

**CITY OF HAWKINS, TEXAS**

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

**YEAR ENDED SEPTEMBER 30, 2017**

**CITY OF HAWKINS, TEXAS  
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SEPTEMBER 30, 2017**

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**CITY OF HAWKINS, TEXAS  
GENERAL INFORMATION  
ROSTER OF PUBLIC OFFICIALS  
SEPTEMBER 30, 2017**

Elected Officials

|               |                      |
|---------------|----------------------|
| Mayor         | Howard Coquat        |
| Mayor Pro Tem | W. Wayne Kirkpatrick |
| Alderwoman    | Sherry Davis         |
| Alderwoman    | Clara I. Kay         |
| Alderwoman    | Norma Oglesby        |
| Alderwoman    | Debbie Rushing       |

Appointed Officials

|                           |                  |
|---------------------------|------------------|
| City Secretary            | Dona Jordan      |
| Library Director          | Norma Hallmark   |
| Municipal Court Judge     | Cindy Caldwell   |
| Police Chief              | Ronald Voda, Jr. |
| Volunteer Fire Chief      | Stephen Holmes   |
| Waterworks Superintendent | Mike Maberry     |



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, 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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 that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 that 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, 2017, 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**

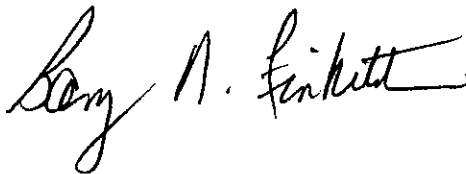
### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ( pages 6 - 13), the Budgetary Comparison Schedule for the General Fund (page 56), and the Schedules of Net Pensions Liability and Related Ratios and Contributions (pages 54 - 55), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. 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 information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the 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 opinions on the financial statements that collectively comprise the City of Hawkins, Texas' basic financial statements. The introductory section is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The introductory section and the supplementary information 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  
June 12, 2018

**CITY OF HAWKINS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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, 2017. 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 \$9,260,472 (net position). Of this amount, \$8,059,599 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 \$11,247. The remaining \$1,189,626 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position decreased by \$314,666 due to the decrease in the governmental activities net position of \$266,205 and a decrease in business-type net position of \$48,461. Both of these decreases are the result of the required adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, during the year ended September 30, 2015.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,233,371, a decrease of \$210,957, in comparison with the prior year. A total of \$1,222,124 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 statement 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 - 23) 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 fund statements.

**CITY OF HAWKINS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

The next section of the basic financial statements is the notes (pages 24 - 52 ). The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, required supplementary information (pages 54 - 56) is provided to show details about the City's pension plan 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 the City's basic services such as public safety, parks and recreation and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those the City charges customers to provide. These include 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 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.

**CITY OF HAWKINS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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 government 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 government 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 - 23 of this report.



**CITY OF HAWKINS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**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 24 - 52 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 and its pension contribution for pension benefits to its employees and the General Fund budgetary comparison schedule.

**ACCOUNTING CHANGES**

There are no new statements of the Governmental Accounting Standards Board (GASB) which were effective for the City in the fiscal year ended September 30, 2017.

