CITY OF BUFFALO, TEXAS

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2020



Davis, Heinemann & Company, P.C.

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City of Buffalo, Texas Annual Financial Report For The Year Ended September 30, 2020

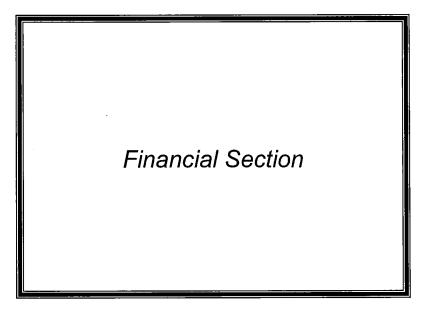
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Independent Auditor's Report

To the City Council City of Buffalo, Texas 812 N Buffalo Ave Buffalo, Texas 75831

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Buffalo, Texas ("the City") as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective

financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Buffalo, Texas as of September 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Buffalo, Texas' basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining financial statements and the schedule of expenditures of federal awards 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 the underlying accounting and other records used to prepare 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 financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2021 on our consideration of City of Buffalo, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Buffalo, Texas' internal control over financial reporting and compliance.

Respectfully submitted,

Davis, Heineman + Co.

Davis, Heinemann & Company, P.C.

Huntsville, Texas May 10, 2021 This page has been left blank intentionally.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

- The City's total combined net position was \$11,408,218 at September 30, 2020.
- During the year, the City's expenses were \$3,534,255 which were \$1,164,677 less than the \$4,698,932 generated in taxes, charges for services and other revenues for Governmental and business-type activities.
- The general fund reported a fund balance this year of \$2,467,069.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short-term and long-term financial information about the activities the government operates like businesses.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

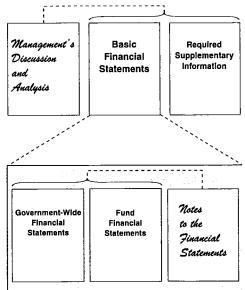
The financial statements also include notes that explain some of the **Summary** information in the financial statements and provide more detailed data. The

statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Government-wide Statements

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

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





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

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

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general administration, public safety, streets and bridges, buildings and grounds, and financial and professional. Property, sales and franchise taxes finance most of these activities.

Fund Financial Statements

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

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

The City has the following kinds of funds:

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was 11,408.2 thousand at September 30, 2020 (See Table A-1).

	State	ment of Net P	osition						
(In thousands of dollars)									
	Govern		Busines	• ·					
	Activ		Activ		Total				
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>			
Current Assets:									
Cash and Cash Equivalents	\$ 1,956.8	\$ 1,501.1	\$ 1,311.4	\$ 921.0	\$ 3,268.2	\$ 2,422.1			
investments	767.0	750.6	255.7	251.9	1,022.7	1,002.5			
Internal Balances	(189.0)	(194.8)	189.0	194.8	-	-			
Receivables	450.0	743.8	121.4	134.6	571.4	878.4			
Due from Other Governments	251.1	-	4.7	0.2	255.8	0.2			
Inventory	-	-	17.0	17.0	17.0	17.0			
Net Pension Asset	31.8		44.6		76.4				
Total Current Assets:	3,267.7	2,800.7	1,943.8	1,519.5	5,211.5	4,320.2			
Restricted Cash	204.6	501.7	77.6	281.4	282.2	783.1			
Capital Assets	7,276.2	6,292.9	13,384.8	13,256.1	20,661.0	19,549.0			
Less Accumulated	.,	-,		,		· · · · · · · · · · · · · · · · · · ·			
Depreciation	(3,241.5)	(3,060.9)	(6,056.7)	(5,637.2)	(9,298.2)	(8,698.1)			
Capital Assets, Net	4,034.7	3,232.0	7,328.1	7,618.9	11,362.8	10,850.9			
Total Assets	7,507.0	6,534.4	9,349.5	9,419.8	16,856.5	15,954.2			
Deferred Outflows of Resources						<u>_</u>			
Related to Pension	21.2	59.0	11.6	44.0	32.8	103.0			
Related to OPEB	5.9	1.5	4.7	1.0	10.6	2.5			
Charges on Refunding	-	-	274.5	-	274.5	-			
Total Deferred Outflows of Resources	27.1	60.5	290.8	45.0	317.9	105.5			
Current Liabilities: Accounts Payable and									
Accrued Liabilities	77.2	92.0	64.2	49.5	141.4	141.5			
Interest Payable	6.3	6.4	14.0	14.0	20.3	20.4			
Customer Deposits Payable	-	-	84.5	78.5	84.5	78.5			
Current Long-Term Debt	60.0	57.8	275.0	260.0	335.0	317.8			
Total Current Liabilities	143.5	156.2	437.7	402.0	581.2	558.2			
Long-Term Liabilities:									
Bonds	-	-	4,545.0	4,820.0	4,545.0	4,820.0			
Notes	120.0	182.2	-	-	120.0	182.2			
Bond Premium and Deferred Charges	-	-	324.8	53.2	324.8	53.2			
Compensated Absences	32.8	56.0	3.1	1.9	35.9	57.9			
Net Pension Liability	-	51.8	-	23.6	-	75.4			
Net OPEB Liability	37.8	29.2	34.1	27.0	71.9	56.2			
Total Long-Term Liabilities	190.6	319.2	4,907.0	4,925.7	5,097.6	5,244.9			
Total Liabilities	334.1	475.4	5,344.7	5,327.7	5,678.8	5,803.1			
Deferred Inflows of Resources									
Related to Pensions	48.4	7.2	35.8	2.3	84.2	9.5			
Related to OPEB	1.8	1.9	1.4	1.5	3.2	3.4			
Total Deferred Inflows of Resources	50.2	9.1	37.2	3.8	87.4	12.9			
Net Position:				_					
Invested in Capital Assets	3,854.7	2,992.0	2,425.7	2,538.9	6,280.4	5,530.9			
Restricted	535.2	427.0	14.9	_,	550.1	427.0			
Unrestricted	2,759.9	2,691.4	1,817.8	1,594.4	4,577.7	4,285.8			
Total Net Position	\$ 7,149.8	\$ 6,110.4	\$ 4,258.4	\$ 4,133.3	\$11,408.2	\$ 10,243.7			

Table A-1 Statement of Net Position

Changes in net position. The City's total revenues were \$4,698.9 thousand and total expenses were \$3,534.2 thousand which resulted in an increase in net position of \$1,164.7 thousand. (See Table A-2).

Table A 2

		Table	A-2			
	Cha	anges in City	s Net Position	l		
		(In thousands	of dollars)			
	Goverr	mental	Busines	s-type		
	Activ	/ities	Activ	ities	То	tal
	2020	2019	2020	2019	2020	2019
Program Revenues:						
Charges for services	\$ 264.3	\$ 363.3	\$ 1,273.6	\$ 1,351.7	\$ 1,537.9	\$ 1,715.0
Operating Grants	42.2	9.1	-	0.2	42.2	9.3
Capital Grants	1,028.2	70.3	30.0	-	1,058.2	70.3
General Revenues:						
Ad Valorem Taxes	526.3	506.2	-	-	526.3	506.2
Sales Taxes	1,174.3	1,387.5	-	-	1,174.3	1,387.5
Hotel Motel Taxes	159.9	234.0	-	-	159.9	234.0
Franchise Taxes	116.7	119.5	-	-	116.7	119.5
Gain on Sale of Capital Assets	_	-	-	-	-	-
Interest Income	34.7	23.4	14.1	14.9	48.8	38.3
Miscellaneous	15.9	6.2	18.7	1.1	34.6	7.3
Transfers	(340.2)	(415.4)	340.2	415.4	-	-
Total Revenues	3,022.3	2,304.1	1,676.6	1,783.3	4,698.9	4,087.4
Program Expenses:						
General Government	539.7	605.0	-	-	539.7	605.0
Public Safety	529.3	584.6	-	-	529.3	584.6
Public Works	631.4	210.0	-	-	631.4	210.0
Cultural & Recreation	275.4	304.9	-	-	275.4	304.9
Interest on Long Term Debt	7.1	15.2	-	-	7.1	15.2
Water, Sew er & Sanitation	-	-	1,551.3	1,577.5	1,551.3	1,577.5
Total Expenses	1,982.9	1,719.7	1,551.3	1,577.5	3,534.2	3,297.2
Change in Net Position	\$ 1,039.4	\$ 584.4	\$ 125.3	\$ 205.8	\$ 1,164.7	\$ 790.2

