ 2,725,292</u>	<u>\$ 114</u>	<u>\$ 3,568,460</u>



**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the governmental activities for the year ended September 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 26,886,003	\$ 1,422,444	\$ -	\$ 28,308,447
Construction in progress	9,542,741	11,104,621	(13,554,876)	7,092,486
	<u>36,428,744</u>	<u>12,527,065</u>	<u>(13,554,876)</u>	<u>35,400,933</u>
Capital assets being depreciated:				
Buildings	17,367,880	2,481,740	-	19,849,620
Improvements other than buildings	33,294,519	257,613	( 8,645)	33,543,487
Infrastructure	131,728,308	19,265,173	-	150,993,481
Machinery and equipment	17,012,835	2,669,107	( 1,119,190)	18,562,752
	<u>199,403,542</u>	<u>24,673,633</u>	<u>( 1,127,835)</u>	<u>222,949,340</u>
Accumulated depreciation:				
Buildings	( 6,152,357)	( 447,750)	-	( 6,600,107)
Improvements other than buildings	( 11,900,993)	( 1,405,916)	8,645	( 13,298,264)
Infrastructure	( 59,881,257)	( 5,756,644)	-	( 65,637,901)
Machinery and equipment	( 8,425,433)	( 1,472,827)	1,105,844	( 8,792,416)
	<u>( 86,360,040)</u>	<u>( 9,083,137)</u>	<u>1,114,489</u>	<u>( 94,328,688)</u>
Capital assets being depreciated, net	<u>113,043,502</u>	<u>15,590,496</u>	<u>( 13,346)</u>	<u>128,620,652</u>
Governmental activities capital assets, net	<u>\$ 149,472,246</u>	<u>\$ 28,117,561</u>	<u>\$( 13,568,222)</u>	<u>\$ 164,021,585</u>

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Capital asset activity for the business-type activities for the year ended September 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities.				
Capital assets not being depreciated:				
Land	\$ 812,778	\$ -	\$ -	\$ 812,778
Water capacity rights	29,949,793	-	-	29,949,793
Construction in progress	768,565	1,920,580	(1,309,036)	1,380,109
	<u>31,531,136</u>	<u>1,920,580</u>	<u>(1,309,036)</u>	<u>32,142,680</u>
Capital assets being depreciated:				
Buildings	41,077,544	-	-	41,077,544
Machinery and equipment	5,387,574	709,834	( 666,467)	5,430,941
Wastewater rights	18,051,922	-	-	18,051,922
Water and sewer system	58,861,759	13,284,540	( 10,480)	72,135,819
	<u>123,378,799</u>	<u>13,994,374</u>	<u>( 676,947)</u>	<u>136,696,226</u>
Accumulated depreciation:				
Buildings	( 12,512,701)	( 1,010,000)	-	( 13,522,701)
Machinery and equipment	( 2,244,331)	( 364,507)	652,322	( 1,956,516)
Wastewater rights	( 5,761,691)	( 451,298)	-	( 6,212,989)
Water and sewer system	( 20,666,742)	( 1,899,390)	7,767	( 22,558,365)
	<u>( 41,185,465)</u>	<u>( 3,725,195)</u>	<u>660,089</u>	<u>( 44,250,571)</u>
Capital assets being depreciated, net	<u>82,193,334</u>	<u>10,269,179</u>	<u>( 16,858)</u>	<u>92,445,655</u>
Business-type activities capital assets, net	<u>\$ 113,724,470</u>	<u>\$ 12,189,759</u>	<u>\$(1,325,894)</u>	<u>\$ 124,588,335</u>

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Capital asset activity for the component units for the year ended September 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Adjustments</u>	<u>Ending Balance</u>
Component Units.				
Capital assets not being depreciated:				
Land	\$ 167,101	\$ -	\$ -	\$ 167,101
Construction in progress	1,014,905	9,255,889	( 8,692,001)	1,578,793
	<u>1,182,006</u>	<u>9,255,889</u>	<u>( 8,692,001)</u>	<u>1,745,894</u>
Capital assets being depreciated:				
Buildings and improvements	7,540	-	-	7,540
Furniture and fixtures	5,516	-	-	5,516
Infrastructure	7,693,429	-	-	7,693,429
	<u>7,706,485</u>	<u>-</u>	<u>-</u>	<u>7,706,485</u>
Accumulated depreciation:				
Buildings and improvements	( 7,540)	-	-	( 7,540)
Furniture and fixtures	( 5,516)	-	-	( 5,516)
Infrastructure	( 3,317,795)	( 192,336)	-	( 3,510,131)
	<u>( 3,330,851)</u>	<u>( 192,336)</u>	<u>-</u>	<u>( 3,523,187)</u>
Capital assets being depreciated, net	<u>4,375,634</u>	<u>( 192,336)</u>	<u>-</u>	<u>4,183,298</u>
Component unit capital assets, net	<u>\$ 5,557,640</u>	<u>\$ 9,063,553</u>	<u>\$ ( 8,692,001)</u>	<u>\$ 5,929,192</u>

