

CITY OF HAWKINS, TEXAS

**ANNUAL FINANCIAL REPORT AND INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANT'S OPINION**

YEAR ENDED SEPTEMBER 30, 2020

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SEPTEMBER 30, 2020**

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INTRODUCTORY SECTION

**CITY OF HAWKINS, TEXAS
GENERAL INFORMATION
ROSTER OF PUBLIC OFFICIALS
SEPTEMBER 30, 2020**

Elected Officials

Mayor	Stephen Lucas
Mayor Pro Tem, Place 2	Clara Kay
Alderman, Place 1	Cody Jorgenson
Alderman, Place 3	Eric Maloy
Alderwoman, Place 4	Wende Haney
Alderman, Place 5	Greg Branson

Appointed Officials

City Secretary	Dona Jordan
Library Director	Norma Hallmark
Municipal Court Judge	Cindy Caldwell
Police Chief	Manfred Gilow
Waterworks Superintendent	Mike Maberry
Volunteer Fire Chief	Bucky Elkins

FINANCIAL SECTION



To the Honorable Mayor and
Members of the City Council
Hawkins, Texas

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT'S OPINION
ON FINANCIAL STATEMENTS

Report on Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hawkins, Texas as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 judgement, including the risk 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 which are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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 financial statement presentation.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a reasonable basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, the major fund and the aggregate remaining fund information of the City of Hawkins, Texas as of September 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 7-13), the Budgetary Comparison Schedule for the General Fund (page 61), the Schedules of Net Pensions Liability and Related Ratios and Contributions (pages 58-59) and Schedule of Changes in the City's Total OPEB Liability and Related Ratios (page 60), be presented to supplement the basic financial statements. Such supplementary 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. I 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 supplementary information and comparing the supplementary information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge which I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the supplementary information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Hawkins, Texas basic financial statements. The introductory section and the supplementary data are presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Emory, Texas
December 17, 2020



**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

As management of the City of Hawkins, Texas (the City), we offer the readers of the City's financial statements this narrative, overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2020. We encourage readers to read the information presented here in conjunction with additional information we have furnished in the City's financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$8,692,411 (net position). Of this amount, \$7,809,321 is invested in capital assets which do not directly generate revenue and are not available to generate liquid capital. Net position restricted for specific purposes is \$1,108. The remaining \$881,982 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$75,504 due to the increase in the governmental activities net position of \$50,243 and an increase in business-type net position of \$25,201. The Hawkins Community Development Corporation (HCDC) made significant improvements to the baseball fields on behalf of the City. The business-type fund reduced its current expenses from the prior year. However, the fund continued to need assistance to cover the cost of improvements to the water/sewer system.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$728,351, an increase of \$69,371, in comparison with the prior year. A total of \$710,135 is available for spending at the City's discretion (unassigned fund balance).
- The City had no bonded debt at the end of the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information which will enhance the reader's understanding of the financial condition of the City.

BASIC FINANCIAL STATEMENTS

The first two statements (pages 15-16) in the basic financial statements are the Government-wide Financial Statements. They provide both short- and long-term information about the City's financial status.

The next statements (pages 17-24) are Fund Financial Statements. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail information than the government-wide statements. There are two parts to the Fund Financial Statements: (1) the governmental fund statements and (2) the proprietary (business-type) fund statements.

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

The next section of the basic financial statements is the notes (pages 25-56). The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, required supplementary information (pages 58-61) is provided to show details about the City's pension plan, OPEB and General Fund budgetary comparison information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to financial statements of a private-sector business. The government-wide financial statements provide short- and long-term information about the City's financial status as a whole.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Thus, revenues and expenses are reported for some items which will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements include not only the City itself (known as the primary government) but also a legally separate community development corporation for which the City is financially accountable.

The government-wide statements are divided into three (3) categories: (1) governmental activities; (2) business-type activities; and (3) component units. The governmental activities include most of the City's basic services such as public safety, parks and recreation and general administration. Property taxes, sales tax and state and federal grant funds finance most of these activities. The business-type activities are those the City charges customers to provide the utility services offered by the City. The final category is for the component units. The City currently has one such unit.

The government-wide financial statements are on pages 15 and 16 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that are used to maintain control over resources which have been segregated for specific activities or objectives. The City, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into two (2) categories: governmental funds and proprietary funds.

Governmental Funds: Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Most of the City's basic services are accounted for in governmental funds. The funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view which helps determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental fund is described in reconciliations which are a part of the fund financial statements.

The focus of governmental funds is narrower than that of the government-wide financial statements. Thus, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document which incorporates input from the citizens of the City, the management of the City and the decisions of the council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language and classifications as the legal budget document. The statement shows four (4) columns: (1) the original budget as approved by council; (2) the final budget as amended by the council; (3) the actual resources, charges to appropriations and ending balances in the General Fund; and (4) the difference or variance between the final budget and the actual resources and charges. The Governmental Fund financial statements can be found on pages 17-20 of this report.

Proprietary Funds: The City has one proprietary fund which is the Water and Sewer Fund. The City charges customers for the services it provides, whether to outside customers or to other units within the City. The services are generally reported in proprietary funds. Proprietary Funds are reported in the same manner all activities are reported in the statement of net position and the statement of activities. Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 21-24 of this report.

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

NOTES TO THE FINANCIAL STATEMENT

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 25-56 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City's net pension liability, its pension contribution for pension benefits to its employees, its OPEB liability and related ratios and the general fund budgetary comparison schedule.

**COMPARATIVE NET POSITION
SEPTEMBER 30, 2020 AND 2019**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$910,430	\$762,661	\$349,161	\$204,111	\$1,259,591	\$966,772
Capital assets	5,037,551	5,103,373	2,939,293	3,026,251	7,976,844	8,129,624
Total assets	5,947,981	5,866,034	3,288,454	3,230,362	9,236,435	9,096,396
Total deferred outflows of resources	14,988	76,819	7,124	74,195	22,112	151,014
Current liabilities	90,035	87,074	88,382	99,058	178,417	186,132
Long-term liabilities	140,817	148,136	15,562	11,274	156,379	159,410
Total liabilities	230,852	235,210	103,944	110,332	334,796	345,542
Total deferred inflows of resources	118,254	144,023	113,086	140,938	231,340	284,961
Net position,						
Net investment in capital assets	4,870,028	4,935,097	2,939,293	3,026,251	7,809,321	7,961,348
Restricted	1,108	12,408	0	0	1,108	12,408
Unrestricted	742,727	616,115	139,255	27,036	881,982	643,151
Total net position	\$5,613,863	\$5,563,620	\$3,078,548	\$3,053,287	\$8,692,411	\$8,616,907

As noted earlier, net position may serve over time as an indicator of a government's financial condition. The net position of the City exceeded liabilities by \$8,692,411 as of September 30, 2020.

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

NET INVESTMENT IN CAPITAL ASSETS

The City's net position increased by \$75,504, for the period ended September 30, 2020. However, the largest portion of net position, 89.8%, reflects the City's net investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt still outstanding which was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities.

RESTRICTED NET POSITION

The City's restricted net position of \$1,108 represents resources which are subject to external restrictions on how they may be used or by enabling legislation. The restricted net position is State imposed or donor imposed if received by contribution.

UNRESTRICTED NET POSITION

Unrestricted net position, in the amount of \$881,982 is available to fund the City's programs for citizens and creditors.

**COMPARATIVE STATEMENT OF ACTIVITY
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues						
Program revenues,						
Charges for services	\$91,353	\$87,024	\$728,954	\$709,779	\$820,307	\$796,803
Capital grants and contributions	0	101,318	0	0	0	101,318
Operating grants and contributions	298,756	52,838	0	0	298,756	52,838
General revenues,						
Property taxes	768,925	695,493	0	0	768,925	695,493
Sales and other taxes	228,927	250,625	0	0	228,927	250,625
Hotel taxes	5,108	3,251	0	0	5,108	3,251
Franchise taxes	41,438	38,899	0	0	41,438	38,899
Interest income	9,468	12,222	0	0	9,468	12,222
Gain on sale of assets	0	1,576	0	0	0	1,576
	<u>1,443,975</u>	<u>1,243,246</u>	<u>728,954</u>	<u>709,779</u>	<u>2,172,929</u>	<u>1,953,025</u>
Expenses						
Program expenses,						
General government	277,795	294,840	0	0	277,795	294,840
Library	361,896	73,750	0	0	361,896	73,750
Public safety	83,979	393,847	0	0	83,979	393,847
Public services and operations	16,439	13,623	0	0	16,439	13,623
Public works	121,560	194,668	0	0	121,560	194,668
Parks and recreation	283,930	83,513	0	0	283,930	83,513
Interest	4,099	4,102	0	0	4,099	4,102

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Water and sewer	0	0	947,727	1,066,383	947,727	1,066,383
	1,149,698	1,058,343	947,727	1,066,383	2,097,425	2,124,726
Change in net position before other revenues and financing sources (uses)	294,277	184,903	(218,773)	(356,604)	75,504	(171,701)
Transfers	(244,034)	(225,984)	244,034	225,984	0	0
Total change in net position	50,243	(41,081)	25,261	(130,620)	75,504	(171,701)
Net position, beginning of period	5,563,620	5,604,701	3,053,287	3,183,907	8,616,907	8,788,608
Net position, end of period	\$5,613,863	\$5,563,620	\$3,078,548	\$3,053,287	\$8,692,411	\$8,616,907

The governmental activities have increased net position in the amount of \$50,243. This is primarily due to the beginnings of a correction of a systemic and historical undervaluation of assessed values for property tax purposes. In addition, the Hawkins Community Development Corporation made significant improvements to the baseball fields on behalf of the City.