Changes in net position. The City's total revenues were \$4,698.9. A significant portion, thirty-three (33) percent, of the City's revenue comes from charges for services and forty-two (42) percent of revenue comes from various taxing sources. This year twenty-three (23) percent of total revenues came from operating grants, capital grants and contributions. The remaining two (2) percent comes from interest earnings and miscellaneous sources.

The total cost of all programs and services was \$3,534.2 thousand.

The largest expenditures in Governmental Activities were in the public works department and in the Business-Type Activities, treatment and distribution of water and wastewater.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund Budgetary Highlights

Actual expenditures in the General Fund were \$563,184 less than final appropriations. Revenues were \$85,367 under final estimated revenues for the fiscal year. This largest negative variance was in the sales tax revenue. The City obtained a Community Development Block Grant in the prior fiscal year but the majority of the grant, \$923,191, was received during fiscal year 2019 – 2020.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020, the City had invested \$20,660.9 thousand in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-3.)

Table A-3												
Capital Assets												
(In thousands of dollars)												
		Govern	men	tal		Busines	s-typ	e				
		Activ	ities			Activ	ities			То	tal	
		<u>2020</u>		<u>2019</u>	2	2020	2	2019		2020		<u>2019</u>
Land	\$	229.3	\$	229.3	\$	67.5	\$	4.8	\$	296.8	\$	234.1
Construction in Progress		69.2		26.5		249.7		230.0		318.9		256.5
Buildings and Improvements		3,801.3		3,801.3		-		-		3,801.3		3,801.3
Infrastructure		1,568.1		708.6		-		-		1,568.1		708.6
Equipment		387.4		406.6		119.8		114.8		507.2		521.4
Vehicles		1,105.2		1,040.9		121.1		100.7		1,226.3		1,141.6
Office Equipment		115.7		79.7		3.5		3.5		119.2		83.2
Water and Sew er System		-		-	1	2,823.1	1	2,802.3	1	2,823.1		12,802.3
Totals at Historical Cost		7,276.2		6,292.9	1	3,384.7	1	3,256.1	2	20,660.9		19,549.0
Total Accumulated Depreciation	((3,241.5)		(3,060.9)	(6,056.6)	(5,637.2)	((9,298.1)		(8,698.1)
Net Capital Assets	\$	4,034.7	\$	3,232.0	\$	7,328.1	\$	7,618.9	\$ 1	1,362.8	\$	10,850.9

Long-Term Debt

At year-end the City had \$5,158.0 thousand in outstanding debt as shown in Table A-4. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-4 Long-Term Debt (In thousands of dollars)

	Governmental Activities		Business-type Activities					Total						
	2	<u>2020</u> <u>201</u>		<u>2019</u>		<u>2019</u>		<u>2020</u>		<u>2019</u>		<u>2020</u>		<u>2019</u>
Bonds	\$	-	\$	-	\$	4,820.0	\$	5,080.0	\$	4,820.0	\$	5,080.0		
Leases Payable		-		-		-		-		-		-		
Notes Payable		180.0		240.0		-		-		180.0		240.0		
Bond Premium		-		-		324.8		341.5		324.8		341.5		
Deferred Charges		-		-		(274.5)		(288.3)		(274.5)		(288.3)		
Net Pension Liability		-		51.9		-		23.6		-		75.5		
Net OPEB Liability		37.8		29.2		34.1		27.0		71.9		56.2		
Compensated Absences		32.7		56.0		3.1		1.9		35.8		57.9		
Total Long-Term Debt	\$	250.5	\$	377.1	\$	4,907.5	\$	5,185.7	\$	5,158.0	\$	5,562.8		

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

• The General Fund budget for fiscal year 2020-2021 reflects a decrease in appropriations over the prior year. The large decrease in appropriations is in the Street department due to the completion of the drainage grant.

Most other departments have a decrease in appropriations in the 2021 fiscal year. Total estimated revenue is budgeted to decrease by almost forty (40) percent due to the reduction in grant revenue.

• The service revenue is estimated to remain the same for fiscal year 2020-2021. The budget reflects loan proceeds included in revenue and the long-term debt payments are budgeted in the Debt Service fund. The expenses are budgeted to increase about nine (9) percent for the fiscal year 2020-2021.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

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CITY OF BUFFALO, TEXAS STATEMENT OF NET POSITION SEPTEMBER 30, 2020

	Governmental Activities			siness-type Activities		Total
ASSETS:						
Cash and Cash Equivalents	\$	1,956,799	\$	1,311,402	\$	3,268,201
Investments		767,006		255,689		1,022,695
Receivables (net of allowances for uncollectibles):		449,992		121,440		571,432
Internal Balances		(189,003)		189,003		-
Due from other Governments		251,068		4,732		255,800
Inventories		-		16,988		16,988
Restricted Assets:						
Cash and Cash Equivalents		204,632		77,581		282,213
Noncurrent Assets:						
Net Pension Asset		31,775		44,659		76,434
Capital Assets (net of accumulated depreciation):		4,034,761		7,328,164		11,362,925
Total Assets		7,507,030		9,349,658		16,856,688
DEFERRED OUTFLOWS OF RESOURCES:						
Deferred Outflow Related to Pension		21,236		11,625		32,861
Deferred Outflow Related to OPEB		5,953		4,651		10,604
Deferred Charges on Refunding		-		274,467		274,467
Total Deferred Outflows of Resources		27,189		290,743	_	317,932
LIABILITIES:						
Accounts Payable and Other Current Liabilities		77,205		64,171		141,376
Refundable Customer Deposits		-		84,518		84,518
Accrued Interest Payable		6,361		13,971		20,332
Noncurrent Liabilities-		,				
Due within one year		60,000		275,000		335,000
Due in more than one year		190,618		4,907,030		5,097,648
Total Liabilities		334,184		5,344,690		5,678,874
DEFERRED INFLOWS OF RESOURCES:						
Deferred Inflow Related to Pensions		48,412		35,842		84,254
Deferred Inflow Related to OPEB		1,829		1,445		3,274
Total Deferred Inflows of Resources		50,241		37,287	_	87,528
NET POSITION:						
Net Investment in Capital Assets		3,854,761		2,508,164		6,362,925
Restricted For:						
Federal and State Programs		35,000		14,924		49,924
Debt Service		272,818		-		272,818
Capital Projects		21,955		-		21,955
Tourism		205,384		-		205,384
Unrestricted		2,759,876		1,735,336		4,495,212
Total Net Position	\$	7,149,794	\$	4,258,424	\$	11,408,218
	*		*		'=	

CITY OF BUFFALO, TEXAS STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2020

