



ANNUAL FINANCIAL REPORT

**FISCAL YEAR ENDED
SEPTEMBER 30, 2019**

VILLAGE OF SALADO
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

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VILLAGE OF SALADO

PRINCIPAL OFFICERS

VILLAGE OFFICIALS

MAYOR

SKIP BLANCETT

BOARD OF ALDERMAN

MICHAEL COGGIN

AMBER DANKERT

JOHN COLE

RODNEY BELL

FRANK COACHMAN

VILLAGE ADMINISTRATOR

DON FERGUSON



INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Board of Aldermen
Village of Salado, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Village of Salado as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise Village of Salado's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Village of Salado, as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability, schedule of employer pension contributions, and schedule of changes in total other postemployment benefit liability (as listed in 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2020 on our consideration of Village of Salado's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Village of Salado's internal control over financial reporting and compliance.



Armstrong, Vaughan & Associates, P.C.

February 5, 2020

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Village of Salado’s annual financial report presents our discussion and analysis of the Village’s financial performance during the fiscal year ended September 30, 2019. Please read it in conjunction with the Village’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

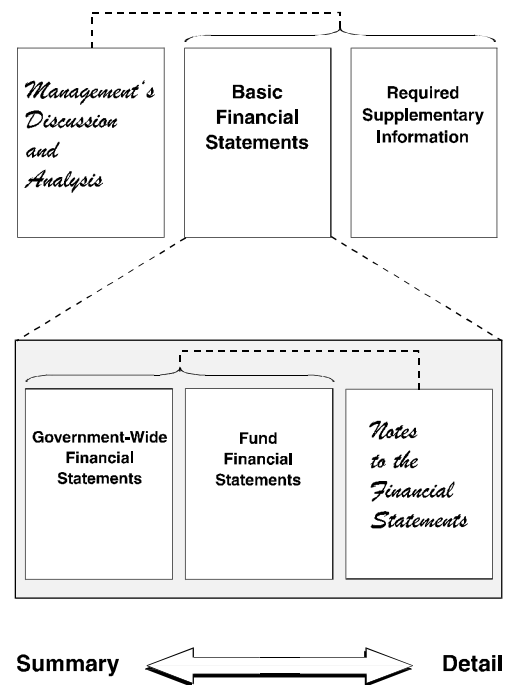
- The Village’s total combined net position was \$4.0 million at September 30, 2019.
- The Village’s governmental expenses (including assistance to the wastewater utility) were \$59 thousand less than the \$2.3 million generated in general and program revenues for governmental activities. Governmental expenses increased 2.5%, primarily from street maintenance.
- The Village’s business-type expenses were \$758 thousand more than the \$1.0 million generated in charges for services and other revenues. The total cost of the Village’s business-type activities increased significantly from the disposal of the stagecoach wastewater plant.
- The general fund reported a fund balance of \$801 thousand, a decrease of \$25 thousand, largely due to assistance provided to the wastewater utility.
- No new debt was issued.

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 Village:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Village’s overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the Village’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- and long-term* financial information about the activities the government operates *like businesses*.

Figure A-1F, Required Components of the Village’s Annual Financial Report



The financial statements also include notes that explain some of the 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.

Figure A-2. Major Features of the Village's Government-wide and Fund Financial Statements			
<i>Type of Statements</i>	Fund Statements		
	Government-wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire Village's government (except fiduciary funds) and the Village's component units	The activities of the town that are not proprietary or fiduciary	Activities of the Village that operate similar to private businesses: wastewater utility
<i>Required financial statements</i>	• Statement of net position	• Balance Sheet	• Statement of net position
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses & changes in net position • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the Village’s financial statements, including the portion of the Village government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the Village 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.

The two government-wide statements report the Village’s net position and how they have changed. Net position—the difference between the Village’s assets and liabilities—is one way to measure the Village’s financial health or *position*.

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

- The government-wide financial statements of the Village include the *Governmental activities*. Most of the Village’s basic services are included here, such as general government, public safety, streets, economic development, culture and recreation, and interest on long-term debt. Property taxes and charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village’s most significant *funds*—not the Village as a whole. Funds are accounting devices that the Village 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 Board of Alderman establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Village has the following kinds of funds:

- *Governmental funds*—Most of the Village’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 Village’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page, which explains the relationship (or differences) between them.
- *Proprietary funds*—Services for which the Village 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 VILLAGE AS A WHOLE

The Village’s combined net position was \$41.6 million at September 30, 2019. (See Table A-1).

Table A-1

City’s Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018*	2019	2018*	2019	2018*
<i>Assets:</i>						
Current Assets	\$ 1,200,433	\$ 1,149,787	\$ 1,049,541	\$ 4,831,298	\$ 2,249,974	\$ 5,981,085
Other Assets	64,818	118,090	-	-	64,818	118,090
Capital Assets (net)	857,912	889,440	10,678,335	7,000,740	11,536,247	7,890,180
Total Assets	2,123,163	2,157,317	11,727,876	11,832,038	13,851,039	13,989,355
<i>Deferred Outflows:</i>	86,016	47,267	-	-	86,016	47,267
<i>Liabilities:</i>						
Current Liabilities	146,318	170,080	728,203	523,639	874,521	693,719
Long-Term Liabilities	39,501	39,458	8,965,000	9,440,000	9,004,501	9,479,458
Total Liabilities	185,819	209,538	9,693,203	9,963,639	9,879,022	10,173,177
<i>Deferred Inflows:</i>	82,215	113,244	-	-	82,215	113,244
<i>Net Position:</i>						
Net Invested in Capital Assets	845,179	1,205,883	1,238,335	624,402	2,083,514	1,830,285
Restricted	321,780	-	-	-	321,780	-
Unrestricted	774,186	675,919	796,338	1,243,997	1,570,524	1,919,916
Total Net Position	\$ 1,941,145	\$ 1,881,802	\$ 2,034,673	\$ 1,868,399	\$ 3,975,818	\$ 3,750,201

*2018 has been restated to reflect the result of a prior period adjustment

Governmental Activities

- Property tax rates increased for the fiscal year ending September 30, 2019, primarily to help cover the wastewater utility debt. Property tax revenues increased \$170 thousand to \$1.2 million.
- Costs increased 2.5% overall, primarily from street maintenance.

Business-Type Activities

- Expenses increased because of the disposal of the old system. After accounting for that loss, the expenses increased from \$495 thousand to \$677 thousand. This increase is from interest and maintenance on the new system that came online in the summer of 2019.
- Increases from charges for services was largely a capital fee for a line extension to the school district. Customers only minimally expanded in 2019 as connections are ongoing.