The business-type activities increased net position in the amount of \$25,261. This is primarily due to the reduction of current expenses from the prior year. However, the fund continued to need assistance to cover the cost of improvements to the water/sewer system.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the governmental funds reported combined ending fund balance of \$728,351, a 10.5% increase from last year. Approximately \$710,135 or 97.5% of this total amount constitutes unassigned fund balance, which is available for spending at the government's discretion. Restricted fund balance, of \$1,108 is set aside for State or donor imposed restrictions. In addition, \$7,150 has been committed for use in connection with the City's required contribution for the \$275,000 Texas Department of Agriculture Texas Community Development Block Grant Program.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$728,351. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 61.5% of total General Fund expenditures.

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

General Fund Budgetary Highlights

During the fiscal year, the City made revisions to the budget. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates which are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as federal and state grants; and (3) increases in appropriations which become necessary to maintain services.

Revenues were more than budgeted due to higher property taxes, more sales and use tax collections, increases in contributions (for the baseball fields) and unbudgeted grant revenue. Expenditures were more than budgeted amounts due to capital outlays and the offset of the HCDC contribution for the baseball fields.

Business-type (Proprietary) Funds

The City's proprietary fund provides the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the proprietary funds at the end of the fiscal year amounted to \$139,255.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2020, totals \$7,976,844 (net of accumulated depreciation). These assets include land, buildings, infrastructure, improvements, machinery and equipment, vehicles and construction-in-progress.

Major capital asset transactions during the year include:

- Street and sewer construction in progress
- Automotive equipment
- Sewer rehabilitation
- Street improvements

**CAPITAL ASSETS (net of accumulated depreciation)
SEPTEMBER 30, 2020**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$185,891	\$183,151	\$0	\$0	\$185,891	\$183,151
Construction in progress	0	0	171,865	44,996	171,865	44,996
Infrastructure	4,205,558	4,228,934	2,712,781	2,913,140	6,918,339	7,142,074
Buildings and Improvements	234,580	249,089	11,855	7,444	246,435	256,533
Machinery and equipment	411,522	442,199	42,792	60,671	454,314	502,870
	<u>\$5,037,551</u>	<u>\$5,103,373</u>	<u>\$2,939,293</u>	<u>\$3,026,251</u>	<u>\$7,976,844</u>	<u>\$8,129,624</u>

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Long-Term Debt

During the fiscal year ended September 30, 2019, the City refinanced and combined the two existing notes payable for the purchase of the 2014 and 2015 fire trucks. The new loan bears interest at 3% and calls for annual payments, including interest, of \$37,329 through March 1, 2019, then \$27,800 per year from March 1, 2019, through March 1, 2024, and a final payment on March 1, 2025, of \$13,824.

Also, during the year ended September 30, 2019, the City financed the acquisition of a new police car. The note bears interest at 4.75% and is payable, including interest, in two (2) annual payments of \$11,551, due January 1, 2020, through January 1, 2021, and a final payment of \$9,000 due January 1, 2022.

During the year ended September 30, 2020, the City financed the acquisition of a new police car. The note bears interest at 3.996% and is payable, including interest, in two (2) annual payments of \$11,858, due February 18, 2021, through January 1, 2022, and a final payment of \$12,000 due February 18, 2023.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Although the economy is a primary factor, the City's elected and appointed officials consider many factors when setting the fiscal year ending in 2021 budget, tax rates and fees which will be charged for the business-type activities.

The property tax rate for fiscal year ending in 2021 will be \$0.8088 for maintenance and operations per \$100 assessed value and \$0.1206 per \$100 assessed value for payment of debt for a total assessment of \$0.9294 per \$100 assessed value. The City's certified taxable values for calendar year 2020 is \$92,157,909. This is 10.2% less than last year as a result of a systemic and historical undervaluation of assessed values for property tax purposes.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the City's finances for those with an interest in the government's finances. Questions concerning the information found in this report or requests for additional financial information should be directed to the City of Hawkins, P. O. Box 329, Hawkins, Texas 75765-0329.

BASIC FINANCIAL STATEMENTS

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

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$241,190	\$61,651	\$302,841	\$311,668
Certificates of deposit	444,388	0	444,388	12,847
Restricted cash and cash equivalents	1,108	68,040	69,148	0
Receivables, less allowance for uncollectibles of \$65,464	86,434	88,775	175,209	18,730
Prepaid assets	9,958	1,395	11,353	0
Nondepreciable capital assets,				
Land	185,891	0	185,891	0
Construction in progress	0	171,865	171,865	0
Depreciable capital assets, net,				
Infrastructure	4,205,558	2,712,781	6,918,339	0
Buildings and improvements	234,580	11,855	246,435	0
Machinery and equipment	411,522	42,792	454,314	0
TOTAL ASSETS	5,820,629	3,159,154	8,979,783	343,245
NON CURRENT ASSETS				
Net pension assets	127,352	129,300	256,652	0
DEFERRED OUTFLOWS OF RESOURCES	14,988	7,124	22,112	0
TOTAL ASSETS AND DEFERRED OUTFLOWS	5,962,969	3,295,578	9,258,547	343,245
LIABILITIES				
Accounts payable	5,880	587	6,467	0
Due to other fund	18,730	0	18,730	0
Other liabilities	12,638	2,357	14,995	0
Customer deposits	0	68,040	68,040	0
Noncurrent liabilities,				
Due within one year,				
Compensated absences	7,269	17,398	24,667	0
Note payable	45,518	0	45,518	0
Due in more than one year,				
Other post retirement benefit payable	18,812	15,562	34,374	0
Note payable	122,005	0	122,005	0
TOTAL LIABILITIES	230,852	103,944	334,796	0
DEFERRED INFLOWS OF RESOURCES	118,254	113,086	231,340	0
NET POSITION				
Net investment in capital assets	4,870,028	2,939,293	7,809,321	0
Restricted for,				
Police department	1,108	0	1,108	0
Unrestricted	742,727	139,255	881,982	343,245
TOTAL NET POSITION	\$5,613,863	\$3,078,548	\$8,692,411	\$343,245

The accompanying notes to financial statements are an integral part of these statements.

CITY OF HAWKINS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Function/Programs	Net (Expense) Revenue and Changes in Net Position					
	Program Revenues			Primary government		Component Unit
	Expense	Charge for Services	Operating Grants and Contributions	Capital Grants and Contribution	Governmental Activities	Business-type Activities
GOVERNMENTAL ACTIVITIES						
General government						
Library	\$277,795	\$1,691	0	0	(\$276,104)	(\$276,104)
Public safety	361,896	8,246	61,750	0	(291,900)	(291,900)
Public services	83,979	8,001	8,711	0	(67,267)	(67,267)
Public works	16,439	69,565	0	0	53,126	53,126
Parks and recreation	121,560	0	0	0	(121,560)	(121,560)
Interest	283,930	3,850	228,295	0	(51,785)	(51,785)
	4,099	0	0	0	(4,099)	(4,099)
Total governmental activities	1,149,698	91,353	298,756	0	(759,589)	(759,589)
BUSINESS-TYPE ACTIVITIES						
Water and sewer	947,727	728,954	0	0	(\$218,773)	(218,773)
Total business-type activities	947,727	728,954	0	0	(218,773)	(218,773)
Total primary government	\$2,097,425	\$820,307	\$298,756	\$0	(759,589)	(978,362)
COMPONENT UNIT						
Community Development Corporation	\$247,257	\$0	\$0	\$0		(\$247,257)
GENERAL REVENUES						
Property taxes					768,925	0
Sales and other taxes					228,927	112,545
Hotel taxes					5,108	0
Franchise fees					41,438	0
Interest income					9,468	666
TRANSFERS					(244,034)	0
Total general revenues					809,832	113,211
INCREASE (DECREASE) IN NET POSITION					50,243	(134,046)
NET POSITION, October 1, 2019					5,563,620	477,291
NET POSITION, September 30, 2020					\$5,613,863	\$343,245

The accompanying notes to financial statements are an integral part of these statements.