			Program Revenu	es
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT: Governmental Activities: General Government Public Safety Public Works Culture and Recreation Interest on Long-term Debt Total Governmental Activities	\$ 539,713 529,304 631,383 275,378 7,132 1,982,910	238,193 11,850 7,694	20 32,726 -	\$ - 24,500 1,003,685 - - - 1,028,185
Business-type Activities: Water, Sewer and Garbage Utility Total Business-type Activities Total Primary Government	1,551,3451,551,3453,534,255General RevenuesProperty TaxesSales TaxesFranchise TaxesHotel/ Motel TaxInterest IncomeMiscellaneousTransfersTotal General FChange in NetNet Position - BegNet Position - End	1,273,585 \$ <u>1,537,922</u> : es es evenues and Trar Position nning	\$42,211	30,049 30,049 \$

-	Governmental Activities	Business-type Activities	Total			
\$	(523,648) (266,591) 416,878 (267,684) (7,132) (648,177)		\$ 	(523,648) (266,591) 416,878 (267,684) (7,132) (648,177)		
	- - (648,177)	\$ <u>(247,711)</u> (247,711) (247,711)	-	(247,711) (247,711) (895,888)		
	526,259 1,174,304 116,716 159,940 34,709 15,869 (340,225) 1,687,572 1,039,395 6,110,399	- - - - - - - - - - - - - - - - - - -	-	526,259 1,174,304 116,716 159,940 48,766 34,580 - - 2,060,565 1,164,677 10,243,541		
\$	7,149,794	\$ <u>4,258,424</u>	\$_	11,408,218		

CITY OF BUFFALO, TEXAS BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2020

		General Fund		Debt Service Fund	G	Other Governmental Funds		Total overnmental Funds
ASSETS AND OTHER DEBITS:		,						
Assets:							•	
Cash and Cash Equivalents Investments	\$	1,513,146 767,006	\$	222,024	\$	221,629	\$	1,956,799 767,006
Receivables (net of allowances for uncollectibles):		42,044		48,220		40,710		130,974
Due from Other Funds		-		2,575		-		2,575
Due from Other Governments Restricted Assets:		251,068		-		-		251,068
Cash and Cash Equivalents		204,632		-		-		204,632
Total Assets and Other Debits	\$	2,777,896	\$	272,819	\$	262,339	\$	3,313,054
LIABILITIES, DEFERRED INFLOWS OF RESOURCE: Liabilities: Accounts Payable	S ANI	D FUND BALA 77,205	NCES	S: _	\$	-	\$	77,205
Due to Other Funds	φ	191,578	Ψ	-	Ψ	-	Ψ	191,578
Total Liabilities		268,783	-	·				268,783
					-			
Deferred Inflows of Resources:				(0.000				00.004
Deferred Property Taxes	_	42,044	_	48,220		-		90,264
Total Deferred Inflows of Resources	_	42,044		48,220				90,204
Fund Balances: Restricted Fund Balances:								
Restricted for Debt Service		-		224,599		-		224,599
Restricted for Tourism		-		-		205,384		205,384
Restricted for Law Enforcement		3,676		-		-		3,676
Restricted for Capital Projects		-		-		21,955		21,955 35,000
Restricted for Federal and State Programs		-		-		35,000		2,463,393
Unassigned Total Fund Balance		2,463,393 2,467,069	_	224,599		262,339	_	2,954,007
I ULAI FUNU DAIANCE	_	2,407,009	_	224,000			_	_,00,,007
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$	2,777,896	\$	272,819	\$	262,339	\$	3,313,054

CITY OF BUFFALO, TEXAS RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET

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

Total fund balances - governmental funds balance sheet	\$ 2,954,007
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds. Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Payables for bond interest which are not due in the current period are not reported in the funds. Payables for notes which are not due in the current period are not reported in the funds. Payables for compensated absences which are not due in the current period are not reported in the funds. Court fines receivable unavailable to pay for current period expenditures are deferred in the funds. Recognition of the City's proportionate share of the net pension liability is not reported in the funds. Deferred Resource Inflows related to the pension plan are not reported in the funds. Recognition of the City's proportionate share of the net OPEB liability is not reported in the funds. Deferred Resource Outflows related to the OPEB plan are not reported in the funds.	 4,034,761 90,264 (6,361) (180,000) (32,762) 319,019 31,775 (48,412) 21,236 (37,856) (1,829) 5,953
Net position of governmental activities - Statement of Net Position	\$ 7,149,794

CITY OF BUFFALO, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2020

Debt Other Total General Service Governmental Governmental Fund Fund Funds Funds Revenue: Taxes: **General Property Taxes** \$ 131,389 394,144 \$ 525,533 \$ \$ General Sales and Use Taxes 1,169,018 1,169,018 **Franchise Fees** 116,716 116,716 Alcoholic Beverages 5,286 5.286 Hotel/Motel Taxes 159,940 159.940 License and Permits 2.544 2,544 Intergovernmental 997,369 36,050 1,033,419 Fines and Fees 249,135 249,135 Interest Income 1,700 34,709 31,293 1,716 **Rents and Royalties** 5,150 5.150 Miscellaneous 25,354 35,000 60,354 395.860 237,840 **Total Revenues** 2,728,104 3,361,804 Expenditures: General Government 487,644 14,294 501,938 512,369 Public Safety 24,500 536.869 Public Works 1,514,382 11,550 1,525,932 Culture and Recreation 167,277 70,278 237,555 Principal 60,000 60,000 Interest and Fiscal Charges 7,132 7,132 **Total Expenditures** 2,681,672 187,754 2,869,426 -Excess (Deficiency) of Revenues Over (Under) Expenditures 46.432 395,860 50,086 492,378 Other Financing Sources (Uses): Transfers Out (340, 225)(340, 225)Total Other Financing Sources (Uses) (340, 225)(340, 225)Net Change in Fund Balances 46,432 55,635 50,086 152,153 Fund Balances - Beginning 2.420.637 168.964 212.253 2.801.854 Fund Balances - Ending 2,467,069 224,599 262,339 2,954,007 \$ \$ \$ \$

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

Net change in fund balances - total governmental funds \$	i i	152,153
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:		
Capital outlays are not reported as expenses in the SOA. The depreciation of capital assets used in governmental activities is not reported in the funds. Certain property tax revenues are deferred in the funds. This is the change in these amounts this year. Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA. Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds. Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.		983,360 (180,609) 726 60,000 23,195 4,721 (4,151)
Change in net position of governmental activities - Statement of Activities	\$	1,039,395

CITY OF BUFFALO, TEXAS STATEMENT OF NET POSITION

STATEMENT OF NET POSITION ENTERPRISE FUNDS SEPTEMBER 30, 2020

	Enterprise Fund Water, Sewer and Garbage Utility Fund
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 1,311,402
Investments	255,689
Receivables (net of allowances for uncollectibles):	121,440
Due from Other Governments	4,732
Due from other funds	189,003
Inventories	16,988
Total Current Assets	1,899,254
Restricted Assets:	
Cash and Cash Equivalents	77,581
Noncurrent Assets:	
Net Pension Asset	44,659
Capital Assets:	
Property, Plant and Equipment	13,284,028
Idle Assets	100,799
Less Accumulated Depreciation	(6,056,663)
Total Noncurrent Assets	7,372,823
Total Assets	9,349,658
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred Outflow Related to Contributions	11,625
Deferred Outflow Related to OPEB	4,651
Deferred Charges on Refunding	274,467
Total Deferred Outflows of Resources	290,743
Total Assets and Deferred Outflows of Resources	\$9,640,401
LIABILITIES:	
Current Liabilities:	A A A A A
Accounts Payable	\$ 64,171
Refundable Customer Deposits	84,518
Accrued Interest Payable	13,971
Current Portion - Bonds Payable	275,000
Noncurrent Liabilities:	1 5 1 5 0 9 9
Bonds Payable	4,545,000
Unamortized Bond Premiums	324,831
Net OPEB Liability	34,061
Compensated Absences Payable	3,138
Total Liabilities	5,344,690
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pensions	35,842
Deferred Inflow Related to OPEB	1,445
Total Deferred Inflows of Resources	37,287
NET POSITION:	
Investment in Capital Assets, Net of Related Debt	2,313,394
Unrestricted Net Position	1,945,030
Total Net Position	\$4,258,424