Table A-2
Changes in City's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018*	2019	2018*	2019	2018*
<i>Program Revenues:</i>						
Charges for Services	\$ 87,067	\$ 104,754	\$ 343,147	\$ 51,221	\$ 430,214	\$ 155,975
Operating Grants and Contributions	910	-	-	-	910	-
Capital Contributions	-	-	675,929	324,071	675,929	324,071
<i>General Revenues:</i>						
Taxes	2,158,146	1,859,838	-	-	2,158,146	1,859,838
Interest Earnings	17,648	8,263	17,564	67,624	35,212	75,887
Miscellaneous	6,700	43,086	-	15,280	6,700	58,366
TOTAL REVENUES	2,270,471	2,015,941	1,036,640	458,196	3,307,111	2,474,137
<i>Program Expenses:</i>						
General Government	624,096	634,848	-	-	624,096	634,848
Development Services	101,573	94,628	-	-	101,573	94,628
Police	349,155	375,051	-	-	349,155	375,051
Fire	40,000	40,455	-	-	40,000	40,455
Municipal Court	19,574	16,365	-	-	19,574	16,365
Streets	106,977	41,604	-	-	106,977	41,604
Public Works	31,796	38,641	-	-	31,796	38,641
Parks	12,368	13,767	-	-	-	-
Wastewater Utility	-	-	1,794,715	495,319	1,794,715	495,319
Interest on Debt	1,240	-	-	-	1,240	-
TOTAL EXPENSES	1,286,779	1,255,359	1,794,715	495,319	3,081,494	1,750,678
Transfers	(924,349)	(625,803)	924,349	625,803	-	-
Change in Net Position	\$ 59,343	\$ 134,779	\$ 166,274	\$ 588,680	\$ 225,617	\$ 723,459

*2018 has been restated to reflect the result of a prior period adjustment

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

- The General fund decreased its fund balance by \$25 thousand primarily from continued support to the wastewater utility until the fund is self-sufficient.

- Both the Hotel Tax Fund and Debt Service funds added to their fund balance by \$50 and \$44 thousand respectively.
- The wastewater utility ended the year with \$796 thousand in unrestricted net assets.

Budgetary Highlights

- General Fund revenues were close to budgeted amounts, only falling short by \$2 thousand.
- General Fund expenditures were \$9 thousand under budget. .
- The General Fund balance decreased \$25 thousand, which was a swing of \$156 thousand worse than what the final budget projected. This was the result of higher support to the wastewater utility than anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2019, the Village had invested \$12 million in a broad range of capital assets, including land, equipment, buildings, and infrastructure. Significant changes in fiscal year 2019 included completion of the new wastewater collection system and plant. (See Table A-4)

Table A-4
City's Capital Assets
(in thousands dollars)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 46	\$ 46	\$ -	\$ -	\$ 46	\$ 46
Buildings and Improvements	385	369	-	-	385	369
Infrastructure	800	800	10,795	1,234	11,595	2,034
Equipment	225	208	6	6	231	214
Construction in Progress	14	14	-	5,856	14	5,870
Totals at Historical Cost	1,470	1,437	10,801	7,096	12,271	8,533
Total Accumulated Depreciation	(612)	(547)	(122)	(94)	(734)	(641)
Net Capital Assets	<u>\$ 858</u>	<u>\$ 890</u>	<u>\$10,679</u>	<u>\$ 7,002</u>	<u>\$11,537</u>	<u>\$ 7,892</u>

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

Long Term Debt

The Village had bonds payable at year end as outlined in Table A-5. No new debt was issued during the 2019 fiscal year. More detailed information about the Village's debt is presented in the notes to the financial statements.

City's Long-Term Debt
(in thousands dollars)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Bonds Payable	\$ -	\$ -	\$ 9,440	\$ 9,870	\$ 9,440	\$ 9,870
Lease Payable	13	25	-	-	13	25
Total Long-Term Debt	<u>\$ 13</u>	<u>\$ 25</u>	<u>\$ 9,440</u>	<u>\$ 9,870</u>	<u>\$ 9,453</u>	<u>\$ 9,895</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the 2019-2020 year, the Village decreased the property tax rate from \$0.6276 to \$0.57520. The largest portion of the decrease was in the interest and sinking portion of the rate. The Village anticipates the wastewater fund will be able to contribute more towards debt service on its way to ultimately covering all the debt service as more connections are made. The Village intends to maintain current service levels to the citizens, while containing and reducing overall operational costs.

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Village at (254) 947-5060 or visit the Village's website at www.salado-tx.gov.



**Village
of Salado**

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government – Wide Financial Statements
- Fund Financial Statements:
 - Governmental Funds
 - Proprietary Fund

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.



**Village
of Salado**

VILLAGE OF SALADO
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,008,115	\$ 728,578	\$ 1,736,693
Ad Valorem Tax Receivable (Net)	20,581	-	20,581
Other Receivables (Net)	152,850	1,633	154,483
Due from Other Governments	9,000	294,857	303,857
Prepaid Expenses	7,540	26,820	34,360
Internal Balances	2,347	(2,347)	-
Capital Assets (net)	857,912	10,678,335	11,536,247
Net Pension Asset	64,818	-	64,818
TOTAL ASSETS	<u>2,123,163</u>	<u>11,727,876</u>	<u>13,851,039</u>
DEFERRED OUTFLOWS			
Deferred Pension Related Outflows	83,563	-	83,563
Deferred OPEB Related Outflows	2,453	-	2,453
TOTAL DEFERRED OUTFLOWS	<u>86,016</u>	<u>-</u>	<u>86,016</u>
LIABILITIES			
Accounts Payable	52,310	224,401	276,711
Accrued Wages	26,165	-	26,165
Accrued Interest	-	23,602	23,602
Accrued Compensated Absences	55,111	-	55,111
Customer Deposits	-	5,200	5,200
<i>Long-term Debt</i>			
Long-term Debt Due in One Year	12,732	475,000	487,732
Long-term Debt Due in More than One Year	-	8,965,000	8,965,000
Total OPEB Liabilities	39,501	-	39,501
TOTAL LIABILITIES	<u>185,819</u>	<u>9,693,203</u>	<u>9,879,022</u>
DEFERRED INFLOWS			
Deferred Pension Related Inflows	79,415	-	79,415
Deferred OPEB Related Inflows	2,800	-	2,800
TOTAL DEFERRED INFLOWS	<u>82,215</u>	<u>-</u>	<u>82,215</u>
NET POSITION			
Net Investment in Capital Assets	845,179	1,238,335	2,083,514
Restricted for:			
Municipal Court	7,772	-	7,772
Debt Service	134,524	-	134,524
Trolley Project	6,675	-	6,675
Tourism Development	172,809	-	172,809
Unrestricted	774,186	796,338	1,570,524
TOTAL NET POSITION	<u>\$ 1,941,145</u>	<u>\$ 2,034,673</u>	<u>\$ 3,975,818</u>

See accompanying notes to basic financial statements.