CITY OF HAWKINS, TEXAS
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2020

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$241,190
Certificates of deposit	444,388
Restricted cash	1,108
Receivables,	
Property taxes, less allowance for uncollectible taxes of \$55,702	23,872
Franchise and right of way fees	4,149
Sales and other taxes	58,412
Prepaid assets	<u>9,958</u>
	<u>\$783,077</u>
LIABILITIES	
Accounts payable	\$5,880
Other liabilities	9,166
Due to other fund	<u>18,730</u>
	<u>33,776</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue, property tax	<u>20,950</u>
	<u>20,950</u>
FUND BALANCE	
Nonspendable,	
Prepaid items	9,958
Restricted for,	
Police department	1,108
Committed, waste water treatment plant improvement project	7,150
Unassigned	<u>710,135</u>
	<u>728,351</u>
	<u>\$783,077</u>

The accompanying notes to financial statements are an integral part of these statements.

CITY OF HAWKINS, TEXAS
RECONCILIATION OF BALANCE SHEET (GOVERNMENTAL FUND)
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

Fund balance, Balance Sheet (Governmental Funds)	\$728,351
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 are not reported in the funds	7,028,348
Accumulated depreciation has not been included in the governmental fund financial statements	(1,990,797)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(7,267)
Notes payable are not due and payable in the current period and, therefore, not reported in the funds as follows,	
Notes Payable,	
due within one year	(45,518)
not due within one year	(122,005)
Accrued interest	(3,473)
Deferred outflows/inflows of resources and net liability applicable to future periods and, therefore, are not reported in the funds	
Related to pensions	22,531
Related to other post retirement benefits	(17,257)
Property taxes receivable that are unavailable to pay for current period expenditures are deferred in the funds	<u>20,950</u>
Net position - Statement of Net Position	<u><u>\$5,613,863</u></u>

The accompanying notes to financial statements are an integral part of these statements.

CITY OF HAWKINS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN
FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	General Fund
REVENUES	
Taxes,	
Property	\$773,835
Sales and use	228,927
Hotel tax	5,108
Charges for services	13,996
Contributions received	234,396
Fines and forfeitures	67,324
Franchise fees	41,438
Grant income	35,260
Interest income	9,468
Intergovernmental	50,513
Licenses and permits	2,241
Miscellaneous income	<u>1,183</u>
	\$1,463,689
EXPENDITURES	
Current,	
General government	298,293
Library	80,162
Parks and recreation	258,554
Public safety	316,102
Public services	16,439
Public works	115,808
Debt service,	
Principal retirement	33,789
Interest	5,562
Capital outlays,	
General government	2,740
Public safety	50,867
Public works	<u>5,004</u>
	<u>1,183,320</u>
EXCESS OF REVENUES OVER EXPENSES	280,369
OTHER FINANCING SOURCES (USES)	
Loan proceeds for purchase of police car	33,036
Transfers	<u>(244,034)</u>
INCREASE IN FUND BALANCE	69,371
FUND BALANCE, October 1, 2019	<u>658,980</u>
FUND BALANCE, September 30, 2020	<u><u>\$728,351</u></u>

The accompanying notes to financial statements are an integral part of these statements.

CITY OF HAWKINS, TEXAS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE OF GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Increase (decrease) in fund balance - Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	\$69,371
The depreciation of capital assets used in governmental activities is not reported in the funds.	(124,432)
Current year capital outlays are expenditures in the fund financial statements, but they are shown as an increase in capital assets in the government-wide financial statements.	58,610
Deferred outflows/inflows of resources and net liability applicable to future periods and, therefore, are not reported in the funds	
Related to pensions	54,511
Related to other post retirement benefits	(1,174)
Repayment of debt principal and accrued interest is an expenditure in the funds but the payment reduces the liabilities in the government-wide statement of net position. Debt principal payments and accrued interest are as follows:	
Notes payable	
Note for acquisition of police car	(33,036)
Scheduled payment	32,789
(Increase) Decrease of accrued interest	(386)
Current year changes in compensated absences do not require the use of current financial resources; therefore, they are not reported as expenditures in the governmental funds.	(1,101)
Property taxes receivable that are unavailable to pay for current period expenditures are deferred in the funds	<u>(4,909)</u>
Increase (decrease) in net position - Statement of Activities	<u><u>\$50,243</u></u>

The accompanying notes to financial statements are an integral part of these statements.

CITY OF HAWKINS, TEXAS
STATEMENT OF FUND NET POSITION -
PROPRIETARY FUND
SEPTEMBER 30, 2020

		<u>Water and Sewer</u>
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash	\$61,651	
Restricted cash	68,040	
Receivables, less allowance for uncollectibles of \$9,762	88,775	
Prepaid assets	<u>1,395</u>	
Total current assets		\$219,861
CAPITAL ASSETS		
Construction-in-progress		171,865
Infrastructure	8,521,163	
Buildings and improvements	17,035	
Machinery and equipment	<u>255,274</u>	
	8,793,472	
Less accumulated depreciation	<u>(6,026,044)</u>	
Net capital assets		2,767,428
NON CURRENT ASSETS		
Net pension assets		129,300
DEFERRED OUTFLOWS OF RESOURCES		<u>7,124</u>
		<u>\$3,295,578</u>
LIABILITIES AND DEFERRED INFLOWS		
CURRENT LIABILITIES		
Accounts payable	\$587	
Other liabilities	2,357	
Customer deposits	<u>68,040</u>	
Total current liabilities		\$70,984
NON CURRENT LIABILITIES		
Due within one year,		
Compensated absences	17,398	
Due in more than one year,		
Other post retirement benefit payable	<u>15,562</u>	
		32,960
DEFERRED INFLOWS OF RESOURCES		113,086
NET POSITION		
Net investment in capital assets	2,939,293	
Unrestricted	<u>139,255</u>	
		<u>3,078,548</u>
		<u>\$3,295,578</u>

The accompanying notes to financial statements are an integral part of these statements.

CITY OF HAWKINS, TEXAS
STATEMENT OF REVENUE, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Water and Sewer</u>
OPERATING REVENUES	
Charges for services,	
Water sales	\$303,481
Sewer	231,810
Garbage	164,369
Grant funds received	25,550
Miscellaneous income	<u>3,744</u>
	\$728,954
OPERATING EXPENSES	
Personnel services	185,161
Supplies and materials	35,205
Maintenance and repair	247,662
Utilities	78,998
Contractual services	51,476
Garbage contract	125,694
Penalty and permit fees	4,175
Depreciation	<u>219,356</u>
	<u>947,727</u>
OPERATING INCOME (LOSS)	<u>(218,773)</u>
INCOME (LOSS) BEFORE TRANSFERS	(218,773)
TRANSFERS IN	<u>244,034</u>
INCREASE IN NET POSITION	25,261
NET POSITION, October 1, 2019	<u>3,053,287</u>
NET POSITION, September 30, 2020	<u><u>\$3,078,548</u></u>

The accompanying notes to financial statements are an integral part of these statements.

**CITY OF HAWKINS, TEXAS
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>Water and Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$688,912
Cash received from other sources	29,294
Cash payments to employees for services	(240,434)
Cash payments to suppliers for goods and services	<u>(556,796)</u>
Net cash provided by (used in) operating activities	(\$79,024)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	<u>244,034</u>
Net cash provided by (used in) noncapital financing activities	244,034
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	<u>(132,398)</u>
Net cash provided by (used in) capital and related financing activities	(132,398)
CASH FLOW FROM INVESTING ACTIVITIES	<u>0</u>
INCREASE IN CASH AND CASH EQUIVALENTS	32,612
CASH AND CASH EQUIVALENTS, October 1, 2019	<u>97,079</u>
CASH AND CASH EQUIVALENTS, September 30, 2020	<u><u>\$129,691</u></u>

The accompanying notes to financial statements are an integral part of these statements.

**CITY OF HAWKINS, TEXAS
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Water and Sewer

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating income (loss)	(\$218,773)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities,	
Depreciation	\$219,356
Changes in assets and liabilities,	
Decrease (increase) in receivables	(14,453)
Decrease (increase) in prepaid assets	(1,395)
Decrease (increase) in net deferred pension inflows/outflows liability	41,860
Decrease (increase) in net OPEB inflows/outflows liability	(2,641)
Increase (decrease) in accounts payable	(12,474)
Increase (decrease) in other liabilities	283
Increase (decrease) in customer deposits	3,705
Increase (decrease) in net pension liability	(96,590)
Increase (decrease) in net OPEB liability	4,288
Increase (decrease) in compensated absences	<u>(2,190)</u>
Total adjustments	<u>139,749</u>
Net cash provided (used) by operating activities	<u>(\$79,024)</u>
NON CASH INVESTING AND FINANCING ACTIVITIES	
Construction in process from prior year completed in current year	<u>\$0</u>

The accompanying notes to financial statements are an integral part of these statements.