CITY OF BUFFALO, TEXAS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - ENTERPRISE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Enterprise Fund Water, Sewer and Garbage Utility
	Fund
OPERATING REVENUES:	
Charges for Sales and Services:	¢ 515.040
Water Sales	\$ 515,842
Sewer Charges	450,248
Sanitation Charges	278,187
Tap Fees	5,900
Penalties and Fees	21,343
Miscellaneous Revenue	20,776
Total Operating Revenues	1,292,296
OPERATING EXPENSES:	
Salaries and Benefits	416,641
Office Expense	6,774
Supplies and Materials	133,601
Maintenance and Operations	87,855
Professional Services	23,057
Insurance	20,333
Bad Debts	1,199
Sanitation Contract	270,089
Depreciation and Amortization	416,637
Grant Expenses	15,125
Miscellaneous	4,784
Total Operating Expenses	1,396,095
·	
Operating Income	(103,799)
NON-OPERATING REVENUES (EXPENSES):	
Interest income	14,057
Captial Grant Income	30,049
Interest Expense	(155,250)
Total Non-operating Revenues and Expenses	(111,144)
· · · · · · · · · · · · · · · · · · ·	
INCOME (LOSS) BEFORE TRANSFERS	(214,943)
TRANSFERS:	
Transfers In	340,225
Total Transfers	340,225
Total Translers	
Change in Net Position	125,282
Total Net Position - Beginning	4,133,142
Total Net Position - Ending	\$ 4,258,424
total total oblight minung	+

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	Enterprise Fund Water, Sewer and Garbage
Cash Flows from Operating Activities:	\$ 1,802,220
Cash Received from Customers Cash Payments to Employees for Services	(416,541)
Cash Payments to Other Suppliers for Goods and Services	(1,035,475)
Net Cash Provided (Used) by Operating Activities	350,204
Cash Flows from Non-capital Financing Activities:	
Transfers from (to) Primary Government	340,225
Net Cash Provided (Used) by Non-capital Financing Activities	340,225
Cook Flows from Conital and Balated Financing Activition:	
Cash Flows from Capital and Related Financing Activities: Principal and Interest Paid	(415,250)
Acquisition or Construction of Capital Assets	(129,759)
Net Cash Provided (Used) for Capital and Related Financing Activities	(545,009)
Net Cash Plovided (Osed) for Capital and Heidled Planaholing Followice	(0.00,000,00)
Cash Flows from Investing Activities:	
Interest and Dividends on Investments	14,897
Purchase of Investments	(3,833)
Captial Grant Receipts	30,049
Net Cash Provided (Used) for Investing Activities	41,113
	100 500
Net Increase (Decrease) in Cash and Cash Equivalents	186,533
Cash and Cash Equivalents at Beginning of Year	1,202,450
Cash and Cash Equivalents at End of Year	\$1,388,983
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	\$ (103,799)
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Depreciation and Amortization	416,637
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	13,419
Decrease (Increase) in Due from Other Funds	5,790
Decrease (Increase) in Due from Other Governments	(4,732)
Decrease (Increase) in Net Pension Asset	(44,659)
Decrease (Increase) in Deferred Outflows of Resources Pensions	32,360
Decrease (Increase) in Deferred Outflows of Resources OPEB	(3,590)
Increase (Decrease) in Accounts Payable	14,645
Increase (Decrease) in Refundable Customer Deposits	6,025
Increase (Decrease) in Compensated Absences	1,272
Increase (Decrease) in Deferred Inflows of Resources Pensions	33,503
Increase (Decrease) in Deferred Inflows of Resources OPEB	(70)
Increase (Decrease) in Net Pension Liability	(23,648)
Increase (Decrease) in Net OPEB Liability	7,051
Total Adjustments	454,003
Net Cash Provided (Used) by Operating Activities	\$350,204

A. Summary of Significant Accounting Policies

The combined financial statements of City of Buffalo, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

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

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City.

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

- 2. Basis of Presentation, Basis of Accounting
 - a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

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

Debt Service Fund. This fund accounts for the accumulation of financial resources for the payment of principal and interest on the general long-term debt of the City other than debt service payments made by the enterprise fund. Property taxes are used for the payment of principal and interest.

The City reports the following major enterprise funds:

Water, Sewer and Sanitation Fund. This fund accounts for the business-like activities of providing water, sewer and sanitation services to the public. These services are financed primarily by user charges and the measurement of financial activity focuses on net income similar to the private sector.

b. Measurement Focus, Basis of Accounting

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

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

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

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

Inventories on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when they are consumed.

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

d. Capital Assets

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

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

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

e. Receivable and Payable Balances

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

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

f. Pensions

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

g. Other Post-Employment Benefits (OPEB)

The total OPEB liability of the Texas Municipal Retirement System (TMRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits and OPEB expense. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

h. Interfund Activity

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

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City's City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

j. Use of Estimates

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

B. <u>Compliance and Accountability</u>

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of financerelated legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation	Action Taken
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

Deficit
<u>Amount</u><u>Remarks</u>
Not applicable Not applicable

Fund	Name
None	reported

C. Deposits and Investments

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

Cash Deposits:

At September 30, 2020, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$4,573,109 and the bank balance was \$4,602,099. The City's cash deposits at September 30, 2020 and during the year ended September 30, 2020, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

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

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

The City's investments at September 30, 2020 are shown below.

Investment or Investment Type	<u>Maturity</u>	F	<u>air Value</u>
Certificate of Deposit	11/10/2020	\$	91,701
Certificate of Deposit	02/20/2021		159,014
Certificate of Deposit	10/26/2021		260,602
Certificate of Deposit	01/01/2021		255,689
Certificate of Deposit	01/01/2021		255,689
Total Investments		\$	1,022,695

Analysis of Specific Deposit and Investment Risks:

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

a. Credit Risk

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

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

Fair Value Measurement

The City categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The City currently has no investments that require fair value measurement.

<u>Capital Assets</u> D.

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets not being Depreciated:				
Land \$	229,258 \$	- \$	- \$	229,258
Construction in Progress	26,492	42,726	-	69,218
Total Capital Assets not being Depreciated	255,750	42,726		298,476
Capital Assets being Depreciated:				
Road Network	708,609	859,499	-	1,568,108
Buildings and Improvements	3,801,284	-	-	3,801,284
Equipment	486,368	16,804	-	503,172
Vehicles	1,040,878	64,331	-	1,105,209
Total Capital Assets being Depreciated	6,037,139	940,634	-	6,977,773
Less Accumulated Depreciation for:				
Road Network	(708,610)	(21,487)		(730,097)
Buildings and Improvements	(1,144,341)	(95,249)	-	(1,239,590)
Equipment	(455,668)	(9,948)	-	(465,616)
Vehicles	(752,260)	(53,925)	-	(806,185)
Total Accumulated Depreciation	(3,060,879)	(180,609)		(3,241,488)
Total Capital Assets being Depreciated, Ne	2,976,260	760,025	-	3,736,285
Governmental Activities Capital Assets, Net \$	3,232,010 \$	802,751 \$	- \$	4,034,761