VILLAGE OF SALADO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

<u>Functions and Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
<i>Governmental Activities:</i>				
General Government	\$ 624,096	\$ -	\$ -	\$ -
Development Services	101,573	50,612	-	-
Police	349,155	323	910	-
Fire	40,000	-	-	-
Municipal Court	19,574	34,201	-	-
Streets	106,977	-	-	-
Public Works	31,796	-	-	-
Parks	12,368	1,931	-	-
Interest on Long-term Debt	1,240	-	-	-
<i>Total Governmental Activities</i>	<u>1,286,779</u>	<u>87,067</u>	<u>910</u>	<u>-</u>
<i>Business-Type Activities:</i>				
Wastewater Utility	1,794,715	343,147	-	675,929
<i>Total Business-Type Activities</i>	<u>1,794,715</u>	<u>343,147</u>	<u>-</u>	<u>675,929</u>
Total Primary Government	<u>\$ 3,081,494</u>	<u>\$ 430,214</u>	<u>\$ 910</u>	<u>\$ 675,929</u>
General Revenues:				
Taxes				
Ad Valorem Taxes				
Sales Taxes				
Franchise and Occupancy Taxes				
Interest and Investment Earnings				
Miscellaneous				
Total General Revenues				
Transfers				
Change in Net Position				
Net Position at Beginning of Year				
Prior Period Adjustment				
Net Position at End of Year				

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (624,096)		\$ (624,096)
(50,961)		(50,961)
(347,922)		(347,922)
(40,000)		(40,000)
14,627		14,627
(106,977)		(106,977)
(31,796)		(31,796)
(10,437)		(10,437)
(1,240)		(1,240)
<u>(1,198,802)</u>		<u>(1,198,802)</u>
	\$ (775,639)	(775,639)
	<u>(775,639)</u>	<u>(775,639)</u>
		<u>(1,974,441)</u>
1,184,346	-	1,184,346
545,197	-	545,197
428,603	-	428,603
17,648	17,564	35,212
6,700	-	6,700
<u>2,182,494</u>	<u>17,564</u>	<u>2,200,058</u>
<u>(924,349)</u>	<u>924,349</u>	<u>-</u>
59,343	166,274	225,617
1,800,598	1,760,496	3,561,094
81,204	107,903	189,107
<u>\$ 1,941,145</u>	<u>\$ 2,034,673</u>	<u>\$ 3,975,818</u>

VILLAGE OF SALADO
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019

	Major Fund General Fund	Major Fund Hotel Tax	Major Fund Debt Service	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 744,744	\$ 142,571	\$ 120,800	\$ 1,008,115
Ad Valorem Taxes Receivable (Net)	6,857	-	13,724	20,581
Other Receivables (Net)	110,331	42,519	-	152,850
Due from Other Governments	-	9,000	-	9,000
Due from Other Funds	2,347	-	-	2,347
Prepaid Items	5,190	2,350	-	7,540
TOTAL ASSETS	\$ 869,469	\$ 196,440	\$ 134,524	\$ 1,200,433
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
<i>Liabilities:</i>				
Accounts Payable	\$ 40,519	\$ 11,790	\$ -	\$ 52,309
Accrued Wages	23,349	2,816	-	26,165
<i>Total Liabilities</i>	<u>63,868</u>	<u>14,606</u>	<u>-</u>	<u>78,474</u>
<i>Deferred Inflows of Resources:</i>				
Unavailable Property Tax Revenue	4,570	-	9,146	13,716
<i>Total Deferred Inflows</i>	<u>4,570</u>	<u>-</u>	<u>9,146</u>	<u>13,716</u>
<i>Fund Balances:</i>				
Nonspendable:				
Prepaid Items	5,190	2,350	-	7,540
Restricted for:				
Debt Service	-	-	125,378	125,378
Trolley Project	-	6,675	-	6,675
Tourism Development	-	172,809	-	172,809
Municipal Court	7,772	-	-	7,772
Committed for:				
Public Works	315,228	-	-	315,228
Grant Matches	197,017	-	-	197,017
Wastewater	275,824	-	-	275,824
<i>Total Fund Balances</i>	<u>801,031</u>	<u>181,834</u>	<u>125,378</u>	<u>1,108,243</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 869,469	\$ 196,440	\$ 134,524	\$ 1,200,433

See accompanying notes to basic financial statements.

VILLAGE OF SALADO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 1,108,243

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 857,912

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 13,716

Accrued compensated absences are not due and payable in the current period and, therefore, not reported in the funds. (55,111)

Long-term liabilities, including capital leases and related accrued interest, are not due and payable in the current period and, therefore not reported in the funds. (12,733)

Net pension and total other post-employment liabilities (and related deferred outflows and inflows of resources) do not consume or create current financial resources and are not reported in the funds.

Net Pension (Liability) Asset	64,818	
Pension Related Deferred Outflows	83,563	
Pension Related Deferred Inflows	(79,415)	
OPEB Related Deferred Outflows	2,453	
OPEB Related Deferred Inflows	(2,800)	
Total OPEB Obligation	(39,501)	29,118

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 1,941,145

VILLAGE OF SALADO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Major Fund</u> General Fund	<u>Major Fund</u> Hotel Tax	<u>Major Fund</u> Debt Service	Total Governmental Funds
REVENUES				
Ad Valorem Taxes	\$ 393,850	\$ -	\$ 786,223	\$ 1,180,073
Sales Taxes	545,197	-	-	545,197
Franchise and Occupancy Taxes	212,696	206,907	-	419,603
Licenses and Permits	27,293	-	-	27,293
Intergovernmental	-	9,000	-	9,000
Charges for Services	26,483	-	-	26,483
Fines and Penalties	34,201	-	-	34,201
Interest Income	11,570	-	6,075	17,645
Miscellaneous	5,169	1,531	-	6,700
TOTAL REVENUES	<u>1,256,459</u>	<u>217,438</u>	<u>792,298</u>	<u>2,266,195</u>
EXPENDITURES				
<i>Current:</i>				
General Government	427,022	166,412	-	593,434
Development Services	100,725	-	-	100,725
Police	320,946	-	-	320,946
Fire	40,000	-	-	40,000
Municipal Court	19,574	-	-	19,574
Streets	38,806	-	-	38,806
Public Works	33,591	-	-	33,591
Parks	8,266	-	-	8,266
Capital Outlay	102,759	1,296	-	104,055
<i>Debt Service:</i>				
Principal	12,128	-	430,000	442,128
Interest and Fiscal Charges	1,240	-	318,126	319,366
TOTAL EXPENDITURES	<u>1,105,057</u>	<u>167,708</u>	<u>748,126</u>	<u>2,020,891</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	151,402	49,730	44,172	245,304
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	(176,223)	-	-	(176,223)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(176,223)</u>	<u>-</u>	<u>-</u>	<u>(176,223)</u>
Net Change in Fund Balance	(24,821)	49,730	44,172	69,081
Fund Balances at Beginning of Year	749,813	-	-	749,813
Prior Period Adjustment	76,039	132,104	81,206	289,349
Fund Balances at End of Year	<u>\$ 801,031</u>	<u>\$ 181,834</u>	<u>\$ 125,378</u>	<u>\$ 1,108,243</u>

See accompanying notes to basic financial statements.