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hawkins (City) is a municipal corporation governed by an elected mayor and a five-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local government include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments - Audit and Accounting Guide*. The more significant accounting policies of the City are described below.

a. FINANCIAL REPORTING ENTITY

The basic financial statements are prepared in conformity with GASB Statement No. 34, *Basic Financial Statements for State and Local Governments* which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities on the statement of net position and statement of activities. Significantly, the City's statement of net position includes both noncurrent assets and noncurrent liabilities. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City's basic financial statements include the accounts of all City operations. In evaluating how to define the government for financial reporting purposes, management has considered all entities for which the City is considered to be financially accountable. As required by GAAP, these financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable.

Under GASB Statement No.14, *The Financial Reporting Entity*, component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City also may be financially

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government or a jointly appointed board that is fiscally dependent on the City. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, added clarification to GASB Statement No. 14 by including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component unit, is entitled to, or has the ability to otherwise access, are significant to the primary government.

In addition, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and No. 34*, considers an organization that does not meet the financial accountability criteria may be included as a component unit if management's professional judgement determines it to be necessary and misleading if omitted. This evaluation includes consideration of whether a financial benefit or burden exists in the relationship between the entities.

The financial statements of the following component units have been "discretely presented" in the accompanying report because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component unit provides services entirely, or almost entirely, to the citizenry and not the City.

Discretely presented component units. The City has one component unit, Hawkins Community Development Corporation (HCDC). In 1999, the City adopted a sales and use tax within the City of Hawkins, Texas at the rate of one-half of one percent to be used for the promotion and development of new or expanded business enterprises and any other purposes authorized by Section 4B of the Development Corporation Act of 1979. The HCDC was formed and is a not-for-profit corporation organized under the Development Corporation Act of 1979 and is governed by section 4B of the Act. The City Council appoints the governing board of the entity and the entity is fiscally dependent on the primary government (the City). The City does not have a voting majority of the corporation. There are no separately issued financial statements for the HCDC.

b. BASIS OF PRESENTATION - BASIS OF ACCOUNTING

- *Government-wide Statements:* The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

government and its component unit. Governmental activities which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely on fees and charges for support.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (police, fire, public works, etc.) or program is offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or program. Program revenues include: (a) charges to customers or applicants who purchase, use or directly benefit from goods, service or privileges provided by a given function or program, (b) grants and contributions restricted to meeting the operational requirements of a particular function or program or (c) grants and contributions restricted to meeting the capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property and sales taxes, franchise taxes and interest income).

- *Fund Financial Statements:* The fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. The major government fund is the General Fund. GASB Statement No. 34, as amended, sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and proprietary combined) for the determination of major funds. With the adoption of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the presentation of deferred inflows/outflows of other resources is included in the calculation. The City does not have any non-major funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary's funds principal ongoing operations. The principal operating revenues of the water and sewer proprietary fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

- *Government-wide and Proprietary Fund Financial Statements:* These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include all taxes, grants, entitlements and contributions. On an accrual basis, revenue from property

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on major individual funds of the governmental and proprietary categories. Each presentation provides valuable information which can be analyzed and compared to enhance the usefulness of the information.

c. MEASUREMENT FOCUS - BASIS OF ACCOUNTING

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

- *Governmental Fund Financial Statements:* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, in other words, as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the obligation has matured or is due and payable shortly after year-end as required by GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Ad valorem, franchise and sales tax revenues recorded in the General Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources, as needed.

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

The City reports the following major governmental funds:

- The General Fund is the general operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts which are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs not paid through other funds are paid from the General Fund.
- Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal ongoing operations. The principal operating revenues of the City's water and sewer services are charges to customers for sales and services. Operating expenses for the Proprietary Fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City reports the following major proprietary fund:

- ◆ The Water and Sewer Fund accounts for the operations of the water, sanitary sewer utilities and trash collection which are self-supporting activities rendering services on a user-charge basis.

d. FINANCIAL STATEMENT AMOUNTS

(1) CASH AND CASH EQUIVALENTS

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

(2) RESTRICTED ASSETS

Assets are reported as restricted when limitations on their use change the nature of normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments or are imposed by law through contractual provisions or enabling legislation.

Customer deposits received for water and wastewater service are, by law, to be considered restricted assets. These activities are included in the Water and Sewer Fund.

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(3) RECEIVABLE AND PAYABLE BALANCES

The City believes sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation.

Property tax receivables are shown net of an allowance for uncollectible amounts.

(4) CAPITAL ASSETS

Capital assets, which include land, buildings, equipment and improvements, purchased or acquired, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and proprietary fund types. The City defines capital assets as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated.

Additions, improvements and other capital outlays which significantly extend the useful life of an asset are capitalized. Costs incurred for repairs and maintenance are expensed when incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no capitalized interest for the current year.

Management elected not to retroactively report infrastructure assets within the scope of GASB Statement No. 34, as amended.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	7 - 40 years
Buildings and improvements	10 - 50 years
Machinery and equipment	5 - 15 years

(5) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position reports a separate section for deferred flows of resources. The separate financial statement element, deferred outflows of resources, represent a consumption of net position which applies to a future period and will not be recognized as an outflow of resources (expenses/expenditures) until then.

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position which applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. Other than deferred outflows/inflows relating to pensions and other post retirement benefits, the City has one item which qualifies for reporting in this category. Accordingly, the item of unavailable revenue is reported in the governmental funds balance sheet as deferred inflows of resources. The amounts are deferred and recognized as inflows of resources in the period they become available.

(6) COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused vacation time benefits. Unused vacation time is accrued at the close of the fiscal year in the government-wide and proprietary fund financial statements.

Because the amounts are immaterial, the City does not report a long-term portion of compensated absences.

(7) LONG-TERM OBLIGATIONS

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities fund statement of net position.

(8) NET POSITION FLOW ASSUMPTION

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

(9) FUND EQUITY

In the fund financial statements, government funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* - includes the portion of net resources which cannot be spent because of their form (i.e., inventory, long-term loans or prepaids) or because they must remain intact such as the principal of an endowment.

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

- *Restricted fund balance* - includes the portion of net resources on which limitations are imposed by creditors, grantors, contributions or by laws or regulations of other governments (i.e., externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* - includes the portion of net resources upon which the City Council has imposed limitations on use. Amounts can be used only for the specific purposes determined by a resolution of the City Council, the highest level of decision making. Commitments may be changed or lifted only by the Council taking the same formal action which originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.
- *Assigned fund balance* - includes the portion of net resources for which an intended use has been established by the City Council. Assignment of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds, other than the General Fund, assigned fund balance represents the amount not restricted or committed which indicates resources are, at a minimum, intended to be used for the purpose of that fund.
- *Unassigned fund balance* - includes the amounts in the General Fund in excess of what can properly be classified in one of the other categories of fund balance. It is the residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

The purpose of the City's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unprecedented one-time expenditures.

The City's goal is to achieve and maintain an unassigned fund balance in the general fund equal to 16.67% of general fund expenditures. The City is currently in compliance with this policy.

(10) FUND BALANCE FLOW ASSUMPTION

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be

CITY OF HAWKINS, TEXAS
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used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

(11) COMPARATIVE DATA

Comparative total data for the current year to budget have been presented in the supplementary section of the financial statement in order to provide an understanding of budgeted to actual results.

(12) PROPERTY TAXES

Property tax is levied each October on the assessed value listed as of the prior January 1 for all real and personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Property taxes are recorded as receivables and deferred revenues at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within 60 days following the close of the fiscal year have been recognized as revenue at the fund level.

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution, applicable to cities of less than 5,000 population, limits the ad valorem tax rate to \$1.50 per \$100 assessed valuation. For the fiscal year ended September 30, 2020, the City had a tax rate of \$0.8388 per \$100 assessed valuation.

(13) INTERFUND ACTIVITY

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

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(14) USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires the use of estimates. Due to their prospective nature, actual results could differ from these estimates by management.

(15) PROGRAM REVENUES

Certain revenues, such as charges for services, are included in program revenues.

(16) PROGRAM EXPENSES

Certain indirect costs, such as administrative costs, are included in the program expense reported for individual functional activities.