Depreciation expense was charged as direct expense to programs as follows:

Governmental activities:	
General government	\$ 383,738
Public safety	1,245,454
Public works	6,819,799
Culture and recreation	<u>634,146</u>
Total depreciation expense - governmental activities	<u>\$ 9,083,137</u>
Business-type activities:	
Water and sewer	<u>\$ 3,725,195</u>
Component units:	
Midlothian Development Authority	<u>\$ 192,336</u>

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**Construction Commitments**

The City has active construction projects as of September 30, 2019. Total accumulated commitments for ongoing capital projects are composed of the following:

General Fund	\$	676,759
Capital Projects Funds		8,436,493
Special Revenue Funds		43,181
Enterprise Fund		<u>3,211,852</u>
	\$	<u><u>12,368,285</u></u>

**NOTE 7. LONG-TERM DEBT**

The City issues general obligation bonds, certificates of obligation and tax notes to provide funds for the acquisition and construction of major capital facilities and infrastructure. General obligation bonds and certificates of obligation have been issued for both governmental and business-type activities while tax notes have been issued only for governmental activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds generally are issued as 20-year serial bonds, except for refunding issues, with level debt service requirements each year.

The City also issues certificates of obligation, which are direct obligations of and pledge the full faith and credit of the City and are further secured by a limited pledge of the surplus net revenues of the City's combined waterworks and sewer system. Certificates of obligation are generally issued as 20-year serial bonds with level debt service requirements each year.

Revenue bonds are issued by the City and these bonds are secured by a pledge of income derived from acquired or constructed assets to pay debt service.

The schedule below details the changes in tax notes during the year ended September 30, 2019:

	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
Governmental activities					
Tax notes	\$ <u>285,000</u>	\$ <u>-</u>	\$( <u>285,000</u> )	\$ <u>-</u>	\$ <u>-</u>
Total governmental activities	\$ <u><u>285,000</u></u>	\$ <u><u>-</u></u>	\$( <u><u>285,000</u></u> )	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**Detailed Bond Information**

At September 30, 2019, the City's bonds payable consisted of the following:

	<u>Governmental</u>	
Certificate of Obligation.		
\$2,850,000 Certificate of Obligation, Series 2014, 2.00%-4.00% final installment September 2024.	\$	<u>1,670,000</u>
 Total certificates of obligation	 \$	 <u><u>1,670,000</u></u>
	<u>Governmental</u>	<u>Business-type</u>
General Obligation Bonds:		
\$29,449,922 Combination Tax and Revenue Refunding Bonds, Series 2000, 5.00%-6.00%, final installment due September 2026.	\$	4,549,934      \$ -
\$5,750,000 General Obligation Refunding Bonds, Series 2010, 2.00-3.50%, final installment due Aug. 2021.		1,204,045      80,955
\$6,925,000 General Obligation Refunding Bonds, Series 2012, 1.00-3.00%, final installment due Aug. 2025		1,950,000      1,080,000
\$7,800,000 General Obligation Bonds Series 2013, 1.50- 3.00%, final installment due Feb. 2033		5,815,000      -
\$3,530,000 General Obligation Refunding Bonds, Series 2014, 2.0%-3.125%, final installment due August 2029.		2,645,000      -
\$15,015,000 General Obligation Refunding Bonds Series 2014, 2.00-4.00%, final installment due Aug. 2029		6,290,000      3,315,000
\$9,895,000 General Obligation Bonds Series 2015, 2.00-3.00%, final installment due Aug. 2034		8,180,000      -
\$8,465,000 General Obligation Refunding Bonds Series 2016, 2.00%, final installment due Sept. 2027		4,660,000      75,000
\$6,040,000 General Obligation Refunding Bonds Series 2017, 2.00%-5.00%, final installment due Sept. 2033		-      4,130,000
\$13,630,000 General Obligation Refunding Bonds Series 2018, 3%-4%, final installment due February 2028		-      12,395,000
\$18,315,000 General Obligation Bonds Series 2018, 3%- 5%, final installment due February 2038		15,600,000      -
\$20,220,000 General Obligation Bonds Series 2019, 2%- 5%, final installment due February 2039		<u>20,220,000</u> <u>-</u>
 Total General Obligation Bonds	 \$	 <u><u>71,113,979</u></u> \$ <u><u>21,075,955</u></u>