	Beginning Balances	Increases	Decreases	Ending Balances
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land \$	4,800 \$	62,737 \$	- \$	67,537
Idle Assets	100,799	-	-	100,799
Construction in Progress	129,214	19,724	-	148,938
Total Capital Assets not being Depreciated	234,813	82,461		317,274
Capital Assets being Depreciated:				
Equipment	114,760	5,061	-	119,821
Vehicles	100,693	20,455	-	121,148
Water System	5,652,124	-	-	5,652,124
Sewer System	7,150,184	20,766	-	7,170,950
Office Furniture and Equipment	3,510	-	-	3,510
Total Capital Assets being Depreciated	13,021,271	46,282	-	13,067,553
Less Accumulated Depreciation for:				
Equipment	(92,443)	(4,037)	-	(96,480)
Vehicles	(64,121)	(11,910)	-	(76,031)
Water System	(2,121,557)	(178,389)	-	(2,299,946)
Sewer System	(3,355,529)	(225,167)	-	(3,580,696)
Office Furniture and Equipment	(3,510)	-	-	(3,510)
Total Accumulated Depreciation	(5,637,160)	(419,503)	-	(6,056,663)
Total Capital Assets being Depreciated, Ne	7,384,111	(373,221)	-	7,010,890
Business-Type Activities Capital Assets, Net	7,618,924 \$	(290,760) \$	- \$	7,328,164

CITY OF BUFFALO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2020

Depreciation was charged to functions as follows:

General Government	\$ 34,750
Cultural and Recreation	62,734
Public Safety	59,979
Street	23,146
Water and Sewer Facilities	419,503
Total Depreciation	\$ 600,112

E. Interfund Balances and Activity

1. Due To and From Other Funds

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

Due To Fund	Due From Fund		<u></u>	Amount	Purpose
Enterprise Fund Other Governmental Funds	General Fund General Fund		\$	189,003 2,575	Transfer federal receipts Transfer tax receipts
		Total	\$	191,578	

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2020, consisted of the following:

Transfers From	Transfers To	Amount	Reason
Other Governmental Funds	Enterprise Fund Total	\$ <u>340,2</u> \$ <u>340,2</u>	25 Pay debt service

F. Long-Term Obligations

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

1. Long-Term Obligation Activity

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

		Beginning Balance	Increases		Decreases		Ending Balance	Amounts Due Within One Year
Governmental activities:				_				
Compensated absences *	\$	55,957	\$ -	\$	23,195	\$	32,762 \$	-
Net Pension Liability		51,926	-		83,701		(31,775)	-
Net OPEB Liability		29,177	8,679		-		37,856	-
Notes from direct borrowings								
and direct placements		240,000	-		60,000		180,000	60,000
Total governmental activities	\$	377,060	\$ 8,679	\$	166,896	\$_	218,843 \$	60,000
	_		 					· · · · · · · · · · · · · · · · · · ·

CITY OF BUFFALO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Business-type activities:	 				
General obligation bonds	\$ 5,080,000 \$	- \$	260,000	\$ 4,820,000 \$	275,000
Bond Premium	341,489	-	16,658	324,831	-
Compensated absences *	1,866	1,272	-	3,138	-
Net Pension Liability	23,648	-	68,307	(44,659)	-
Net OPEB Liability	27,010	7,051	-	34,061	
Total business-type activities	\$ 5,474,013 \$	8,323 \$	344,965	\$ <u> </u>	275,000

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	Governmental
Compensated absences	Business-type	Enterprise

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2020, are as follows:

	Governmental Activities			
	 Notes from Direct Borrowings			
	and Direct Placements			
Year Ending September 30,	 Principal	Interest		Total
2021	\$ 60,000 \$	4,555	\$	64,555
2022	60,000	3,075		63,075
2023	60,000	1,556		61,556
2024	-	-		-
Totals	\$ 180,000 \$	9,186	\$	189,186

			Bonds	
Year Ending September 30,		Principal	Interest	Total
2021	\$	275,000 \$	144,550 \$	419,550
2022		280,000	133,450	413,450
2023		295,000	121,950	416,950
2024		305,000	109,950	414,950
2025		320,000	97,450	417,450
2026-2030		1,720,000	358,325	2,078,325
2031-2035		1,055,000	140,325	1,195,325
2036-2040		570,000	43,500	613,500
Totals	\$_	4,820,000 \$	1,149,500 \$	5,969,500

Governmental Activities:

Notes Payable:

The City obtained a line of credit from Community National Bank and Trust of Texas June 20, 2018 in the amount of \$500,000 to complete the new City Hall building. The note is payable in annual payments of \$60,000 with an interest rate of 2.50%.

Balance at September 30, 2020

\$ 180,000

The note is secured by a perfected security interest in the Hotel Occupancy Tax levied by the City.

Business-type Activities

CITY OF BUFFALO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2020

Business-Type Activities:

Bonds and Certificates of Obligations:

The City issued General Obligation Refunding Bonds, Series 2016, in the amount of \$5,535,0000. The interest rate ranges from 2.75% to 4.00% with bonds maturing annually through 2040. The purpose of the issue was to refund Tax and Revenue Certificates of Obligation, Series 2008A and Waterworks and Sewer System Revenue Bond, Series 2009. Balance at September 30, 2020

Principal and interest on the Bonds is payable from the receipts of an annual ad valorem tax, levied within the limits prescribed by law, against all taxable property located within the City. The scheduled payment of principal and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp.

3. Continuing Disclosure

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

G. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2020, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past three fiscal years.

H. Pension Plan

1. Plan Description

The City participates as one of 888 plans in the joint contributory, hybrid cash-balance defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. Employee contributions to TMRS are tax deferred under Section 414(h)(2) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

\$ 4,820,000

CITY OF BUFFALO, TEXAS NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2020

2. Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees covered by benefit terms:

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

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	11
Active employees	20
Total covered employees	38

3. Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.82% and 4.82% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020 were \$33,234, and were equal to the required contributions.

4. Net Pension Liability

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

Actuarial assumptions:

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

Inflation 2.50%

Overall payroll growth 2.75% 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 are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generaltional basis by Scale UMP to account for future mortality improvements. For disabled annuitants,

CITY OF BUFFALO, TEXAS NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2020

the same mortality tables for healthy retirees is used with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UPM to account for future mortality improvements subject to the floor.

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

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

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

Discount Rate

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

CITY OF BUFFALO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2020

		Increase (Decrease)			
	_	Total Pension	Plan Fiduciary	-	Net Pension
Changes in Net Pension Liability		Liability	Net Position		Liability
		<u>(a)</u>	(b)		(a) - (b)
Balance at 12/31/2018	\$	1,505,752 \$	5 1,430,179	\$	75,573
Changes for the year					
Service cost		65,821	-		65,821
Interest		100,549	-		100,549
Change of benefit terms		-	-		-
Difference between expected					
and actual experience		(39,848)	-		(39,848)
Changes of assumptions		7,573	-		7,573
Contributions - employer		-	32,465		(32,465)
Contributions - employee		-	33,685		(33,685)
Net investment income		-	221,240		(221,240)
Benefit payments, including					
refunds of employee contributions		(98,101)	(98,101)		-
Administrative expense		-	(1,249)		1,249
Other changes		-	(39)		39
Net changes	\$	35,994 \$	6 188,001	\$	(152,007)
Balance at 12/31/2019	\$_	1,541,746 \$	5 1,618,180	\$	(76,434)

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate.

	1% Decrease in	Discount	1% Increase in
	Discount Rate	Rate	Discount Rate
	5.75%	6.75%	7.75%
City's net pension liability	\$ 73,782 \$	(76,434) \$	(206,048)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2020, the City recognized pension expense of \$26,200.