(17) PENSIONS

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

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

a. FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

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

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

b. DEFICIT FUND BALANCE OR FUND NET POSITION OF INDIVIDUAL FUNDS

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

<u>Fund Name</u>	<u>Deficit Amount</u>
None Reported	Not applicable

CITY OF HAWKINS, TEXAS
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c. BUDGETS AND BUDGETARY ACCOUNTING

The City adopts an "appropriated budget" of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures. The General Fund budget appears on page 61.

The following procedures are followed in establishing the budgetary data:

- No later than the first Council meeting each August, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to September 30, the budget is legally enacted through passage of an ordinance. If the Council takes no action on or prior to such day, the budget, as submitted by the Mayor, will be deemed to have been adopted by the Council.
- The level of control (the level at which expenditures may not exceed budget) is the fund level. The Mayor is authorized to approve a transfer of budgeted amounts within departments; however, any revisions which alter the total of any fund must be approved by the City Council.

The majority of the City's Capital Projects are budgeted on an annual basis. For budgeted capital projects not expended during the fiscal year, the City will roll those balances into the following year's fiscal budget.

NOTE 3 - CASH AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract and investment policy pursuant to a state statute. The depository bank deposits, for safekeeping and trust with the City's agent, approved pledged securities authorized by Chapter 2257, *Collateral for Public Funds of the Government Code*, in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

a. CASH DEPOSITS

At September 30, 2020, the carrying amount of the City's deposits (cash, certificates of deposit and interest-bearing savings accounts included in temporary investments) was \$816,376 and the bank balance was \$879,685. The City's cash deposits at September 30, 2020, and during the year ended September 30, 2020, were covered by FDIC insurance or by pledged collateral held on behalf of the City's depository banks in the City's name.

CITY OF HAWKINS, TEXAS
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	Governmental Activities	Business-type Activities	Total	Component Unit
Statements of Net Position				
Primary government,				
Cash and cash equivalents	\$241,190	\$61,651	\$302,841	\$311,668
Certificates of deposit	444,388	0	444,388	12,847
Restricted cash and cash equivalents	1,108	68,040	69,148	0
Total cash and cash equivalents	<u>\$686,686</u>	<u>\$129,691</u>	<u>\$816,377</u>	<u>\$324,515</u>

Restricted cash and cash equivalents as of September 30, 2020, consist of:

	Governmental Activities	Business-type Activities	Total	Component Unit
Governmental financial statements				
Police department	\$1,108		\$1,108	\$0
Total governmental	<u>1,108</u>		<u>1,108</u>	<u>0</u>
Business-type financial statements,				
Customer deposits		\$68,040	68,040	
Total business-type		<u>68,040</u>	<u>68,040</u>	
Total restricted cash and cash equivalents	<u>\$1,108</u>	<u>\$68,040</u>	<u>\$69,148</u>	<u>\$0</u>

b. INVESTMENTS AND INVESTMENT ACCOUNTING POLICY

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

Investments as of September 30, 2020, consist of certificates of deposit totaling \$444,388, bearing interest at 1.15%-1.68%, maturing at varying dates until May 2021, are summarized as follows:

	Governmental Activities	Business-type Activities	Total	Component Unit
City National Bank	\$5,330	\$0	\$5,330	\$12,847
Mineola Community Bank	121,472	0	121,472	0
Southside Bank	317,586	0	317,586	0
	<u>\$444,388</u>	<u>\$0</u>	<u>\$444,388</u>	<u>\$12,847</u>

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

c. BANK PLEDGED SECURITIES

Cash and certificates of deposit with certain banks used by the City are fully insured by the FDIC or the bank placed a properly executed pledge agreement in place when the City's cash and certificate of deposit balance exceeded the FDIC insurance limit.

As of September 30, 2020, one of the City's primary banks has pledged securities with a face value of \$350,000 and a market value of \$410,186 for the City's cash deposits and certificates of deposit totaling \$143,585 in excess of FDIC insurance. Another bank has pledged a portion of a letter of credit it has received from its lending bank in the amount of \$500,000 for cash deposits and certificates of deposit totaling \$301,084.

d. CUSTODIAL CREDIT RISK

To control custody and safekeeping risk, the City's adopted Investment Policy requires collateral for all investments and funds verified with investment policy on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of the market value of the principal and accrued interest. Securities pledged as collateral shall be held by an independent third party with whom the City has a current custodial agreement.

The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by:

- Limiting investment to the safest types of securities;
- Pre-qualifying the financial institutions and broker/dealers with which the City will do business; and
- Diversifying the investment portfolio to minimize potential loss on individual securities.

NOTE 4 - RECEIVABLES

Receivables as of the year end for the government's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

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	Governmental Activities	Business-type Activities	Total
Receivables,			
Property tax	\$79,574	\$0	\$79,574
Sales and other tax	58,412	0	58,412
Fees and charges	4,150	98,537	102,687
Gross receivables			240,673
Less allowance for uncollectibles	(55,702)	(9,762)	(65,464)
	<u>\$86,434</u>	<u>\$88,775</u>	<u>\$175,209</u>

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balances	Additions	Decreases	Ending Balances
Governmental Activities				
Capital assets not being depreciated,				
Land	\$183,151	\$2,740	\$0	\$185,891
Total capital assets not being depreciated	183,151	2,740	0	185,891
Capital assets, being depreciated,				
Infrastructure	4,501,169	5,004	0	4,506,173
Buildings and improvements	654,201	0	0	654,201
Machinery and equipment	1,631,217	50,866	0	1,682,083
Total capital assets being depreciated	6,786,587	55,870	0	6,842,457
Less accumulated depreciation for,				
Infrastructure	(272,235)	(28,380)	0	(300,615)
Buildings and Improvements	(405,112)	(14,509)	0	(419,621)
Machinery and equipment	(1,189,018)	(81,543)	0	(1,270,561)
Total accumulated depreciation	(1,866,365)	(124,432)	0	(1,990,797)
Total capital assets being depreciated, net	4,920,222	(68,562)	0	4,851,660
Governmental activities capital assets, net	<u>\$5,103,373</u>	<u>(\$65,822)</u>	<u>\$0</u>	<u>\$5,037,551</u>
Business-type Activities				
Capital assets not being depreciated,				
Construction in progress	\$44,996	\$126,868	\$0	\$171,864
Total capital assets not being depreciated	44,996	126,868	0	171,864

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	Beginning Balances	Additions	Decreases	Ending Balances
Capital assets being depreciated,				
Infrastructure	8,521,163	0	0	8,521,163
Buildings and Improvements	11,505	5,530	0	17,035
Machinery and equipment	255,274	0	0	255,274
Total capital assets being depreciated	8,787,942	5,530	0	8,793,472
Less accumulated depreciation for,				
Infrastructure	(5,608,024)	(200,358)	0	(5,808,382)
Buildings and Improvements	(4,061)	(1,119)	0	(5,180)
Machinery and equipment	(194,603)	(17,879)	0	(212,482)
Total accumulated depreciation	(5,806,688)	(219,356)	0	(6,026,044)
Total capital assets being depreciated, net	2,981,254	(213,826)	0	2,767,428
Business-type activities capital assets, net	\$3,026,250	(\$86,958)	\$0	\$2,939,292

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

Governmental activities,	
General government	\$5,041
Library	10,784
Parks and recreation	25,375
Public safety	77,480
Public works	5,752
Total depreciation expense, governmental activity's	\$124,432
Business-type activities,	
Water and sewer	\$219,356

In addition to depreciable capital assets purchased, the business-type fund includes \$171,865 of assets transferred to construction-in-progress during the current fiscal year.

NOTE 6 - DEFERRED OUTFLOWS/INFLOWS

Deferred outflows/inflows as of September 30, 2020, are summarized as follows:

	Government Wide		Proprietary Fund	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Pension plan				
Difference between expected and actual economic experience	\$0	\$80,994	\$0	\$76,501

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	Government Wide		Proprietary Fund	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Differences between projected and actual earnings on pension plan	0	35,132	0	36,539
Difference resulting from changes in assumptions	0	2,128	1,747	0
Contributions subsequent to measurement date	13,433	0	5,271	0
Other post retirement benefits				
Difference between expected and actual economic experience	1,396	0	0	46
Difference resulting from changes in assumptions		0	0	0
Contributions subsequent to measurement date	159	0	106	0
	<u>\$14,988</u>	<u>\$118,254</u>	<u>\$7,124</u>	<u>\$113,086</u>

NOTE 7 - CONSTRUCTION COMMITMENTS

The City has two (2) active construction project as of September 30, 2020.

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Wastewater projects	<u>\$92,853</u>	<u>\$3,382,147 *</u>
	<u>\$92,853</u>	<u>\$3,382,147</u>

* Estimated cost based on engineering estimates.