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

The annual requirements to amortize all debts outstanding as of September 30, 2019, are as follows:

General Obligation Bonds:

Year Ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2020	\$ 7,648,436	\$ 3,839,667	\$ 2,489,690	\$ 745,596	\$ 14,723,389
2021	8,438,470	3,663,769	2,506,265	659,707	15,268,211
2022	7,452,297	3,449,498	2,040,000	571,889	13,513,684
2023	4,804,736	3,312,239	2,110,000	495,613	10,722,588
2024	4,912,006	3,201,325	1,900,000	412,163	10,425,494
2025-2029	16,738,034	7,945,838	8,990,000	974,617	34,648,489
2030-2034	12,795,000	2,129,478	1,040,000	92,312	16,056,790
2035-2039	8,325,000	542,717	-	-	8,867,717
	<u>\$ 71,113,979</u>	<u>\$ 28,084,531</u>	<u>\$ 21,075,955</u>	<u>\$ 3,951,897</u>	<u>\$ 124,226,362</u>

Certificates of Obligation:

Year Ending September 30,	Governmental Activities		Total
	Principal	Interest	
2020	\$ 315,000	\$ 60,450	\$ 375,450
2021	320,000	51,000	371,000
2022	330,000	41,400	371,400
2023	345,000	28,200	373,200
2024	360,000	14,400	374,400
	<u>\$ 1,670,000</u>	<u>\$ 195,450</u>	<u>\$ 1,865,450</u>

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2019:

	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
<b>Governmental activities</b>					
General obligation bonds	\$ 60,145,864	\$ 20,220,000	\$( 9,251,885)	\$ 71,113,979	\$ 7,648,436
Certificates of obligation	1,975,000	-	( 305,000)	1,670,000	315,000
Capital lease obligations	-	612,881	-	612,881	136,164
Accreted interest	8,674,361	792,982	-	9,467,343	-
Bond premium	2,263,503	1,456,936	( 223,619)	3,496,820	-
Compensated absences	<u>1,551,172</u>	<u>1,289,168</u>	<u>( 1,081,674)</u>	<u>1,758,666</u>	<u>439,667</u>
<b>Total governmental activities</b>	<b><u>\$ 74,609,900</u></b>	<b><u>\$ 24,371,967</u></b>	<b><u>\$( 10,862,178)</u></b>	<b><u>\$ 88,119,689</u></b>	<b><u>\$ 8,539,267</u></b>
<b>Business-type activities:</b>					
General obligation bonds	\$ 10,014,057	\$ 13,630,000	\$( 2,568,102)	\$ 21,075,955	\$ 2,489,690
Revenue bonds	14,045,000	-	( 14,045,000)	-	-
Bond premium	540,030	618,742	( 117,161)	1,041,611	-
Compensated absences	<u>137,009</u>	<u>124,949</u>	<u>( 128,193)</u>	<u>133,765</u>	<u>33,441</u>
<b>Total business-type activities</b>	<b><u>\$ 24,736,096</u></b>	<b><u>\$ 14,373,691</u></b>	<b><u>\$( 16,858,456)</u></b>	<b><u>\$ 22,251,331</u></b>	<b><u>\$ 2,523,131</u></b>
<b>Component units:</b>					
Sales tax bonds	\$ 38,840,000	\$ -	\$( 3,725,000)	\$ 35,115,000	\$ 3,825,000
Compensated absences	19,797	14,670	( 30,962)	3,505	876
Bonds from direct placements	4,761,908	-	( 310,741)	4,451,167	321,458
Notes from direct placements	1,447,317	-	( 156,624)	1,290,693	162,845
Bond premium	<u>156,519</u>	<u>-</u>	<u>( 15,466)</u>	<u>141,053</u>	<u>-</u>
<b>Total component units</b>	<b><u>\$ 45,225,541</u></b>	<b><u>\$ 14,670</u></b>	<b><u>\$( 4,238,793)</u></b>	<b><u>\$ 41,001,418</u></b>	<b><u>\$ 4,310,179</u></b>

The General Fund has been used to liquidate capital lease liabilities with respect to acquisition of governmental capital assets. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

### **General Obligation Bonds**

On September 5, 2019 the city issued \$20,220,000 in General Obligation Bonds, Series 2019. The bonds will be used for completion of phase II of the community park and street improvements. The authority of issuance of this debt is from the November 2017 bond election, with interest rates of 2.00-5.00% and a final installment due February 2039.