VILLAGE OF SALADO
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	69,081
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay.		(31,530)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		4,275
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Governmental funds report required contributions to employee pensions and other post-employment benefits (OPEB) as expenditures. However in the Statement of Activities the cost of these benefits are recorded based on the actuarially determined cost of the plan. This is the amount that contributions exceeded (fell short of) the actuarially determined plan expenses.		
Pension Plan	19,918	
Other Post-employment Benefits	<u>(3,455)</u>	16,463

The issuance of long-term debt (e.g. bonds and capital leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Principal Payments	<u>12,128</u>	12,128

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in Compensated Absences	(11,074)	<u>(11,074)</u>

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	\$	<u>59,343</u>
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VILLAGE OF SALADO
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
SEPTEMBER 30, 2019

	Business-Type Activities
	Wastewater Utility
ASSETS	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 728,578
Customer Receivables	1,633
Due From Other Governments	294,857
Prepaid Expenses	26,820
<i>Total Current Assets</i>	1,051,888
 <i>Other Assets:</i>	
Property and Equipment (net)	10,678,335
<i>Total Other Assets</i>	10,678,335
TOTAL ASSETS	11,730,223
 LIABILITIES	
<i>Current Liabilities:</i>	
Accounts Payable	224,401
Accrued Interest	23,602
Customer Deposits	5,200
Due to Other Funds	2,347
Current Portion of Long-Term Debt	475,000
<i>Total Current Liabilities</i>	730,550
 <i>Long-term Liabilities:</i>	
Long-term Debt (Net of Current Portion)	8,965,000
<i>Total Long-term Liabilities</i>	8,965,000
TOTAL LIABILITIES	9,695,550
 NET POSITION	
Net Investment In Capital Assets	1,238,335
Unrestricted (Deficit)	796,338
TOTAL NET POSITION	\$ 2,034,673

See accompanying notes to basic financial statements.

VILLAGE OF SALADO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR SEPTEMBER 30, 2019

	Business-Type Activities
	Wastewater Utility
OPERATING REVENUES	
Charges for Utility Service	\$ 32,349
Miscellaneous Charges	91
TOTAL OPERATING REVENUES	32,440
OPERATING EXPENSES	
Administration and Utilities	97,124
Professional Services	47,406
Maintenance	73,195
Depreciation	143,909
TOTAL OPERATING EXPENSES	361,634
OPERATING INCOME (LOSS)	(329,194)
NONOPERATING REVENUES (EXPENSES)	
Grants	675,929
Line Extension Fees	310,707
Interest Income	17,564
Loss on Disposal of Prior Wastewater System	(1,117,864)
Interest Expense	(315,217)
TOTAL NONOPERATING	(428,881)
INCOME (LOSS) BEFORE TRANSFERS	(758,075)
TRANSFERS	
Transfers In	924,349
TOTAL TRANSFERS	924,349
CHANGE IN NET POSITION	166,274
BEGINNING NET POSITION	1,760,496
Prior Period Adjustment	107,903
ENDING NET POSITION	\$ 2,034,673

See accompanying notes to basic financial statements.

VILLAGE OF SALADO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Business-Type Activities
	Wastewater Utility
Cash Flows From Operating Activities:	
Cash Received From Customers	\$ 35,866
Cash Paid to Suppliers for Goods and Services	(84,200)
Net Cash Provided (Used) by Operating Activities	(48,334)
Cash Flows From Noncapital Financing Activities:	
Transfers from Governmental Activities	930,362
Net Cash Provided (Used) by Noncapital Financing Activities	930,362
Cash Flows From Capital and Related Financing Activities:	
Capital Grants	1,000,000
Line Extension Fees	15,850
Purchase of Capital Assets	(4,939,369)
Principal Payments on Long-Term Debt	(430,000)
Interest Paid	(318,126)
Net Cash Provided (Used) by Capital and Related Financing Activities	(4,671,645)
Cash Flows From Investing Activities:	
Investment Interest Received	17,564
Net Cash Provided (Used) by Investing Activities	17,564
Net Increase (Decrease) in Cash and Cash Equivalents	(3,772,053)
Beginning of Year:	
Cash and Cash Equivalents	1,922
Restricted Cash	4,498,709
Total Beginning of Year	4,500,631
End of Year:	
Cash and Cash Equivalents	728,578
Total End of Year	\$ 728,578

See accompanying notes to basic financial statements.

VILLAGE OF SALADO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Business-Type Activities
	Wastewater Utility
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (329,194)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	143,909
(Increase) Decrease in Operating Assets:	
Customer Receivables	1,297
Prepaid Expenses	(26,820)
Increase (Decrease) in Current Liabilities:	
Accounts Payable	160,345
Customer Deposits	2,129
Total Adjustments to Reconcile Operating Activities	280,860
 Net Cash Provided (Used) by Operating Activities	 \$ (48,334)

See accompanying notes to basic financial statements.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Salado, Texas (“Village”) was incorporated in 2000 under the provisions of the State of Texas and operates as a General Law Type A municipality. The Village provides the following primary services: police protection, fire protection, public works, street maintenance, parks, and wastewater service. The Village is governed by a mayor and five aldermen elected at large.

The financial statements of the Village have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. REPORTING ENTITY

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations; thus, data from these units, if any existed, would be combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government. As of September 30, 2019, the Village had no component units.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The **government-wide financial statements** include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the Village. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

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

Separate **fund financial statements** are provided for governmental funds and proprietary funds. All of the Villages funds meet the criteria as *major funds*.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement focus is also used for the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue types which have been accrued consist of revenue from the investments, property taxes, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, grants not restricted to specific programs, investment earnings, and other miscellaneous revenues.

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences, pension benefits and other post-employment benefits, are recorded only when the liability has matured and payment is due.

The government reports the following major governmental funds:

The General Fund is the general operating fund of the Village and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, sales taxes, and franchise fees. Primary expenditures are for general administration and public safety.

Hotel Tax Fund is used to account for the collections from the occupancy taxes used to promote tourism in the Village.

Debt Service Fund is used to account for property taxes levied to repay legally authorized debts of the Village.

Proprietary fund level financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The Village's Proprietary Fund is the wastewater utility.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

The **Proprietary Funds** are accounted for using the accrual basis of accounting as follows:

1. Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
2. Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the Village. This includes local government investment pools.

Cash is reported as restricted only if the restriction on the cash is narrower than the purpose of the fund as a whole. For the Village, these balances generally consist of the occupancy taxes and interest and sinking property taxes.

5. INVESTMENTS

State statutes authorize the Village to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) - (e). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations.

The Village's investments include certificates of deposit (carried at amortized cost) and local government investment pools. These pools are 2a7-like which means they are not registered with the Securities and Exchange Commission as an investment company, but nevertheless have a policy that they will, and do, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. These pools are reported a share price of \$1 which approximates fair value.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2018 and past due after January 31, 2019. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior years' levy are not shown net of an allowance for uncollectibles as management believes all outstanding amounts will be collected.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and taxes collected on behalf of the Village (primarily sales). Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

7. PREPAID ITEMS

Payments made for goods and services in advance are recorded as prepaid items on the balance sheet.

8. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

9. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period while a deferred inflow of resources is an acquisition of net position. These items are presented in separate sections following assets (deferred outflows) or liabilities (deferred inflows) on the statement of net position.

Property tax revenues are recognized when they become both measurable and available in the fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue not expected to be available for the current period are reflected as deferred revenue. Unavailable revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues received in advance of expenses/expenditures are reflected as unavailable revenue.