NOTE 8 - LONG-TERM OBLIGATIONS

A summary of long-term debt transactions, including current portion, for the year ended September 30, 2020, is as follows:

Description	Date Issued	Interest Rate Payable	Amounts Outstanding 09/30/2019	Issued	Retired	Amounts Outstanding 09/30/2020	Due within one year
Governmental activities,							
Fire trucks	02/21/2018	3%	\$138,894	\$0	\$23,635	\$115,259	\$24,343
Police car	12/27/2018	4.75%	29,383	0	10,154	19,229	10,637
Police car	02/18/2020	3.996%	0	33,036	0	33,036	10,538
Compensated absences			6,168	7,269	6,168	7,269	7,269
Total governmental activities			<u>\$174,445</u>	<u>\$40,305</u>	<u>\$39,957</u>	<u>\$174,793</u>	<u>\$52,787</u>
Business-type activities,							
Compensated absences			<u>\$19,588</u>	<u>\$17,398</u>	<u>\$19,588</u>	<u>\$17,398</u>	<u>\$17,398</u>

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The debt service requirements for the notes payable are:

Year ending September 30,	Principal	Interest	Total
2021	\$45,518	\$5,691	\$51,209
2022	44,624	4,034	48,658
2023	37,365	2,435	39,800
2024	26,601	1,199	27,800
2025	13,416	401	13,817
	\$167,524	\$13,760	\$181,284

Fire truck costing \$400,690 and police cars costing \$86,727 are pledged as collateral for the notes payable.

Interest incurred on these notes payables for the year ended September 30, 2020, amounted to \$5,562.

NOTE 9 - OPERATING LEASES

The City leases a copier through U.S. Bank to provide equipment for the printing, copying, faxing and scanning needs of the City during daily operation. The total cost for the leases was \$1,150 for the year ended September 30, 2020, and is included in the appropriate departmental expenses. The future minimum lease payments for this lease are as follows:

Year Ending September 30,	Copier - City Hall
2021	\$1,380
2022	1,380
2023	230

NOTE 10 - PENSION PLAN

a. DEFINED BENEFIT PENSION PLAN

(1) PLAN DESCRIPTION

The City participates as one of 888 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

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a tax-qualified plan under Section 401 (a) of the Internal Revenue Code.

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

TMRS issues a publicly available comprehensive annual financial report which includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. This report may be obtained by writing to TMRS, P. O. Box 149153, Austin, Texas 78714-9153 or by calling 800/924-8677; in addition, the report is available on TMRS' website at www.tmr.com.

(2) BENEFITS PROVIDED

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

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

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

Employee deposit rate	7%
Matching ratio (city to employee)	2.0 to 1
Years required for vesting	5 years
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	Last adopted 2015 - Auto Readoption - 100%
Cost of Living Adjustment (COLA) for Retirees	Last adopted 1988 - 70%
Restricted Prior Service Credits	Yes, adopted 10-2000
Buy back last Adopted	2-2014
Supplemental death benefit to:	
Active employees	Yes
Retired employees	Yes

Employees covered by benefit terms.

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

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Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>9</u>
	<u>25</u>

(3) CONTRIBUTIONS

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

Employees of the City are required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 6.06% and 14.79% in calendar years 2020 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$28,808, and was equal to the required contribution. There was no payable to the plan as of September 30, 2020.

(4) NET PENSION LIABILITY

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

Actuarial assumptions

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

Inflation	2.5% per year
Overall payroll growth	1.75% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year

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set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment or younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014, to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2109, actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment or time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year ended December 31, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	<u>10.0%</u>	7.75%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed employee and employer contributions will be made at the rates specified in the statute. Based

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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.

Changes in Net Position Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Position Liability (Asset)
Balance December 31, 2018	\$1,943,117	\$2,008,615	(\$65,498)
Changes for the year,			
Service cost	63,141	0	63,141
Interest	130,846	0	130,846
Change of benefit terms,			
Difference between expected and actual experience	11,791	0	11,791
Changes of assumptions	(589)	0	(589)
Contributions, employer	0	59,330	(59,330)
Contributions, employee	0	28,080	(28,080)
Net investment income	0	310,740	(310,740)
Benefit payments, including refunds of employee contributions	(72,445)	(72,445)	0
Administrative expenses	0	(1,755)	1,755
Other changes	0	(52)	52
Net changes	132,744	323,898	(191,154)
Balance December 31, 2019	\$2,075,861	\$2,332,513	(\$256,652)
Plan fiduciary net position as a percentage of the total pension liability			112.36%
Covered employee payroll			\$401,149
Net pension liability (asset) as a percentage of covered employee payroll			(63.98%)

Sensitivity of the net pension liability (asset) to changes in the discount rate

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

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	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability/(asset)	(\$5,710)	(\$256,652)	(\$467,765)

Pension Plan Fiduciary Net Position

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

(5) PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended September 30, 2020, the city recognized pension expense amounting to (\$73,542).

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

	Amortization Period	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	3.47 - 5.00 years	\$0	\$157,495
Changes in actuarial assumptions	2.83 years	0	381
Differences between projected and actual investment earnings	2.83 - 5.00 years	120,265	191,936
Contributions subsequent to measurement date	1 year	18,704	0
Total		<u>\$138,969</u>	<u>\$349,812</u>

\$18,704 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction in the net pension liability for the year ended September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

<u>Year ending September 30,</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2021	(\$130,302)
2021	(69,270)
2023	5,055
2024	<u>(35,030)</u>
	<u>(\$229,547)</u>

b. DEFINED CONTRIBUTION PENSION PLAN

The City adopted the defined contribution retirement plan now administered by the Texas Emergency Services Retirement System (TESRS). Benefit terms, including contribution requirements, for TESRS are established and may be amended by the TESRS Board of Directors.

The City contributes \$36 per month for each firefighter who participates in at least 25% of the emergencies and attends at least 20 hours of training during the year. No contributions are required of the firefighter. For the year ended September 30, 2020, the City recognized retirement plan expense of \$216. There were no City contributions unpaid as of September 30, 2020.

At age 55 with 15 years of qualified service, a member is eligible for a retirement of six (6) times the average monthly contribution over the member's year of qualified service. Members who have reached age 50 are 50% vested with 10 years of qualified service.

If a member is injured while on-duty, the member receives at least \$400 per month as long as the member is unable to perform his/her duties for the volunteer fire department and the duties of any other occupation for which the person is reasonably suited by education, training and experience.

In the event of an off-duty death, beneficiaries are entitled to a lump-sum death benefit. In addition, certain monthly benefits may be available to the beneficiaries of the decedent. For this purpose, the decedent is deemed to have 15 years of qualified service.

Additional information is available at the TESRS website www.tesrs.org/benefit-overview.

Nonvested City contributions are forfeited upon termination of participation in the Volunteer Fire Department. Such forfeitures are used to cover a portion of the pension plan's administrative expense.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

Effective October 1, 2017, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement addresses accounting and financial reporting for other postemployment benefits (OPEB) which are

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

provided to the employees of the City. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions which are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB are also addressed.

a. GENERAL INFORMATION ABOUT THE OPEB PLAN

(1) PLAN DESCRIPTION

The Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees.

The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. Additional information may be obtained from TMRS by writing to TMRS, P. O. Box 149153, Austin, Texas 78714-9153 or by calling 800/924-8677.

(2) BENEFITS PROVIDED

The City's contributions to the TMRS SDBF for the years ended 2020, 2019 and 2018 were \$577, \$1,355, and \$1,237, respectively, which equaled the required contributions each year. There was no payable to the plan as of September 30, 2020.

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

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(3) EMPLOYEES COVERED BY BENEFIT TERMS

As of December 31, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments*	4
Inactive employees entitled to but not yet receiving benefit payments*	2
Active employees	<u>9</u>
	<u>15</u>

* Membership counts for inactive employees currently receiving or entitled to but not yet receiving benefits differ from GASB 68 as they include only those eligible for SDBF benefits (i.e. excludes beneficiaries, non-vested terminations due a refund, etc.).

b. TOTAL OPEB LIABILITY - ACTUARIAL ASSUMPTIONS AND OTHER INPUTS

The total OPEB liability per the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	3.5% to 11.5% including inflation
Discount rate*	2.75%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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

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

c. CHANGES IN THE TOTAL OPEB LIABILITY

Total OPEB Liability, December 31, 2018	<u>\$24,922</u>
Changes for the year,	
Service cost	1,284
Interest on Total OPEB Liability	945
Differences between expected and actual experience	1,376
Changes in assumptions or other inputs	6,007
Benefit payments **	<u>(160)</u>
Net changes	<u>9,452</u>
Total OPEB Liability, December 31, 2019	<u>\$34,374</u>
Covered payroll	\$401,149
Total OPEB liability as a percentage of payroll	8.57%

Changes of assumptions and other inputs will generally only be the annual change in the discount rate from 3.71% in 2018 to 2.75% in 2019.

** Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contribution for retirees.

d. SENSITIVITY OF THE TOTAL OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75 percent) or 1-percentage-point higher (3.75 percent) than the current discount rate:

	1% Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
Total OPEB liability	<u>\$42,133</u>	<u>\$34,374</u>	<u>\$28,343</u>

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

For the year ended September 30, 2020, the City recognized OPEB expense of \$2,612 as follows:

Service costs	\$1,284
Interest on Total OPEB Liability	945
Recognition of deferred outflows/inflows of resources:	
Differences between expected and actual experience	(920)
Changes in assumptions or other inputs	<u>1,303</u>
Total OPEB expense	<u>\$2,612</u>

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

	Amortization Period	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	5.00 - 5.78 years	\$1,101	\$4,516
Changes in actuarial assumptions	4.789 - 5.789 years	5,991	1,226
Contributions subsequent to measurement date	1 year	<u>265</u>	<u>0</u>
		<u>\$7,357</u>	<u>\$5,742</u>

\$265 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction in the OPEB liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending September 30,</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2021	(\$383)
2022	(383)
2023	(290)
2024	<u>(294)</u>
	<u>(\$1,350)</u>

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 12 - HEALTH CARE COVERAGE

During the year ended September 30, 2020, employees of the City were covered by a health and dental insurance plan. The City contributed \$1,092 per month per employee and 0% of the cost for dependents. Employees, at their option, authorize payroll withholdings to pay contributions for dependents. All contributions were paid to United Healthcare Insurance. The Plan was authorized by Article 3.51-2, Texas Insurance Code and is documented by contractual agreement.

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees and natural disasters. The City had general liability coverage at a cost which is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for this coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category has its own level of reinsurance. The City will carry commercial insurance for other risks of loss, if needed. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

NOTE 14 - LITIGATION

In July 2020 a former member of the Hawkins Police Department filed suit in the United States District Court alleging violations of the Americans with Disabilities Act (ADA) and the Texas Labor Code. The plaintiff claims she is qualified, her disabilities notwithstanding, to perform the duties of the police chief and the City has failed to accommodate her by returning her to the position of interim Police Chief.

In April 2020, the City and the plaintiff entered into a Full Release and Compromise Settlement Agreement. The terms of the agreement provide for the resignation of the plaintiff from City employment in exchange for a lump sum payment of \$22,500. The settlement funds were paid from insurance coverage and the City's cost was the insurance deductible, which was paid in a prior year.

NOTE 15 - ADDITIONAL WATER AND SEWER INFORMATION

The following information is included at the request of the Texas Water Development Board for the year under audit.

Water Accountability Report

Gallons Pumped - 46,037,628

Gallons Billed - 38,335,000

In addition to the 38,335,000 gallons billed to customers during this fiscal year ended September 30, 2020, 6,707,000 gallons were used for the city buildings, public safety, sewer treatment and other city services.

**CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 16 - INTERFUND TRANSACTIONS

a. INTERFUND TRANSFERS

Transfers between funds during the fiscal year were as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	<u>\$244,034</u>	
Water/Sewer Fund		<u>\$244,034</u>

Transfers are used to move funds for sewer lines and wastewater system repairs ongoing throughout the year.

b. AMOUNTS DUE TO/FROM OTHER FUNDS

Amounts due to/from other funds as of September 30, 2020, represent the sales tax collected for August and September 2020, payable to Hawkins Community Development Corporation.

NOTE 17 - COMPLIANCE, STEWARDSHIP AND ACCOUNTABILITY

a. FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

In accordance with GASB Statement No. 38, violations of finance related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Fund Name</u>	<u>Action Taken</u>
None	N/A

b. EXPENDITURES OVER APPROPRIATIONS

The following summarizes expenditures in excess of appropriations at the functional expenditure levels:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Current expenditures, Parks and recreation	\$30,260	\$258,554	\$228,294
Debt retirement, Interest	0	5,562	5,562
Capital outlays, General government	0	2,740	2,740
Public safety	8,000	50,867	42,867
Public works	0	5,004	5,004

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

The excess of actual cost over budgeted amounts for the parks and recreation department represents the value of the baseball rehabilitation costs paid by HCDC for the city.

NOTE 18 - WARRANTS RECEIVABLE

Warrants outstanding exist in the Municipal Judge's departments. The collectability of these warrants is uncertain due to variables which are not in the City's control (i.e., jail time served will delay the start date of repayment or may abate the warrant in full); therefore, no receivable has been recorded and amounts collected in the future will be reported as revenue from fines in the period collected.

NOTE 19 - STATE AND FEDERAL GRANTS

During the year ended, the City received the following grants:

<u>Grantor</u>	<u>Department</u>	<u>Amount</u>
Texas A & M Forest Service	Fire	\$19,237
Texas State Library and Archive Commission	Library	\$711
Texas Department of Agriculture, Texas Community Development Block Grant Program - 2019 Community Development Fund*	Water/Sewer	\$275,000
Texas Division of Emergency Management Coronavirus Relief Fund	General	\$15,312

* This is a reimbursement type grant and current year expenditures were \$ 25,550. The City has a matching requirement for this grant in the amount of \$13,750, of which \$7,150 remains unspent as of September 30, 2020, and is included in Committed Fund Balance on the accompanying Balance Sheet - Governmental Funds.

NOTE 20 - SUBSEQUENT EVENTS

The City has evaluated all events or transactions through December 17, 2020, the date the financial statements were available to be issued.

After considerable study and investigation, the City Council has elected to begin a rehabilitation project for the City's wastewater treatment plant. In addition, the Council has approved street repairs and a water line extension project to under served areas of the City.

In connection therewith, on October 1, 2020, the City issued Certificates of Obligation, Series 2020, in the amount of \$3,200,000. These funds are budgeted to be spent as follows:

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

Wastewater plant rehabilitation	\$2,030,500
Street repair project	712,898
Water line extension project	256,602
Contingency	143,500
Fees	<u>56,500</u>
	<u><u>\$3,200,000</u></u>

The bonds bear an initial interest rate of 2.15%, which shall be adjusted on October 1, 2035, to the rate equal to 1.5 times the Five-year Treasury Constant maturity rate published by the Federal Reserve Board, but not less than the initial rate plus 2%. The bonds are payable as follows:

Maturity Date	Principal	Interest Amount	Total Debt Service	09/30 FY Debt Service
04/01/2021		\$34,209	\$34,209	\$34,209
10/01/2021	\$129,000	34,400	163,400	
04/01/2022		33,013	33,013	196,413
10/01/2022	132,000	33,013	165,013	
04/01/2023		31,594	31,594	196,607
10/01/2023	135,000	31,594	166,594	
04/01/2024		30,143	30,143	196,737
10/01/2024	138,000	30,143	168,143	
04/01/2025		28,660	28,660	196,803
10/01/2025 -				
09/30/2030	736,000	247,723	983,723	
10/01/2031 -				
09/30/2035	820,000	164,174	984,174	
10/01/2036* -				
09/30/2040	915,000	125,954	1,040,954	
09/30/2041	<u>195,000</u>	<u>4,046</u>	<u>199,046</u>	
	<u><u>\$3,200,000</u></u>	<u><u>\$828,666</u></u>	<u><u>\$4,028,666</u></u>	

* Assumes the minimum 2% interest rate increase as of 10/01/2035.

In order to have sufficient funds to pay the semiannual interest payment and the annual principal reduction, the City has established a bond sinking fund. The fund will accumulate cash from the annual property tax assessment allocated to debt service (\$0.1206 for calendar year 2020). In addition, the Council has approved a Wastewater Bond Treatment Payment Fee, which has been added to the monthly water bill, to provide the balance of the funds necessary to cover the debt service amount on the maturity date.

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 21 - ECONOMIC DEPENDENCE

The City's operations are funded by taxes and revenues collected from the residents of the City of Hawkins, Texas. Accordingly, the City is economically dependent on the property values and the local economy of the city and the surrounding area.

NOTE 22 - RELATED ORGANIZATIONS

As defined in GASB Statement No. 14, as amended, Hawkins Community Development Corporation (HCDC) is a related organization to the City. Although it has no financial accountability for the HCDC, the City Council appoints the HCDC's Board of Directors.