### **Capital Lease Obligations**

The City has entered into capital lease agreements. The leased property under capital leases is classified as machinery and equipment with a net carrying value of approximately \$612,881 for governmental activities. The leased property was placed into service at the end of the fiscal year; therefore, no depreciation expense was recognized in the current period.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2019, were as follows:

Year Ending September 30,	Governmental Activities
2020	\$ 164,175
2021	164,175
2022	164,172
2023	164,173
2024	30,206
Total minimum lease payments	686,901
Less amount representing interest	( 74,020)
Present value of net minimum lease payments	\$ 612,881

**Authorized and Unissued Debt**

The City had \$13,655,000 in authorized general obligation bonds that were unissued as of September 30, 2019. These bonds were authorized through an election held November 7, 2017, for the construction of the completion of the community park, relocation and construction of Fire Station #1, and improvements to roads and streets.

**NOTE 8. DEFINED BENEFIT PENSION PLAN**

**Texas Municipal Retirement System**

**Plan Description**

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency 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 Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tMrs.org](http://www.tMrs.org).

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



**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**Benefits Provided**

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in over 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.

The City grants monetary credits for service rendered of a theoretical amount equal to two times what would have been contributed by the employee, with interest. Monetary credits, also known as the matching ratio, are 200% of the employee's accumulated contributions and are only payable in the form of an annuity.

Beginning in 2010, the City granted an annually repeating (automatic) basis monetary credit referred to as an updated service credit (USC) which is a theoretical amount that takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 2010, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and City-financed monetary credits, with interest. 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 a percent (100%, 150%, or 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 the 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 accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5 years
Service retirement eligibility	20 years to any age 5 years at 60 and above
Updated service credits	100% repeating, transfers
Annuity increases to retirees	70% of CPI, repeating

**Employees covered by benefit terms**

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	93
Inactive employees entitled to but not yet receiving benefits	117
Active employees	<u>240</u>
	<u><u>450</u></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 with 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contributions 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 14.43% and 14.66% in calendar years 2019 and 2018, of which, 14.29% and 14.53%, respectively, represented the retirement portion of the contribution. The City's retirement contributions to TMRS for the year ended September 30, 2019, were \$2,202,570 and were equal to the required contributions.

**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**Actuarial assumptions:**

The Total Pension Liability in the December 31, 2018, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% 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 males' 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.

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013, valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

The target allocation and best estimates of arithmetic real rates return for each major asset class in fiscal year 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
Total	100.0%	

**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 period of projected benefit payments to determine the Total Pension Liability.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**Changes in the Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2017	\$ 45,300,289	\$ 39,346,063	\$ 5,954,226
Changes for the year:			
Service cost	2,645,859	-	2,645,859
Interest	3,099,754		3,099,754
Difference between expected and actual experience	634,993	-	634,993
Contributions - employer		2,137,933	( 2,137,933)
Contributions - employee	-	1,027,803	( 1,027,803)
Net investment income	-	( 1,180,070)	1,180,070
Benefit payments, including refunds of employee contributions	( 1,401,878)	( 1,401,878)	-
Administrative expense	-	( 22,778)	22,778
Other changes	-	( 1,190)	1,190
Net changes	<u>4,978,728</u>	<u>559,820</u>	<u>4,418,908</u>
Balance at 12/31/2018	<u>\$ 50,279,017</u>	<u>\$ 39,905,883</u>	<u>\$ 10,373,134</u>

In prior years, the net pension liability for governmental activities has been primarily liquidated by the general fund.

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

	<u>1% Decrease in Discount Rate (5.75%)</u>	<u>Current Single Rate Assumption 6.75%</u>	<u>1% Increase in Discount Rate (7.75%)</u>
City's net pension liability	\$ 18,469,911	\$ 10,165,670	\$ 3,499,835
Component Unit's net pension liability	\$ 376,937	\$ 207,464	\$ 71,425

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. The report may be obtained on the internet at [www.tmrs.org](http://www.tmrs.org).