VILLAGE OF SALADO
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2019

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$2,000 or more and a useful life in excess of 1 year. Infrastructure assets include Village-owned streets, sewer, and parks. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Estimated Life</u>
Buildings and Improvements	10 to 30 years
Streets, Utilities and Infrastructure	15 to 40 years
Furniture, Fixtures, Vehicles	3 to 7 years

11. COMPENSATED ABSENCES

Full-time employees earn vacation leave at varying rates depending on length of service. No more than 25 days may be carried over annually based on the employee's anniversary date. Accumulated vacation leave is paid on termination. In addition, employees accrue sick leave up to a maximum of 90 days. Unused sick leave is paid upon termination up to 30 days.

Liabilities for compensated absences are recognized in the fund statements only to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued in the government-wide statements.

12. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt (including capital leases) and other long-term obligations are reported as liabilities under governmental activities or proprietary fund type statement of net position. On new bond issues, bond premiums and discounts are deferred and amortized over the life of the bond. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period incurred. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. PENSIONS

The net pension liability, deferred inflows and outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS), and additions to and deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

14. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The total opeb liability (and related deferred inflows and outflows of resources) and opeb expense of the TMRS supplemental death benefits fund, have been determined on the same basis as they are reported by TMRS.

15. FUND BALANCES

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.

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

Committed - Represents amounts that can only be used for a specific purpose by a resolution of Board of Alderman. Committed amounts cannot be used for any other purpose unless the Board of Alderman removes those constraints through the same formal action.

Assigned - Represents amounts which the Village intends to use for a specific purpose but do not meet the criteria of restricted or committed. Assignments may be created by the Board of Alderman or the Village Administrator.

Unassigned - Represents the residual balance that may be spent on any other purpose of the Village.

When an expenditure is incurred for a purpose in which multiple classifications are available, the Village considers restricted balances spent first, committed second and assigned third.

The Village has adopted a minimum fund balance plan of three months of General Fund operating expenditures in unrestricted fund balance (to included committed and assigned). Should the Village fall below this amount, corrective actions will be taken to replenish the fund balance.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16. NET POSITION

Net position represents the difference between assets and liabilities. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

17. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. Operating expenses are the necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

18. INTERFUND TRANSFERS

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds. However, debt service paid on behalf of proprietary funds is reported as debt service expenditures in the debt service fund and a transfer in the governmental activities.

19. USE OF ESTIMATES

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

NOTE B -- DEPOSITS AND INVESTMENTS

1. Deposits

The Village'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 Village's agent bank approved pledge securities in an amount sufficient to protect Village 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. At September 30, 2019, the carrying amount of the Village's deposits were fully collateralized by a combination of federal deposit insurance (FDIC) and securities pledged by the Village's depository.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

2. Investments

The Village's investments at September 30, 2019 consist of \$9,580 in Texpool, a AAAM rated local government investment pool. Texpool operates in a 2a7-like fashion and is reported a share price. The funds are liquid and reported in cash and cash equivalents.

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the Village was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures. The Village has reviewed its risk exposure and does not believe it is exposed to significant credit risk, custodial credit risk, or concentration of credit risk.

NOTE C -- PROPERTY TAX CALENDAR

The Village's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the Village. Assessed values are established by the Medina County Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. A revaluation of all property is required to be completed every four (4) years. The total taxable value as of January 1, 2018, upon which the fiscal 2019 levy was based, was \$175 million (i.e., market value less exemptions). The estimated market value was \$311 million, making the taxable value 56% of the estimated market value.

The Village is permitted by the Constitution of the State of Texas to levy taxes up to \$1.50 per \$100 of taxable assessed valuation for all governmental purposes. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2019, was \$0.6276 per \$100 of assessed value, which means that the Village has a tax margin of \$0.8724 for each \$100 value and could increase its annual tax levy by approximately \$1.5 million based upon the present assessed valuation before the limit is reached. However, the Village may not adopt a tax rate that exceeds the effective tax rate calculated in accordance with the Texas Property Tax Code without holding two public hearings. The Property Tax Code subjects an increase in the proposed tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's maintenance and operations tax rate. Certain other statutory limitations may limit growth to only 3% annually.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE D -- OTHER RECEIVABLES

Other receivables for the Village as of September 30, 2019 are as follows:

	General Fund	Hotel Tax	Governmental Totals
Sales Tax	\$ 79,867	\$ -	\$ 79,867
Franchise Fees	24,565	-	24,565
Hotel Occupancy Tax	-	42,519	42,519
Mixed Beverage	5,617	-	5,617
Other	282	-	282
Total Other Receivables	\$ 110,331	\$ 42,519	\$ 152,850
	Wastewater Utility		
Customer Charges	\$ 1,633		
Total Other Receivables	\$ 1,633		

NOTE E -- DUE FROM OTHER GOVERNMENTS

Amounts due from other governments include reimbursements from the local school district for wastewater line extension fees.

NOTE F -- INTERFUND TRANSACTIONS

Interfund balances as of September 30, 2019 were as follows:

Due From	Due To	Amount	Purpose
Wastewater Utility	General Fund	\$ 2,347	<i>Reimbursement</i>

Interfund transfers during the year ending September 30, 2019 were as follows:

Transfer From	Transfer to	Amount	Purpose
General Fund	Wastewater Utility	\$ 176,223	<i>Supplement Other Sources</i>
Debt Service	Wastewater Utility	748,126	<i>Contributions towards debt service</i>
		\$ 924,349	

The contributions to the proprietary fund for debt were made in the form of payments of debt service from property taxes. On the debt service fund statement, these are reported as debt service expenditures. On the government-wide statements, these expenditures are reported as a transfer.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE G -- CAPITAL ASSETS

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

<u>Governmental Activities</u>	Balance* 10/1/2018	Additions	Disposals/ Transfers	Balance 9/30/2019
Land	\$ 45,577	\$ -	\$ -	\$ 45,577
Buildings and Improvements	368,944	15,650	-	384,594
Infrastructure	800,248	-	-	800,248
Vehicles and Equipment	208,046	37,231	(19,989)	225,288
Construction in Progress	13,500	-	-	13,500
	<u>1,436,315</u>	<u>52,881</u>	<u>(19,989)</u>	<u>1,469,207</u>
Less Accumulated Depreciation				
Buildings and Improvements	(263,496)	(14,462)	-	(277,958)
Infrastructure	(119,803)	(41,744)	-	(161,547)
Vehicles and Equipment	(163,574)	(28,205)	19,989	(171,790)
	<u>(546,873)</u>	<u>(84,411)</u>	<u>19,989</u>	<u>(611,295)</u>
Capital Assets, Net	<u>\$ 889,442</u>	<u>\$ (31,530)</u>	<u>\$ -</u>	<u>\$ 857,912</u>
<u>Business-Type Activities</u>	Balance* 10/1/2018	Additions	Disposals/ Transfers	Balance 9/30/2019
Infrastructure	\$ 1,233,506	\$ -	\$ 9,561,426	\$ 10,794,932
Vehicles and Equipment	5,857	-	-	5,857
Construction in Progress	5,855,563	4,939,369	(10,794,932)	-
	<u>7,094,926</u>	<u>4,939,369</u>	<u>(1,233,506)</u>	<u>10,800,789</u>
Less Accumulated Depreciation				
Infrastructure	(92,513)	(143,072)	115,641	(119,944)
Vehicles and Equipment	(1,673)	(837)	-	(2,510)
	<u>(94,186)</u>	<u>(143,909)</u>	<u>115,641</u>	<u>(122,454)</u>
Capital Assets, Net	<u>\$ 7,000,740</u>	<u>\$ 4,795,460</u>	<u>\$ (1,117,865)</u>	<u>\$ 10,678,335</u>

Land, Water Rights and Construction in Progress are not depreciated.