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

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual	٠	004	^	
economic experience	\$	331	\$	-
Changes in actuarial assumptions Difference between projected and actual	\$	5,285	\$	-
investment earnings Contributions subsequent to the measure-	\$		\$	84,254
ment date	\$	27,245		
Total	\$	32,861	\$	84,254

CITY OF BUFFALO, TEXAS NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2020

\$27,245 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec. 31:	
2021	\$ (26,455)
2022	499
2023	(24,939)
Thereafter	-
Total	\$ (50,895)

I. Other Post-Employment Benefits

Supplemental Death Benefits Plan

1. Plan Description

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

2. Benefits Provided

Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. 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 postemployment benefit (OPEB) and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Plan. AS the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (no assets are accumulated).

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

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving bnefits	3
Active employees	20
Total covered employees	30

3. Contributions

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

CITY OF BUFFALO, TEXAS NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2020

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

The contribution rates for the City were 0.07% and 0.07% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020 were \$483 and were equal to the required contributions.

4. Total OPEB Liability

Actuarial Assumptions

The actuarial assumptions used in the calculation of the funding valuation for the SDBF are based on the Mortality Experience Investigation Study covering the period December 31, 2014 to December 31, 2018. They Were adopted in 2019 and first used in the December 31, 2019 valuation.

Assumptions:

- a. Mortality Rates Same as for the Pension Trust Fund
- b. Investment Return A statutory interest credit of 5% is allocated annually and is not dependent on investment earnings.
- c. Actuarial Cost Method For the purpose of calculating an employer's actuarially determined contributions rate, the one-year term cost is used.
- d. Valuation of Assets Assets in the SDBF are valued at fund value (or fund balance); however, since the contribution rates are based just on the one-year term cost, assets are not included in developing the rate.
- e. Changes in Actuarial Assumptions and Methods There were no changes since the prior valuation.

Benefit Provisions:

- a. Participation in SDBF Participation in the SDBF is optional and may be rescinded. Each municipality that chooses to participate can elect to cover just active members, or both active and retired members.
- b. Benefit Eligibility Benefits are payable if the death occurs during the period in which a municipality has elected to participate in the SDBF. For retirees who had service with multiple TMRS employers, benefits are payable only if the municipality from which the member retired participates in the SDBF when the death occurs.
- c. Benefit Amount 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 a fixed amount of \$7,500.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 2.75%. 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.

Changes in the Total OPEB Liability	-	Total OPEB Liability
Balance at September 30, 2019	\$	56,187
Changes for the year		
Service cost		3,571
Interest on Total OPEB Liability		2,142
Change of benefit terms		-
Difference between expected and actual experience		(965)
Changes of assumptions		11,454
Benefit payments, including refunds of employee contributions		(472)
Administrative expense		-
Other charges		-
Net changes	_	15,730
Balance at September 30, 2020	\$	71,917

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

The following shows the total OPEB liability calculated using the discount rate of 2.75%, 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 or 1 percentage point higher than the current rate.

	Di	Decrease in scount Rate (1.75%)	Discount Rate (2.75%)	1% Decrease in Discount rate (3.75%)
Total OPEB liability	\$	84,046 \$	71,917	\$ 62,034

OPEB Plan Total Liability:

Detailed information about the OPEB plan's Total OPEB Liability is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmrs.com.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended September 30, 2020, the City recognized OPEB expense of \$8,024.

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

		Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience (net	\$	- \$	1.282
of current year amortization) Changes in actuarial assumptions	φ	8,246	
Differences between projected and actual investment earnings (net of current year amortization)		1,992	1,992
Contributions subsequent to the measurement date		366	-
Total	\$_	10,604 \$	3,274

\$366 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 to OPEB will be recognized in OPEB expense as follows:

Fiscal year ended September 30	
2021	\$ 2,311
2022	2,169
2023	1,684
2024	801
Thereafter	-
Total	\$6,965

J. Health Care Coverage

During the year ended September 30, 2020, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$848 per pay period per employee and dependents to the Plan. All premiums were paid to a self-funded pool.

CITY OF BUFFALO, TEXAS NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2020

K. Commitments and Contingencies

1. Contingencies

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

2. Litigation

No reportable litigation was pending against the City at September 30, 2020.

L. Subsequent Events

The City did not have any subsequent events through May 10, 2021, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended September 30, 2020.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

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CITY OF BUFFALO, TEXAS GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Budgeted Amounts						Variance with Final Budget Positive	
	_					A		
-	_	Original	_	Final		Actual	_	(Negative)
Revenue:								
Taxes:	•	100 575	•	100 575	۴	101 000	ሱ	014
General Property Taxes	\$	130,575	\$	130,575	\$	131,389	\$	814
General Sales and Use Taxes		1,269,852		1,269,852		1,169,018		(100,834)
Franchise Fees		118,900		118,900		116,716		(2,184)
Alcoholic Beverages		5,800		5,800		5,286		(514)
License and Permits		1,000		1,000		2,544		1,544
Intergovernmental		1,391,604		921,604		997,369		75,765
Fines and Fees		311,000		311,000		249,135		(61,865)
Interest Income		18,000		18,000		31,293		13,293
Miscellaneous	_	24,500	_	36,739		25,354		(11,385)
Total Revenues	_	3,271,231	-	2,813,470	_	2,728,104	_	(85,366)
Expenditures:								
General Government		565,413		565,413		487,644		77,769
Public Safety		1,181,308		711,437		512,369		199,068
Public Works		1,611,070		1,738,789		1,514,382		224,407
Culture and Recreation		229,217		229,217		167,277		61,940
Total Expenditures		3,587,008	-	3,244,856		2,681,672		563,184
Excess (Deficiency) of Revenues			_					
Over (Under) Expenditures	_	(315,777)	-	(431,386)		46,432	_	477,818
Other Financing Sources (Uses):								
Transfers In		-		127,720		-		(127,720)
Total Other Financing Sources (Uses)	_	-	_	127,720	_	-	_	(127,720)
Net Change in Fund Balances		(315,777)		(303,666)		46,432		350,098

Fund Balances - Beginning	2,420,637	2,420,637	2,420,637	-
Fund Balances - Ending	\$2,104,860	\$ <u>2,116,971</u>	\$ 2,467,069	\$350,098