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

For the year ended September 30, 2019, the City recognized pension expense of \$2,902,423. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Primary Government	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 635,041	\$ 79,242
Changes in actuarial assumptions	-	21,784
Difference between projected and actual investment earnings	2,003,138	-
Contributions subsequent to the measurement date	<u>1,693,913</u>	<u>-</u>
Total	<u>\$ 4,332,092</u>	<u>\$ 101,026</u>

For the year ended September 30, 2019, the component unit recognized pension expense of \$59,233. At September 30, 2019, the component unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Discretely Presented Component Unit	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 12,960	\$ 1,617
Changes in actuarial assumptions	-	445
Difference between projected and actual investment earnings	40,880	-
Contributions subsequent to the measurement date	<u>34,570</u>	<u>-</u>
Total	<u>\$ 88,410</u>	<u>\$ 2,062</u>

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

For the primary government and component unit, respectively, \$1,693,913 and \$34,570 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year ended Sept 30	City	Component Unit
2020	\$ 820,195	\$ 16,739
2021	426,268	8,699
2022	391,579	7,991
2023	859,491	17,541
2024	39,620	808

**NOTE 9. OTHER POST-EMPLOYMENT BENEFITS**

**Plan Description**

**Retiree Health Care Plan.** The City offers its retired employees health insurance benefits through a single-employer defined benefit OPEB plan, under City policy, known as the Retiree Health Care Plan (RHCP). City Council, by way of resolution, grants itself the authority, on an annual basis, to reestablish and amend the benefit terms and financing requirements of the Plan. This plan is administered by the City and no separate audited financial statements are available. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Eligible retirees may receive medical and dental benefits provided through Cigna Health and Life. The City pays a percentage of the current monthly contribution rate for individual coverage for retirees age 60-65 based on the years of service at normal retirement age. Retirees younger than age 60 pay 100% of the contribution for individual coverage. The retiree pays 100% of the contribution for elected dependent coverage and any balance of the required individual coverage contribution. All active employees who retire directly from the City and meet the eligibility criteria may participate.

The City's contributions to the RHCP for the year ended September 30, 2019 totaled \$25,754.

**Supplemental Death Benefits Fund.** The City also participates in a single-employer defined benefit group-term life insurance plan administered by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The Plan is established and administered in accordance with the TMRS Act identically to the City's pension plan. City Council elected, by ordinance, to provide group-term life insurance coverage to both active and retired employees. City Council may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under paragraph 4 of GASB Statement No. 75.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other post-employment benefit (OPEB) and is a fixed amount of \$7,500.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.14% for 2019 and 0.13% for 2018, of which 0.03% and 0.02%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during the employee's entire careers. The City's contributions to the TMRS SDBF for the year ended September 30, 2019, were \$4,164, which equaled the required contributions.

**Employees covered by benefit terms**

At December 31, 2018, the following employees were covered by the benefit terms under the RHCP and SDBF plans:

	RHCP	SDBF
Inactive employees or beneficiaries currently receiving benefits	3	66
Inactive employees entitled to but not yet receiving benefits	-	21
Active employees	250	240
Total	253	327

**Total OPEB Liability**

The total OPEB liability of \$2,020,236, comprised of \$1,593,279 and \$426,957 for RHCP and SDBF, respectively, was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

**Actuarial Assumptions and Other Inputs**

The total OPEB liability in the December 31, 2018 actuarial valuations were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	RHCP	SDBF
Actuarial Cost Method	Individual Entry-Age	Individual Entry-Age
Discount Rate	3.71%	3.71%
Inflation	2.50%	2.50%
Salary Increase	3.5% to 10.50%, including inflation 3.5% to 10.50%, including inflation	
Health Care Trend Rates	Initial rate of 7.50% declining to an ultimate rate of 4.50% after 14 years; Ultimate trend rate includes a 0.25% adjustment for the excise tax	None



**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Under the SDBF plan, all administrative expenses are paid through the Pension Trust Fund and are accounted for under reporting requirements of GASB Statement No. 68.

Under both the RHCP and SDBF plans, salary increases were based on a service-related table.

The discount rate was based on the Fidelity 20-Year GO Municipal Bond Index with an average rating of AA.