*Beginning balances have been restated for the results of a prior period adjustment. See Note P.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE G -- CAPITAL ASSETS (Continued)

Depreciation expense was charged to the governmental functions as follows:

General Government	\$	24,301
Police		29,237
Parks		2,202
Streets		<u>28,671</u>
Total Depreciation Expense - Governmental Activities		<u><u>\$ 84,411</u></u>

NOTE H -- LONG-TERM LIABILITIES

	Balance*		Additions	Reductions	Balance
	10/1/2018				9/30/2019
<i>Governmental Activities</i>					
Leases Payable	\$ 24,860	\$ -	\$ (12,128)		\$ 12,732
Net Pension Liability (Asset)	(118,090)	14,875	38,397		(64,818)
Accrued Compensated Absences	44,038	55,111	(44,038)		55,111
Total OPEB Liability	<u>39,458</u>	<u>3,657</u>	<u>(3,614)</u>		<u>39,501</u>
<i>Total Governmental Activities</i>	<u><u>\$ (9,734)</u></u>	<u><u>\$ 73,643</u></u>	<u><u>\$ (21,383)</u></u>		<u><u>\$ 42,526</u></u>
 <i>Business-Type Activities</i>					
Bonds Payable	<u>\$ 9,870,000</u>	<u>\$ -</u>	<u>\$ (430,000)</u>		<u>\$ 9,440,000</u>
<i>Total Business-Type Activities</i>	<u><u>\$ 9,870,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (430,000)</u></u>		<u><u>\$ 9,440,000</u></u>

Historically, the General Fund has been used to pay for accrued compensated absences. Because of the on-demand nature of compensated absences, the Village reports the liability for accrued compensated absences as a current liability on the Statement of Net Position. Beginning balances were restated. See Note P.

NOTE I -- BONDS PAYABLE

Permanent Improvement Bonds, Series 2015

The Village issued \$8,200,000 in revenue bonds in September, 2015 for construction of a new wastewater treatment and collection system. The debt service is funded by a combination of wastewater system revenues and property taxes. The bonds mature serially through September 1, 2035 and bear interest at 2.94%.

Permanent Improvement Bonds, Series 2018

The Village issued \$2,350,000 in revenue bonds in May 2018 for continued construction of a new wastewater treatment and collection system. The debt service is funded by a combination of wastewater system revenues and property taxes. The bonds mature serially through September 1, 2035 and bear interest at 3.19%.

Both bond series were privately placed with a bank and contain no subjective acceleration clauses, events of default with finance-related consequences, or termination events with finance-related consequences.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE I – BONDS PAYABLE (Continued)

Changes in Bonds Payable

	Balance 10/1/2018	Additions	Reductions	Balance 9/30/2019	Due Within One Year
<i>Business-Type Activities</i>					
Bonds Payable:					
2015 Series	\$ 7,520,000	\$ -	\$ (355,000)	\$ 7,165,000	\$ 365,000
2018 Series	2,350,000	-	(75,000)	2,275,000	110,000
<i>Total Business-Type Activities</i>	<u>\$ 9,870,000</u>	<u>\$ -</u>	<u>\$ (430,000)</u>	<u>\$ 9,440,000</u>	<u>\$ 475,000</u>

The annual requirements to amortize all bonded debt outstanding as of September 30, 2019, including interest payments, are as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
<i>Business-Type Activities</i>			
2020	\$ 475,000	\$ 283,224	\$ 758,224
2021	485,000	268,984	753,984
2022	500,000	254,437	754,437
2023	510,000	239,437	749,437
2024	525,000	224,143	749,143
2025-2029	2,870,000	874,992	3,744,992
2030-2034	3,335,000	417,833	3,752,833
2035	740,000	22,206	762,206
	<u>\$ 9,440,000</u>	<u>\$ 2,585,256</u>	<u>\$ 12,025,256</u>

NOTE J -- LEASE PAYABLE

In May 2018, the Village financed the purchase of a police vehicle through a lease agreement totaling \$37,981. The lease requires annual payments of \$13,368. The final payment is due August 15, 2020 and includes interest of \$635. The vehicle is included in governmental capital assets with a total cost of \$37,231 and accumulated depreciation as of September 30, 2019 of \$6,826.

NOTE K -- EMPLOYEES' RETIREMENT SYSTEMS

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

VILLAGE OF SALADO
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2019

NOTE K -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the Village, 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 Village-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.

At the December 31 valuations and measurement dates, the following employees were covered by the benefit terms:

	2018
Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	17
Active employees	10
	32

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Village matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Village. Under the state law governing TMRS, the contribution rate for each Village 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 Village were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the Village were 6.87% and 6.25% in calendar years 2018 and 2019, respectively. The Village's contributions to TMRS for the year ended September 30, 2019 were \$34,793 and matched the required contributions.

Actuarial Assumptions

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

Inflation	2.50% per year
Salary Increases	3.5%-10.5% including inflation
Investment Rate of Return*	6.75%

* Presented net of pension plan investment expense, including inflation

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE K -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Health Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disable Retiree Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2018 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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 are summarized in the following table:

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

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE K -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

Discount Rate

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

Net Pension Liability

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

Changes in the Net Pension Liability

The below schedule presents the changes in the Net Pension Liability as of December 31, 2018:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balance at December 31, 2017	\$ 518,437	\$ 636,527	\$ (118,090)
Changes for the year:			
Service Cost	66,359	-	66,359
Interest	36,763	-	36,763
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	(5,780)	-	(5,780)
Changes of Assumptions	-	-	-
Contributions - Employer	-	36,761	(36,761)
Contributions - Employee	-	26,758	(26,758)
Net Investment Income	-	(19,062)	19,062
Benefit Payments, Including Refunds of Employee Contributions	(13,947)	(13,947)	-
Administrative Expense	-	(369)	369
Other Changes	-	(18)	18
Net Changes	<u>83,395</u>	<u>30,123</u>	<u>53,272</u>
Balance at December 31, 2018	<u>\$ 601,832</u>	<u>\$ 666,650</u>	<u>\$ (64,818)</u>

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE K -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

The following presents the net pension liability of the Village, calculated using the discount rate of 6.75%, as well as what the Village's net pension 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:

	Discount Rate 5.75%	Discount Rate 6.75%	Discount Rate 7.75%
Net Pension Liability (Asset)	\$ 32,815	\$ (64,818)	\$ (142,506)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2019, the Village recognized pension expense of \$14,875. Also as of September 30, 2019, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 55,049
Changes in Actuarial Assumptions	3,146	-
Differences Between Projected and Actual Investment Earnings	55,521	24,366
Contributions Subsequent to the Measurement Date	24,896	-
	\$ 83,563	\$ 79,415