CITY OF BUFFALO, TEXAS SCHEDULE OF CHANGES IN THE CITY'S

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM LAST TEN FISCAL YEARS *

		Measurement Year							
		2019	2018	2017	2016	2015	2014		
Total pension liability:									
Service cost	\$	65,821 \$	56,806 \$	51,838 \$	54,141 \$	48,490 \$	47,302		
Interest		100,549	95,600	88,589	81,977	76,195	71,246		
Changes of benefit terms		-	-	-	-	-	-		
Differences between expected									
and actual experience		(39,848)	(13,252)	2,360	701	(1,562)	(13,088)		
Changes of assumptions		7,573	-	-	-	33,003	-		
Benefit payments, including refunds									
of employee contributions		(98,101)	(42,582)	(40,226)	(35,207)	(30,755)	(39,944)		
Net change in total pension liability		35,994	96,572	102,561	101,612	125,371	65,516		
Total pension liability - beginning		1,505,752	1,409,180	1,306,619	1,205,007	1,079,636	1,014,120		
Total pension liability - ending (a)	\$	1,541,746 \$	1,505,752 \$	1,409,180 \$	1,306,619 \$	1,205,007 \$	1,079,636		
Plan fiduciary net position:									
Contributions - employer	\$	32,465 \$	28,063 \$	25,117 \$	22,686 \$	22,734 \$	25,281		
Contributions - employee	Ŧ	33,685	29,221	26,721	27,936	25,602	25,325		
Net investment income		221,240	(43,756)	176,484	79,684	1,713	62,274		
Benefit payments, including refunds			(,			.,			
of employee contributions		(98,101)	(42,582)	(40,226)	(35,207)	(30,755)	(39,944)		
Administrative expense		(1,249)	(845)	(914)	(900)	(1,043)	(650)		
Other		(38)	(45)	(46)	(48)	(52)	(53)		
Net change in plan fiduciary		<u> </u>	<u> </u>				<u>()</u>		
net position		188,002	(29,944)	187,136	94,151	18,199	72,233		
Plan fiduciary net position		,	(, ,	,		,	,		
- beginning		1,430,178	1,460,122	1,272,986	1,178,835	1,160,636	1,088,403		
Plan fiduciary net position					.,				
- ending (b)	\$	1,618,180 \$	1,430,178 \$	1,460,122 \$	1,272,986 \$	1,178,835 \$	1,160,636		
City's net pension	*			+	·,				
liability - ending (a) - (b)	\$	(76,434) \$	75,574 \$	(50,942) \$	33,633 \$	26,172 \$	(81,000)		
Plan fiduciary net position	-			· / ·					
as a percentage of the									
total pension liability		104.96%	94.98%	103.62%	97.43%	97.83%	107.50%		
Covered-employee payroll	\$	673,708 \$	584,424 \$	534,410 \$	558,730 \$	512,034 \$	506,505		
City's net pension									
liability as a percentage of									
covered-employee payroli		-11.35%	12.93%	-9.53%	6.02%	5.11%	-15.99%		

Notes to Schedule:

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled,

this schedule provides the information only for those years for which information is available.

CITY OF BUFFALO, TEXAS SCHEDULE OF CITY CONTRIBUTIONS

SCHEDULE OF CITY CONTRIBUTIONS TEXAS MUNICIPAL RETIREMENT SYSTEM LAST TEN FISCAL YEARS *

	Fiscal Year										
	 2020	2019	2018	2017	2016	2015					
Actuarially determined contribution	\$ 35,934 \$	31,467 \$	24,333 \$	25,990 \$	22,913 \$	23,015					
Contributions in relation to the actuarially determined contribution	35,934	31,467	24,333	25,990	22,913	23,015					
Contribution deficiency (excess)	\$ \$	\$	\$	\$	\$						
Covered-employee payroll	\$ 689,510 \$	655,566 \$	576,929 \$	534,329 \$	551,767 \$	502,832					
Contributions as a percentage of covered-employee payroll	5.21%	4.80%	4.22%	4.86%	4.15%	4.58%					

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

CITY OF BUFFALO, TEXAS SCHEDULE OF CHANGES IN THE CITY'S

SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM LAST TEN FISCAL YEARS *

	Measurement Year Ended				
		2019	2018	2017	
Changes in the total OPEB liability					
Total OPEB liability - beginning of year Changes for the year	\$	56,187 \$	55,986 \$	48,251	
Service cost		3,571	2,922	2,351	
Interest		2,142	1,897	1,863	
Changes of benefit terms		-	-	-	
Differences between expected and actual experience		(965)	(922)	-	
Changes of assumptions or other inputs		11,454	(3,404)	3,788	
Benefit payments		(472)	(292)	(267)	
Net change in total OPEB liability		15,730	201	7,735	
Total OPEB liability - end of year	\$	71,917 \$	56,187 \$	55,986	
Covered-employee payroll	\$	673,708 \$	584,424 \$	534,410	
Total OPEB liability as a percentage of covered-employee payroll		10.67%	9.61%	10.48%	

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

CITY OF BUFFALO, TEXAS NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2020

A. Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days prior, public notice of the meeting has been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of an ordinance by the City Council.

Once a budget is approved, it can be amended in the same format as adopted, by approval of a majority of the members of the City Council. Amendments are presented to the Council at regular meetings.

Each amendment must have City Council approval. Such amendments are made before the fact, are reflected in the official minutes of the Council and are not made after fiscal year end as required by law.

B. Defined Benefit Pension Plan

Valuation date:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method Amortization method Remaining amortization period Asset valuation method Inflation Salary increases Investment rate of return Retirement age	Entry age normal Level percentage of payroll, closed NA 10 year smoothed market; 12% soft corridor 2.50% 3.50% to 11.50%, including inflation 6.75% Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other information	There were no benefit changes during the year.

C. Define Benefit Postemployment Benefits Other than Pension Plan

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later. Methods and Assumptions Used to Determine Contribution Rates: Inflation 2.50% 3.50% to 11.50%, including inflation Salary increases 2.75% **Discount Rate** All administrative expenses are paid through the Pension Administrative expenses Trust and accounted for under reporting requirements under GASB Statement No. 68. 2019 Municipal Retirees of Texas Mortality Tables. The rates Mortality rates - service retirees are projected on a fully generational basis with scale UMP. 2019 Municipal Retirees of Texas Mortality Tables with a 4 Mortality rates - disabled retirees year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. The actuarial assumptions used in the December 3, 2019 Other information: valuation were based on the results of an actuarial experience study for the period December 31, 2014 to

December 31, 2018.

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis. This page has been left blank intentionally.

EXHIBIT C-1

CITY OF BUFFALO, TEXAS COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS SEPTEMBER 30, 2020

ASSETS AND OTHER DEBITS:		Special Revenue Funds	f 	Capital Projects Fund Capital rovements Fund	Total Nonmajor Governmental Funds (See Exhibit A-3)		
Assets: Cash and Cash Equivalents Receivables (net of allowances for uncollectibles): Total Assets and Other Debits	\$ \$	199,674 40,710 240,384	\$ 	21,955 - 21,955	\$ 	221,629 40,710 262,339	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES Liabilities: Deferred Inflows of Resources:	AND	FUND BALAN	CES:				
Fund Balances: Restricted Fund Balances: Restricted for Tourism Restricted for Capital Projects Restricted for Federal and State Programs Total Fund Balance	\$	205,384 - 35,000 240,384	\$	21,955 - 21,955	\$	205,384 21,955 35,000 262,339	
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$	240,384	\$	21,955	\$	262,339	

CITY OF BUFFALO, TEXAS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2020

FOR THE YEAR ENDED SEPTEMBER 30, 2020	I	Special Revenue Funds	 Capital Projects Fund Capital rovements Fund	Total Nonmajc Governme Funds (Se Exhibit A-		
Revenue:						
Hotel/Motel Taxes	\$	159,940	\$ -	\$	159,940	
Intergovernmental		36,050	-		36,050	
Interest Income		1,557	143		1,700	
Rents and Royalties		5,150	-		5,150	
Miscellaneous		35,000	 -		35,000	
Total Revenues		237,697	 14 <u>3</u>		237,840	
Expenditures:						
General Government		-	14,294		14,294	
Public Safety		24,500	-		24,500	
Public Works		11,550	-		11,550	
Culture and Recreation		70,278	-		70,278	
Principal		60,000	-		60,000	
Interest and Fiscal Charges		7,132	-		7,132	
Total Expenditures		173,460	 14,294		187,754	
Excess (Deficiency) of Revenues			 		_	
Over (Under) Expenditures		64,237	 (14,151)		50,086	
Other Financing Sources (Uses):						
Net Change in Fund Balances		64,237	(14,151)		50,086	
Fund Balances - Beginning		176,147	 36,106_		212,253	
Fund Balances - Ending	\$	240,384	\$ 21,955	\$	262,339	