**COMPARATIVE NET POSITION - SEPTEMBER 30, 2017 AND 2016**

|   | Governmental<br>Activities |             | Business-type<br>Activities |             | Total Primary<br>Government |             |
|---|----------------------------|-------------|-----------------------------|-------------|-----------------------------|-------------|
|   | 2017                       | 2016        | 2017                        | 2016        | 2017                        | 2016        |
| Current and other assets                | \$1,276,625                | \$1,513,311 | \$185,815                   | \$99,377    | \$1,462,440                 | \$1,612,688 |
| Capital assets                          | 5,155,747                  | 5,221,136   | 3,102,055                   | 3,223,971   | 8,257,802                   | 8,445,113   |
| Total assets                            | 6,432,372                  | 6,734,447   | 3,287,870                   | 3,323,354   | 9,720,242                   | 10,057,801  |
| Total deferred outflows<br>of resources | 85,866                     | 103,747     | 68,114                      | 80,017      | 153,980                     | 183,764     |
| Current liabilities                     | 72,390                     | 99,395      | 83,789                      | 84,910      | 156,179                     | 184,305     |
| Long-term liabilities                   | 338,318                    | 362,721     | 119,253                     | 115,703     | 457,571                     | 478,424     |
| Total liabilities                       | 410,708                    | 462,116     | 203,042                     | 200,613     | 613,750                     | 662,729     |
| Total deferred inflows<br>of resources  | 0                          | 2,343       | 0                           | 1,355       | 0                           | 3,698       |
| Net position,                           |                            |             |                             |             |                             |             |
| Net investment in capital<br>assets     | 4,957,544                  | 4,994,126   | 3,102,055                   | 3,223,977   | 8,059,599                   | 8,218,103   |
| Restricted                              | 11,247                     | 22,087      | 0                           | 0           | 11,247                      | 22,087      |
| Unrestricted                            | 1,138,739                  | 1,357,522   | 50,887                      | (22,574)    | 1,189,626                   | 1,334,948   |
| Total net position                      | \$6,107,503                | \$6,373,735 | \$3,152,942                 | \$3,201,403 | \$9,260,472                 | \$9,575,138 |

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 \$5,696,822 as of September 30, 2017.

**CITY OF HAWKINS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NET INVESTMENT IN CAPITAL ASSETS**

The City's net position decreased by \$314,666, for the period ended September 30, 2017. However, the largest portion of net position, 66.4%, 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 \$11,247 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 \$1,189,626 is available to fund the City's programs to citizens and creditors.

**COMPARATIVE STATEMENT OF ACTIVITY  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

|                                    | Governmental<br>Activities |                  | Business-type<br>Activities |                | Total     |                  |
|------------------------------------|----------------------------|------------------|-----------------------------|----------------|-----------|------------------|
|                                    | 2017                       | 2016             | 2017                        | 2016           | 2017      | 2016             |
| <b>Revenues</b>                    |                            |                  |                             |                |           |                  |
| Program revenues                   |                            |                  |                             |                |           |                  |
| Charges for services               | \$45,135                   | \$35,094         | \$692,707                   | \$699,067      | \$737,842 | \$734,161        |
| Capital grants and contributions   | 0                          | 0                | 0                           | 86,647         | 0         | 86,647           |
| Operating grants and contributions | 48,680                     | 48,680           | 0                           | 0              | 48,680    | 48,680           |
| General revenues,                  |                            |                  |                             |                |           |                  |
| Property taxes                     | 651,238                    | 650,239          | 0                           | 0              | 651,238   | 650,239          |
| Sales and other taxes              | 220,103                    | 221,459          | 0                           | 0              | 220,103   | 221,459          |
| Hotel taxes                        | 3,982                      | 4,727            | 0                           | 0              | 3,982     | 4,727            |
| Franchise taxes                    | 33,887                     | 36,585           | 0                           | 0              | 33,887    | 36,585           |
| Donations                          | 36,000                     | 25,068           | 0                           | 0              | 36,000    | 25,068           |
| Interest income                    | 8,192                      | 5,584            | 0                           | 86             | 8,192     | 5,670            |
| Gain on sale of assets             | 4,961                      | 0                | 0                           | 0              | 4,961     | 0                |
|                                    | <u>1,052,178</u>           | <u>1,027,436</u> |                             | <u>785,800</u> |           | <u>1,813,236</u> |
| <b>Expenses</b>                    |                            |                  |                             |                |           |                  |
| Program expenses                   |                            |                  |                             |                |           |                  |
| General government                 | 348,202                    | 365,028          | 0                           | 0              | 348,202   | 365,028          |
| Library                            | 80,725                     | 72,185           | 0                           | 0              | 80,725    | 72,185           |
| Public safety                      | 405,490                    | 455,057          | 0                           | 0              | 405,490   | 455,057          |
| Public services and operations     | 15,096                     | 11,772           | 0                           | 0              | 15,096    | 11,772           |