Deferred outflows of resources in the amount of \$24,896 is related to pensions resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the fiscal year ending September 30, 2020.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE K -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Fiscal Year ended September 30,		
2020	\$	(19,614)
2021		(16,824)
2022		3,283
2023		12,407
	<u>\$</u>	<u>(20,748)</u>

NOTE L -- OTHER POSTEMPLOYMENT BENEFIT – SUPPLEMENTAL DEATH BENEFIT

The Village also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The Village elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The Village may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB. Membership in the plan at December 31, 2018, the valuation and measurement date, consisted of:

	<u>2018</u>
Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	7
Active employees	10
	<u>23</u>

The SDBF required contribution rates, based on these assumptions, are as follows:

For the Plan Year Ended	Total	Retiree
<u>December 31,</u>	<u>Rate</u>	<u>Portion</u>
2019	0.20%	0.04%
2018	0.22%	0.03%

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE L -- OTHER POSTEMPLOYMENT BENEFIT - SBDF (Continued)

These contribution rates are based on actuarial assumptions developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method. These assumptions are summarized below:

Inflation	2.50%
Salary Increases	3.5% to 10.5% including Inflation
Discount Rate	3.71% based on Fidelity 20-year Municipal GO AA Index
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	RP2000 Combined Mortality Table with blue collar adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates - disabled retirees	RP2000 Combined Mortality Table with blue collar adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both male and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE L -- OTHER POSTEMPLOYMENT BENEFIT - SBDF (Continued)

The changes in the Village's Total OPEB Liability (TOL), based on the above actuarial factors, during the year ended December 31, 2018, were as follows:

	Total OPEB Liability
Balance at December 31, 2017	\$ 39,458
Changes for the year:	
Service Cost	2,248
Interest	1,341
Change of Benefit Terms	-
Difference Between Expected and Actual Experience	142
Changes of Assumptions	(3,527)
Benefit Payments	(161)
Net Changes	43
Balance at December 31, 2018	\$ 39,501

There is no separate trust maintained to fund this TOL. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

The following presents the TOL of the Village, calculated using the discount rate of 3.71% as well as what the Village's TOL would be if it were calculated using a discount rate that is 1-percentage point lower (2.71%) and 1-percentage point higher (4.71%) than the current rate:

	Discount Rate 2.71%	Discount Rate 3.71%	Discount Rate 4.71%
Total OPEB Liability	\$ 49,249	\$ 39,501	\$ 32,239

For the year ended September 30, 2019, the Village recognized OPEB expense of \$3,657. Also as of September 30, 2019, the Village reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 113	\$ -
Changes in Actuarial Assumptions	2,181	2,800
Contributions Subsequent to the Measurement Date	159	-
	\$ 2,453	\$ 2,800

VILLAGE OF SALADO
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2019

NOTE L -- OTHER POSTEMPLOYMENT BENEFIT - SBDF (Continued)

Deferred outflows of resources in the amount of \$159 is related to OPEB benefits resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Fiscal Year ending September 30,		
2020	\$	68
2021		68
2022		(49)
2023		(593)
2024		-
	<u>\$</u>	<u>(506)</u>

NOTE M -- COMMITMENTS AND CONTINGENCIES

Litigation

The Village is the subject of various other claims and litigation that have arisen in the course of its operations. Management is of the opinion that the Village's liability in these cases, if decided adversely to the Village, will not have a material effect on the Village's financial position.

NOTE N -- RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The Village contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the Village is generally limited to the contributed amounts for losses up to \$1,000,000.

NOTE O -- INTERGOVERNMENTAL GRANT REVENUE

In 2015, the Village was awarded a reimbursement grant of \$1,000,000 from the United States Department of Commerce for the construction of the wastewater collection system. Expenditures from the award were completed in 2019. The Village believes they have complied with all relevant compliance requirements. However, the grantors reserve the right to review the Village's program at any time.

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE P -- PRIOR PERIOD ADJUSTMENT

The Village recorded prior period adjustments to correct errors in the prior annual report. The effect of these adjustment on beginning net position/fund balance were as follows:

	Governmental Funds		
	General Fund	Hotel Tax	Debt Service
Beginning Fund Balance, Previously Reported	\$ 749,813	\$ -	\$ -
Previously Reported in Proprietary Funds	-	89,249	81,206
Understated Cash	-	250	-
Understated Other Receivables	56,943	27,081	-
Understated Prepaid Items	5,810	-	-
Overstated Unearned Revenue	-	14,750	-
Unrecorded Accrued Wages	(20,440)	(2,957)	-
Accrued Vacation Not Due and Payable	40,306	3,731	-
Understated Other Payables	(6,580)	-	-
Beginning Fund Balance, Restated	<u>\$ 825,852</u>	<u>\$ 132,104</u>	<u>\$ 81,206</u>
		Business	
	Governmental	Type	
	Activities	Activities	
Beginning Net Position, Previously Reported	\$ 1,800,598	\$ 1,760,496	
Previously Reported in Proprietary Funds	170,455	(170,455)	
Understated Cash	250	-	
Understated Other Receivables	84,024	324,071	
Understated Prepaid Expense	5,810	-	
Removal of Unamortized Bond Issue Costs	-	(201,438)	
Overstated Property and Equipment	(316,443)	-	
Overstated Depreciation on Projects	-	189,581	
Unrecorded Accrued Interest	-	(26,511)	
Unrecorded Accrued Wages	(23,397)	-	
(Under) Overstated Other Payables	9,820	(7,345)	
Overstated Unearned Revenue	19,160	-	
Understated Lease Payable	(954)	-	
Overstated Deferred Inflows	132,479	-	
Beginning Net Position, Restated	<u>\$ 1,881,802</u>	<u>\$ 1,868,399</u>	

VILLAGE OF SALADO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2019

NOTE Q -- TAX ABATEMENTS

The Village has a tax abatement policy that allows for incentives to encourage development. To be eligible, the projects must generally fall under target industries and have a direct payback of 5 years or less. Specific incentives are available for meeting certain criteria such as job creation or revenue growth. Revenues eligible for abatement include occupancy taxes, sales tax, permit fees, and property taxes. In addition, grants are available for capital improvements. The Village requires annual certification of compliance from each recipient and reserves the right to require repayment if compliance is not maintained. Incentives may be transferrable.

In 2015, the Village executed an agreement with a mixed use development. Incentives include a 50% rebate of occupancy taxes for 15 years, and 50% of the incremental property taxes for 15 years. Development has not yet begun and as such no taxes have been abated.