EXHIBIT C-3

CITY OF BUFFALO, TEXAS COMBINING BALANCE SHEET NONMAJOR SPECIAL REVENUE FUNDS SEPTEMBER 30, 2020

ASSETS AND OTHER DEBITS:	Hotel/Motel Federal Occupancy Tax Grants Fund Fund			Total Nonmajor Special Revenue Funds (See Exhibit C-1)		
Assets:						
Cash and Cash Equivalents	\$	164,674	\$	35,000	\$	199,674
Receivables (net of allowances for uncollectibles): Total Assets and Other Debits	\$	40,710 205,384	\$	35,000	\$	<u>40,710</u> 240,384
LIABILITIES, DEFERRED INFLOWS OF RESOURCES Liabilities: Deferred Inflows of Resources:	S AND	FUND BALAN	ICES:			
Fund Balances:						
Restricted Fund Balances: Restricted for Tourism Restricted for Federal and State Programs	\$	205,384	\$	- 35,000	\$	205,384 35,000
Total Fund Balance		205,384		35,000		240,384
Total Liabilities, Deferred Inflows of Resources	•	005 00 1	•	05 000	•	0 4 0 0 0 f
and Fund Balance	\$	205,384	\$	35,000	\$	240,384

CITY OF BUFFALO, TEXAS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2020

FOR THE YEAR ENDED SEPTEMBER 30, 2020	 otel/Motel upancy Tax Fund	Federal Grants Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)		
Revenue:					
Hotel/Motel Taxes	\$ 159,940	\$ -	\$	159,940	
Intergovernmental	-	36,050		36,050	
Interest Income	1,557	-		1,557	
Rents and Royalties	5,150	-		5,150	
Miscellaneous	 -	 35,000		35,000	
Total Revenues	 166,647	 71,050		237,697	
Expenditures:					
Public Safety	-	24,500		24,500	
Public Works	-	11,550		11,550	
Culture and Recreation	70,278	· _		70,278	
Principal	60,000	-		60,000	
Interest and Fiscal Charges	7,132	-		7,132	
Total Expenditures	 137,410	 36,050		173,460	
Excess (Deficiency) of Revenues	 <u>-</u> _	 			
Over (Under) Expenditures	 29,237	 35,000		64,237	
Other Financing Sources (Uses):					
Net Change in Fund Balances	29,237	35,000		64,237	
Fund Balances - Beginning	176,147	-		176,147	
Fund Balances - Ending	\$ 205,384	\$ 35,000	\$	240,384	

CITY OF BUFFALO, TEXAS DEBT SERVICE FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED SEPTEMBER 30, 2020

Revenue:	Budget	Actual	Variance Positive (Negative)		
Taxes: General Property Taxes	\$ 391,126	\$ 394,144	\$ 3.018		
Interest Income	3,000	1,716	(1,284)		
Total Revenues	394,126	395,860	1,734		
Expenditures:					
Total Expenditures	-	-	-		
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	394,126	395,860	1,734		
Other Financing Sources (Uses):					
Transfers Out	(385,126)	(340,225)	44,901		
Total Other Financing Sources (Uses)	(385,126)	(340,225)	44,901		
Net Change in Fund Balances	9,000	55,635	46,635		
Fund Balances - Beginning	168,964	168,964	-		
Fund Balances - Ending	\$ 177,964	\$ 224,599	\$ 46,635		

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Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities. This page has been left blank intentionally.

DAVIS, HEINEMANN & COMPANY, P.C. *Certified public Accountants* 1300 11TH STREET, SUITE 500 P.O. BOX 6308 HU<u>NTSVILLE, TEXAS 773</u>42 PHONE (936) 291-3020 FAX (936) 291-9607

Independent Auditor's Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

City Council City of Buffalo, Texas 812 N Buffalo Ave Buffalo, Texas 75831

Members of the City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Buffalo, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise City of Buffalo, Texas' basic financial statements, and have issued our report thereon dated May 10, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Buffalo, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Respectfully submitted,

Davis, Heineman + Co.

Davis, Heinemann & Company, P.C.

Huntsville, Texas May 10, 2021

DAVIS, HEINEMANN & COMPANY, P.C. *CERTIFIED PUBLIC ACCOUNTANTS* 1300 11TH STREET, SUITE 500 P.O. BOX 6308 HU<u>NTSVILLE, TEXAS 773</u>42 PHONE (936) 291-3020 FAX (936) 291-9607

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

City Council City of Buffalo, Texas 812 N Buffalo Ave Buffalo, Texas 75831

Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Buffalo, Texas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on City of Buffalo, Texas' major federal program for the year ended September 30, 2020. City of Buffalo, Texas' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and guestioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Buffalo, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal* Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Buffalo, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Buffalo, Texas' compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Buffalo, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2020.

Report on Internal Control Over Compliance

Management of the City of Buffalo, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Buffalo, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Buffalo, Texas' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

Davis, Heineman + Co.

Davis, Heinemann & Company, P.C.

Huntsville, Texas May 10, 2021

CITY OF BUFFALO, TEXAS SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2020

A. Summary of Auditor's Results

1.	Financial Statements					
	Type of auditor's report issued:		. <u>Unmodifi</u>	ed		
	Internal control over financial reporting:					
	One or more material weaknesses iden	tified?	Ye	es _	X	No
	One or more significant deficiencies ide are not considered to be material weak		Ye	es _	<u>x</u>	None Reported
	Noncompliance material to financial statements noted?		Ye	es _	<u>x</u>	No
2.	Federal Awards					
	Internal control over major programs:					
	One or more material weaknesses iden	tified?	Ye	es _	X	No
	One or more significant deficiencies ide are not considered to be material weak		Ye	es _	<u>x</u>	None Reported
	Type of auditor's report issued on complianc major programs:	e for	<u>Unmodif</u>	ied		
	Version of compliance supplement used in a	udit:	<u>Decemb</u>	<u>er 2020</u>		
	Any audit findings disclosed that are required in accordance with Title 2 U.S. Code of Feo (CFR) Part 200?			es	_ <u>X</u>	No
	Identification of major programs:					
	CFDA Number(s)Name of Federal Program or Cluster14.228Community Development Block Grant					
	Dollar threshold used to distinguish betweer type A and type B programs:	1	\$750,00	0		
	Auditee qualified as low-risk auditee?		Ye	es	X	No
B. <u>Fin</u>	ancial Statement Findings					
NC	NE					
C. Federal Award Findings and Questioned Costs						

NONE

CITY OF BUFFALO, TEXAS SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED SEPTEMBER 30, 2020

Finding/Recommendation

Current Status

Management's Explanation If Not Implemented

None reported.

CITY OF BUFFALO, TEXAS SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2020

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title OTHER PROGRAMS:	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients		Federal Expenditures	
<u>U. S. Department of the Treasury</u> Passed Through Texas Department of Emergency Management: COVID-19 - Coronavirus Relief Funds Total U. S. Department of the Treasury	21.019	2020	\$	<u> </u>	\$	103,437 103,437
<u>U. S. Department of Housing & Urban Development</u> Passed Through Texas General Land Office:						
Community Development Block Grant Passed Through Texas Department of Agriculture:	14.228	18-336-000-B	801	-		812,139
Community Development Block Grant	14.228	7219072		-		11,550
Community Development Block Grant	14.228	7219086		-		24,500
Community Development Block Grant	14.228	7219500		-		30,049
Total Passed Through Texas Department of Agriculture			_	-		66,099
Total U.S. Department of Housing & Urban Development				-	_	878,238
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$	-	\$	981,675

The accompanying notes are an integral part of this schedule.

CITY OF BUFFALO, TEXAS NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2020

Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of the City of Buffalo, Texas. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"). Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

The City of Buffalo, Texas has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.