NOTE 23 - HAWKINS COMMUNITY DEVELOPMENT CORPORATION

The Hawkins Community Development Corporation (HCDC) is financed with a voter approved half-cent city sales tax to be used for the promotion and development of new or expanded business enterprises within the City.

a. DEPOSITS AND INVESTMENTS

Cash and investments as of September 30, 2020, consist of and are summarized in Notes 3a and 3b.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. HCDC had no custodial credit risk during the year ended September 30, 2020.

b. RECEIVABLES

Receivables for HCDC at the end of the current fiscal year were as follows:

Receivables, sales tax	<u>\$18,730</u>
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c. SUBSEQUENT EVENTS

The HCDC has evaluated all events or transactions through December 17, 2020, the date the financial statements were available to be issued. During this period, management did not identify any subsequent events requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HAWKINS, TEXAS
SCHEDULE OF NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS **

	2014	2015	2016	2017	2018	2019
TOTAL PENSION LIABILITY						
Balance, beginning of year	\$1,276,959	\$1,736,978	\$1,936,358	\$2,107,564	\$2,190,367	\$1,943,117
Changes for the year,						
Service cost	43,063	62,599	72,805	70,697	65,845	63,141
Interest	113,013	122,572	131,731	140,882	147,419	130,846
Change of benefit terms	324,288	0	0	0	0	0
Difference between expected and actual experience	(3,731)	(2,116)	9,040	(17,234)	(381,901)	11,791
Changes of assumptions	0	50,814	0	0	0	(589)
Benefit payments, including refunds of employee contributions	(16,614)	(34,489)	(42,370)	(111,542)	(78,613)	(72,445)
Net changes	460,019	199,380	171,206	82,803	(247,250)	132,744
Balance, end of year	\$1,736,978	\$1,936,358	\$2,107,564	\$2,190,367	\$1,943,117	\$2,075,861
PLAN FIDUCIARY NET POSITION						
Balance, beginning of year	\$1,501,669	\$1,607,731	\$1,656,137	\$ 1,818,565	\$ 2,056,458	\$ 2,008,615
Changes for the year,						
Contributions, employer	15,177	53,112	61,737	67,196	64,204	59,330
Contributions, employee	22,485	29,000	32,420	31,421	29,451	28,080
Net investment income	85,911	2,372	111,973	252,191	(61,632)	310,740
Benefit payments, including refunds of employee contributions	(16,614)	(34,489)	(42,370)	(111,542)	(78,613)	(72,445)
Administrative expenses	(897)	(1,445)	(1,264)	(1,306)	(1,191)	(1,755)
Other	0	(144)	(68)	(67)	(62)	(52)
Net changes	106,062	48,406	162,428	237,893	(47,843)	323,898
Balance, end of year	\$1,607,731	\$1,656,137	\$1,818,565	\$2,056,458	\$2,008,615	\$2,332,513
NET PENSION LIABILITY (ASSET)	\$129,247	\$280,221	\$288,999	\$133,909	(\$65,498)	(\$256,652)
Plan fiduciary net position as a percentage of the total pension liability	92.56%	85.53%	86.29%	93.89%	103.37%	112.36%
Covered employee payroll	\$374,744	\$414,288	\$463,138	\$448,868	\$420,735	\$401,149
Net pension liability/(asset) as a percentage of covered employee payroll	34.49%	67.64%	62.40%	29.83%	(15.57%)	(63.98%)

Note to Schedule

** This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years is not required, and if prior years are not reported in accordance with the standards of GASB Statement No. 68, they should not be included on this schedule. Therefore, we have shown only the years for which the new GASB standard has been implemented.

**CITY OF HAWKINS
SCHEDULE OF CONTRIBUTIONS
LAST 10 YEARS ****

Year Ending September 30,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Actual Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	\$42,426	\$42,426	\$0	\$383,358	11.07%
2016	60,041	60,041	0	453,574	13.24%
2017	66,311	66,311	0	455,964	14.54%
2018	68,938	68,938	0	445,938	15.46%
2019	57,113	57,113	0	383,029	14.91%
2020	35,700	35,700	0	411,539	8.67%

NOTES TO SCHEDULE OF CONTRIBUTIONS

** This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years is not required, and if prior years are not reported in accordance with the standards of GASB Statement No. 68, they should not be included on this schedule. Therefore, we have shown only the years for which the new GASB standard has been implemented.

Valuation Date:

Note	Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.
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Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	N/A
Period Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	2019 Municipal Retirees of Texas mortality Tables. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes:	There were no benefit changes during the year.
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CITY OF HAWKINS, TEXAS
SCHEDULE OF CHANGES IN THE CITY'S TOTAL
OPEB LIABILITY AND RELATED RATIOS
FOR THE LAST 10 YEARS**

	2017	2018	2019
Total OPEB Liability - beginning of year	\$26,803	\$31,422	\$24,922
Changes for the year,			
Service cost	1,302	1,388	1,284
Interest on Total OPEB Liability	1,034	1,060	945
Differences between expected and actual experience	0	(6,906)	1,376
Changes in assumptions or other inputs	2,463	(1,874)	6,007
Benefit payments **	(180)	(168)	(160)
Net changes	4,619	(6,500)	9,452
Total OPEB Liability - end of year	\$31,422	\$24,922	\$34,374
Covered payroll	\$448,868	\$420,735	\$401,149
Total OPEB liability as a percentage of payroll	7.00%	5.92%	8.57%

Note to Schedule

** This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years is not required, and if prior years are not reported in accordance with the standards of GASB Statement No. 75, they should not be included on this schedule. Therefore, we have shown only the years for which the new GASB standard has been implemented.

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

	Budgeted amounts		Variance with Final Budget Positive (Negative)	
	Original	Final	Actual	
REVENUES				
Taxes,				
Property	\$734,789	\$734,789	\$773,835	\$39,046
Sales and use	163,800	163,800	228,927	65,127
Hotel tax	5,000	5,000	5,108	108
Charges for services	16,850	16,850	13,996	(2,854)
Contributions received	5,000	5,000	234,396	229,396
Fines and forfeitures	81,600	81,600	67,324	(14,276)
Franchise fees	45,000	45,000	41,438	(3,562)
Grant income	0	0	35,260	35,260
Interest income	12,200	12,200	9,468	(2,732)
Intergovernmental	50,000	50,000	50,513	513
Licenses and permits	100	100	2,241	2,141
Miscellaneous income	100	100	1,183	1,083
	<u>1,114,439</u>	<u>1,114,439</u>	<u>1,463,689</u>	<u>349,250</u>
EXPENDITURES				
Current,				
General government	312,510	312,510	298,293	14,217
Library	79,279	90,679	80,162	10,517
Parks and recreation	25,000	30,260	258,554	(228,294)
Public safety	349,407	349,407	316,102	33,305
Public services	15,866	25,428	16,439	8,989
Public works	131,497	131,497	115,808	15,689
Debt service,				
Principal retirement	52,800	52,800	33,789	19,011
Interest	0	0	5,562	(5,562)
Capital outlays,				
General government	0	0	2,740	(2,740)
Public safety	8,000	8,000	50,867	(42,867)
Public works	0	0	5,004	(5,004)
	<u>974,359</u>	<u>1,000,581</u>	<u>1,183,320</u>	<u>(182,739)</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>\$140,080</u>	<u>\$113,858</u>	280,369	166,511
OTHER FINANCING SOURCES (USES)				
Loan proceeds for purchase of police car			33,036	33,036
Transfers in (out)			(244,034)	(244,034)
INCREASE (DECREASE) IN FUND BALANCE			<u>69,371</u>	<u>(\$44,487)</u>
FUND BALANCE, October 1, 2019			<u>658,980</u>	
FUND BALANCE, September 30, 2020			<u>\$728,351</u>	

SUPPLEMENTARY DATA

CITY OF HAWKINS, TEXAS
SCHEDULE OF DELINQUENT PROPERTY
TAX RECEIVABLE (Unaudited)
SEPTEMBER 30, 2020

Tax Roll Year	Fiscal Year Ended September 30,	Aged Balance
2019	2020	\$21,147
2018	2019	12,223
2017	2018	7,885
2016	2017	7,124
2015	2016	9,573
2014	2015	2,568
2013	2014	2,208
2012	2013	2,111
2011	2012	2,147
2010	2011	2,425
2009	2010	1,343
2008	2009	1,415
2007	2008	1,328
2006	2007	1,333
2005	2006	915
2004	2005	714
2003	2004	756
2002	2003	878
2001	2002	682
2000	2001	<u>799</u>
		79,574
Less allowance for uncollectibles		<u>(55,702)</u>
		<u><u>\$23,872</u></u>

CITY OF HAWKINS, TEXAS
SCHEDULE OF HISTORICAL PROPERTY TAX
RATES AND VALUATIONS (Unaudited)
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Tax Roll Year	Fiscal Year Ended September 30,	Tax Rate	Net Taxable Valuation
2019	2020	\$0.72220	\$102,680,712
2018	2019	0.83880	83,012,104
2017	2018	0.77540	83,512,523
2016	2017	0.80380	80,631,223
2015	2016	0.55840	116,473,000
2014	2015	0.45000	144,406,933
2013	2014	0.43000	141,002,528
2012	2013	0.48000	117,493,575