**Village
of Salado**

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Schedule of Changes – Net Pension Liability
- Schedule of Employer Pension Contributions
- Schedule of Changes – Total OPEB Liability – Supplemental Death Benefits Fund

VILLAGE OF SALADO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budget Amounts		Actual Amounts	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Ad Valorem Taxes	\$ 372,317	\$ 391,563	\$ 393,850	\$ 2,287
Sales Taxes	425,700	549,402	545,197	(4,205)
Franchise and Occupancy Taxes	214,900	214,855	212,696	(2,159)
Licenses and Permits	37,100	27,160	27,293	133
Charges for Services	31,150	26,368	26,483	115
Fines and Penalties	38,500	34,000	34,201	201
Interest Income	8,000	11,550	11,570	20
Miscellaneous	1,000	3,648	5,169	1,521
TOTAL REVENUES	<u>1,128,667</u>	<u>1,258,546</u>	<u>1,256,459</u>	<u>(2,087)</u>
EXPENDITURES				
<i>Current:</i>				
General Government	411,470	441,991	427,022	14,969
Development Services	100,102	104,362	100,725	3,637
Police	352,167	333,879	320,946	12,933
Fire	40,500	40,500	40,000	500
Municipal Court	17,250	20,200	19,574	626
Streets	33,375	45,214	38,806	6,408
Public Works	46,723	35,993	33,591	2,402
Parks	7,630	7,630	8,266	(636)
Capital Outlay	106,250	84,109	102,759	(18,650)
<i>Debt Service:</i>				
Principal	-	-	12,128	(12,128)
Interest	-	-	1,240	(1,240)
TOTAL EXPENDITURES	<u>1,115,467</u>	<u>1,113,878</u>	<u>1,105,057</u>	<u>8,821</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>13,200</u>	<u>144,668</u>	<u>151,402</u>	<u>6,734</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(13,200)</u>	<u>(13,200)</u>	<u>(176,223)</u>	<u>(163,023)</u>
Net Change in Fund Balance	-	131,468	(24,821)	(156,289)
Beginning Fund Balance	749,813	749,813	749,813	-
Prior Period Adjustment	-	-	76,039	76,039
Ending Fund Balance	<u>\$ 749,813</u>	<u>\$ 881,281</u>	<u>\$ 801,031</u>	<u>\$ (80,250)</u>

VILLAGE OF SALADO
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2019

Budgetary Information – The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The Village maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provision embodied in the annual appropriated budget approved by the Board of Alderman and as such is a good management control device. The following are the funds which have legally adopted annual budgets: General Fund and Debt Service.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level.

The Village does not use encumbrances.

VILLAGE OF SALADO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES – NET PENSION LIABILITY AND RELATED RATIOS
LAST FIVE PLAN (CALENDAR) YEARS

	Total Pension Liability				
	2014	2015	2016	2017	2018
Service Cost	\$ 37,674	\$ 69,752	\$ 70,123	\$ 64,236	\$ 66,359
Interest (on the Total Pension Liability)	27,570	32,388	37,073	37,699	36,763
Changes of Benefit Terms	-	-	-	-	-
Difference between Expected and Actual Experience	(1,471)	(7,357)	(43,068)	(70,699)	(5,780)
Change of Assumptions	-	8,810	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	(12,929)	(9,029)	(25,436)	(78,384)	(13,947)
Net Change in Total Pension Liability	50,844	94,564	38,692	(47,148)	83,395
Beginning Total Pension Liability	381,485	432,329	526,893	565,585	518,437
Ending Total Pension Liability	<u>\$ 432,329</u>	<u>\$ 526,893</u>	<u>\$ 565,585</u>	<u>\$ 518,437</u>	<u>\$ 601,832</u>
	Plan Fiduciary Net Position				
	2014	2015	2016	2017	2018
Contributions - Employer	\$ 21,261	\$ 42,005	\$ 40,518	\$ 39,095	\$ 36,761
Contributions - Employee	18,572	29,707	29,024	26,676	26,758
Net Investment Income	21,858	635	33,390	79,063	(19,062)
Benefit Payments, Including Refunds of Employee Contributions	(12,929)	(9,029)	(25,436)	(78,384)	(13,947)
Administrative Expense	(228)	(387)	(377)	(410)	(369)
Other	(19)	(18)	(20)	(21)	(18)
Net Change	48,515	62,913	77,099	66,019	30,123
Beginning Plan Fiduciary Net Position	381,981	430,496	493,409	570,508	636,527
Ending Plan Fiduciary Net Position	<u>\$ 430,496</u>	<u>\$ 493,409</u>	<u>\$ 570,508</u>	<u>\$ 636,527</u>	<u>\$ 666,650</u>
Net Pension Liability (Asset) - Ending	\$ 1,833	\$ 33,484	\$ (4,923)	\$ (118,090)	\$ (64,818)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	99.58%	93.65%	100.87%	122.78%	110.77%
Covered Payroll	\$ 371,441	\$ 594,141	\$ 580,490	\$ 533,523	\$ 535,154
Net Pension Liability as a Percentage of Covered Payroll	0.49%	5.64%	-0.85%	-22.13%	-12.11%

Information for this schedule is being accumulated prospectively until 10 years is presented.
See Independent Auditor's Report.

VILLAGE OF SALADO
SCHEDULE OF VILLAGE PENSION CONTRIBUTIONS
LAST FOUR FISCAL YEARS

Fiscal Year Ending September 30,	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	\$ 34,793	\$ 34,793	\$ -	\$ 542,397	6.41%
2018	39,026	39,026	-	541,129	7.21%
2017	39,879	39,879	-	536,721	7.43%
2016	42,400	42,400	-	588,011	7.21%

Notes to Schedule of Contributions

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 Years
Asset Valuation Method	10 Year Smoothed Market; 15% Soft Corridor
Inflation	2.50%
Salary Increases	3.5% to 10.5% including Inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information

Benefit Changes	None
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VILLAGE OF SALADO
SCHEDULE OF CHANGES – TOTAL OPEB LIABILITY AND RELATED RATIOS
SUPPLEMENTAL DEATH BENEFIT
LAST TWO PLAN (CALENDAR) YEARS

Total OPEB Liability		
	2017	2018
Service Cost	\$ 2,027	\$ 2,248
Interest (on the Total OPEB Liability)	1,267	1,341
Changes of Benefit Terms	-	-
Difference between Expected and Actual Experience	-	142
Change of Assumptions	3,713	(3,527)
Benefit Payments	(107)	(161)
Net Change in Total Pension Liability	6,900	43
Total OPEB Liability - Beginning	32,558	39,458
Total OPEB Liability - Ending	\$ 39,458	\$ 39,501
 Covered Payroll	 \$ 533,523	 \$ 535,154
 Total OPEB Liability as a Percentage of Covered Payroll	 7.40%	 7.38%

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Inflation	2.50%
Salary Increases	3.5% to 10.5% including Inflation
Discount Rate	3.71% based on Fidelity 20-year Municipal GO AA Index
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	RP2000 Combined Mortality Table with blue collar adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates - disabled retirees	RP2000 Combined Mortality Table with blue collar adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both male and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Other Information

No assets are accumulated to meet future OPEB benefits.

Benefit Changes	None
Changes in Assumptions	None

COMPLIANCE SECTION



INDEPENDENT AUDITOR'S REPORT

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

Management, Mayor and Board of Alderman of
Village of Salado, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the Village of Salado as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise Village of Salado's basic financial statements, and have issued our report thereon dated February 5, 2020.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Village'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Village of Salado's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Village in a separate letter dated February 5, 2020.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village'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 Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in cursive script that reads "Armstrong, Vaughan & Associates, P.C."

Armstrong, Vaughan & Associates, P.C.

February 5, 2020



**Village
of Salado**