**CITY OF HAWKINS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

|   | Governmental<br>Activities |                    | Business-type<br>Activities |                    | Total              |                    |
|---|----------------------------|--------------------|-----------------------------|--------------------|--------------------|--------------------|
|   | 2017                       | 2016               | 2017                        | 2016               | 2017               | 2016               |
| Public works  | 184,277                    | 220,347            | 0                           | 0                  | 184,277            | 220,347            |
| Parks   | 58,150                     | 53,379             | 0                           | 0                  | 58,150             | 53,379             |
| Interest  | 7,609                      | 9,048              | 0                           | 0                  | 7,609              | 9,048              |
| Water and sewer   | 0                          | 0                  | 960,002                     | 888,179            | 960,002            | 888,179            |
|   | <u>1,099,549</u>           | <u>1,191,647</u>   | <u>960,002</u>              | <u>888,179</u>     | <u>2,059,551</u>   | <u>2,079,826</u>   |
| Change in net position before other<br>revenues and financing sources<br>(uses) | (47,371)                   | (164,211)          | (267,295)                   | (102,379)          | (314,666)          | (266,590)          |
| Transfers   | (218,834)                  | (74,080)           | 218,834                     | 74,080             | 0                  | 0                  |
| Total change in net position  | (266,205)                  | (238,291)          | (48,461)                    | (28,299)           | (314,666)          | (266,590)          |
| Net position, beginning of period   | 6,373,735                  | 6,612,026          | 3,201,403                   | 3,229,702          | 9,575,138          | 9,841,728          |
| Net position, end of period   | <u>\$6,107,530</u>         | <u>\$6,373,735</u> | <u>\$3,152,942</u>          | <u>\$3,201,403</u> | <u>\$9,260,472</u> | <u>\$9,575,138</u> |

The Governmental Activities have decreased net position in the amount of \$47,371. This is primarily due to continuing decreases in the assessed value of property located within the City.

The Business-type activities decreased net position in the amount of \$267,295. This is primarily due to the close-out of the sewer improvement grant in 2016 and the increased costs in the water sewer fund.

**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 \$1,233,371, a 14.6% decrease from last year. Approximately \$1,222,124 or 99% of this total amount constitutes unassigned fund balance, which is available for spending at the government's discretion. Restricted fund balance of \$11,247 is set aside for State or donor imposed restrictions.

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 \$1,222,124. 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 120% of total General Fund expenditures.

**CITY OF HAWKINS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**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 more sales and use tax collections and increases in contributions and interest income received. Expenditures were more than budgeted amounts due to capital outlays.

**Proprietary Funds**

The City's proprietary funds provide 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 a deficit of \$50,887.

**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, 2017, totals \$8,257,802 (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:

- Automotive equipment
- Fire Department equipment
- Sewer rehabilitation

**CAPITAL ASSETS (net of accumulated depreciation)  
SEPTEMBER 30, 2017**

|                            | Governmental<br>Activities |                    | Business-type<br>Activities |                    | Total              |                    |
|----------------------------|----------------------------|--------------------|-----------------------------|--------------------|--------------------|--------------------|
|                            | 2017                       | 2016               | 2017                        | 2016               | 2017               | 2016               |
| Land                       | \$183,151                  | \$178,312          | \$0                         | \$0                | \$183,151          | \$178,312          |
| Construction-in-progress   | 0                          | 0                  | 68,619                      | 1,500              | 68,619             | 1,500              |
| Infrastructure             | 4,213,056                  | 4,258,001          | 2,945,535                   | 3,113,648          | 7,158,591          | 7,371,649          |
| Buildings and improvements | 267,127                    | 276,228            | 9,253                       | 6,003              | 276,380            | 282,231            |
| Machinery and equipment    | 492,413                    | 508,595            | 78,648                      | 102,826            | 571,061            | 611,421            |
|                            | <u>\$5,155,747</u>         | <u>\$5,221,136</u> | <u>\$3,102,055</u>          | <u>\$3,223,997</u> | <u>\$8,257,802</u> | <u>\$8,445,113</u> |

**CITY OF HAWKINS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**Long-Term Debt**

During the fiscal year ended September 30, 2017, there was no increase in long-term debt.