Mortality rates for healthy retirees were based on the gender-distinct RP2000 Combined Health 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 under the SDBF plan, the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Under both the RHCP and SDBF plans, the actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

**Changes in the Total OPEB Liability**

	<u>RHCP</u>	<u>SDBF</u>
Service Cost	\$ 128,910	\$ 30,834
Interest on the total OPEB liability	51,847	14,754
Difference between expected and actual experience	2,077	( 14,388)
Changes in assumptions or other inputs	( 67,559)	( 33,092)
Benefit Payments	<u>( 47,818)</u>	<u>( 2,937)</u>
Net Changes	67,457	( 4,829)
Total OPEB liability - as of beginning of the year	<u>1,525,822</u>	<u>431,786</u>
Total OPEB liability - as of end of the year	<u>\$ 1,593,279</u>	<u>\$ 426,957</u>

Note: There are no assets accumulated in a trust that meets the criteria in Paragraph 4 of GASB Statement No. 75 to pay related benefits.

In prior years, the liability for OPEB in governmental activities has been primarily liquidated by the general fund.

Changes in assumptions and other inputs reflect a change in the discount rate from 3.31% as of December 31, 2017 to 3.71% as of December 31, 2018.

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**Retiree Health Care Plan.** The following presents the total OPEB liability of the City calculated using the discount rate of 3.71%, 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 (2.71%) or 1-percentage-point higher (4.71%) than the current rate.

	<u>1% Decrease in Discount Rate (2.71%)</u>	<u>Current Discount Rate (3.71%)</u>	<u>1% Increase in Discount Rate (4.71%)</u>
Total OPEB liability	\$ 1,767,697	\$ 1,593,279	\$ 1,437,462

The following presents the total OPEB liability of the City calculated using the current healthcare cost trend rate, 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:

	<u>1% Decrease (6.5% decreasing to 3.5%)</u>	<u>Healthcare Cost Trend Rates (7.5% decreasing to 4.5%)</u>	<u>1% Increase (8.5% decreasing to 5.5%)</u>
Total OPEB liability	\$ 1,374,541	\$ 1,593,279	\$ 1,859,559

**Supplemental Death Benefits Fund.** The following presents the total OPEB liability of the City and the discretely presented component unit, calculated using the discount rate of 3.71%, as well as what the City's and component unit's total OPEB liability would be if they were calculated using a discount rate that is 1-percentage-point lower (2.71%) or 1-percentage-point higher (4.71%) than the current rate:

	<u>1% Decrease in Discount Rate (2.71%)</u>	<u>Current Discount Rate (3.71%)</u>	<u>1% Increase in Discount Rate (4.71%)</u>
City's total OPEB liability	\$ 506,236	\$ 418,418	\$ 350,813

	<u>1% Decrease in Discount Rate (2.71%)</u>	<u>Current Discount Rate (3.71%)</u>	<u>1% Increase in Discount Rate (4.71%)</u>
Component Unit's total OPEB liability	\$ 10,331	\$ 8,539	\$ 7,159

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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

**Retiree Health Care Plan.** For the year ended September 30, 2019, the City recognized OPEB expense of \$181,942. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 1,867	\$ -
Changes in actuarial assumptions	865	-
Contributions subsequent to the measurement date	<u>34,590</u>	<u>-</u>
Total	<u>\$ 37,322</u>	<u>\$ -</u>

For the City, \$34,590 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended Sept 30</u>	
2020	\$ 1,185
2021	1,185
2022	1,185
2023	1,185
2024	1,185
Thereafter	( 3,193)

**Supplemental Death Benefits Fund.** For the year ended September 30, 2019, the City recognized OPEB expense of \$43,165. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Primary Government	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 12,208
Changes in actuarial assumptions	-	2,278
Contributions subsequent to the measurement date	<u>3,408</u>	<u>-</u>
Total	<u>\$ 3,408</u>	<u>\$ 14,486</u>

**CITY OF MIDLOTHIAN, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

For the year ended September 30, 2019, the component unit recognized OPEB expense of \$881. At September 30, 2019, the component unit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Discretely Presented Component Unit	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 249
Changes in actuarial assumptions	-	46
Contributions subsequent to the measurement date	<u>70</u>	<u>-</u>
Total	<u>\$ 70</u>	<u>\$ 295</u>

For the primary government and component unit, respectively, \$3,408 and \$70 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended Sept 30</u>	<u>City</u>	<u>Component Unit</u>
2020	\$( 1,511)	\$( 31)
2021	( 1,511)	( 31)
2022	( 1,511)	( 31)
2023	( 1,511)	( 31)
2024	( 1,511)	( 31)
Thereafter	( 6,931)	( 140)