**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 2017 budget, tax rates and fees which will be charged for the business-type activities.

The property tax rate for fiscal year ending 2018 will be \$0.7754 per \$100 assessed value. The City's certified taxable value for fiscal year ended 2017 is \$83,512,523. This is 30.77% less than last year.

**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.

**CITY OF HAWKINS, TEXAS**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2017**

|   | Primary Government         |                             |                    | Component<br>Unit |
|---|----------------------------|-----------------------------|--------------------|-------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Total              |                   |
| <b>ASSETS</b>   |                            |                             |                    |                   |
| Cash and cash equivalents   | \$467,410                  | \$72,294                    | \$539,704          | \$261,971         |
| Certificates of deposit   | 725,830                    | 0                           | 725,830            | 12,382            |
| Restricted cash and cash equivalents                                    | 11,247                     | 49,710                      | 60,957             | 0                 |
| Receivables, less allowance for<br>uncollectibles of \$57,553           | 72,138                     | 63,811                      | 135,949            | 16,356            |
| Nondepreciable capital assets,<br>Land                                  | 183,151                    | 0                           | 183,151            | 0                 |
| Construction-in-progress  | 0                          | 68,619                      | 68,619             | 0                 |
| Depreciable capital assets, net,<br>Infrastructure                      | 4,213,056                  | 2,945,535                   | 7,158,591          | 0                 |
| Buildings and improvements  | 267,127                    | 9,253                       | 276,380            | 0                 |
| Machinery and equipment   | 492,413                    | 78,648                      | 571,061            | 0                 |
|   | <u>6,432,372</u>           | <u>3,287,870</u>            | <u>9,720,242</u>   | <u>290,709</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                   |                            |                             |                    |                   |
| Difference between expected and actual<br>economic experience           | 2,426                      | 1,882                       | 4,308              | 0                 |
| Differences between projected and actual<br>earnings on pension plan    | 45,233                     | 28,401                      | 73,634             | 0                 |
| Difference resulting from changes in assumptions                        | 11,973                     | 13,993                      | 25,966             | 0                 |
| Contributions subsequent to measurement date                            | 26,234                     | 23,838                      | 50,072             | 0                 |
|   | <u>85,866</u>              | <u>68,114</u>               | <u>153,980</u>     | <u>0</u>          |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>                               | <u>6,518,238</u>           | <u>3,355,984</u>            | <u>9,874,222</u>   | <u>290,709</u>    |
| <b>LIABILITIES</b>  |                            |                             |                    |                   |
| Accounts payable  | 3,781                      | 18,262                      | 22,043             | 0                 |
| Due to other fund   | 16,356                     | 0                           | 16,356             | 0                 |
| Other liabilities   | 9,403                      | 986                         | 10,389             | 0                 |
| Customer deposits   | 0                          | 48,879                      | 48,879             | 0                 |
| Noncurrent liabilities,<br>Due within one year,<br>Compensated absences | 13,219                     | 15,662                      | 28,881             | 0                 |
| Note payable  | 29,631                     | 0                           | 29,631             | 0                 |
| Due in more than one year,<br>Net pension liability                     | 169,746                    | 119,253                     | 288,999            | 0                 |
| Note payable  | 168,572                    | 0                           | 168,572            | 0                 |
|   | <u>410,708</u>             | <u>203,042</u>              | <u>613,750</u>     | <u>0</u>          |
| <b>NET POSITION</b>   |                            |                             |                    |                   |
| Net investment in capital assets  | 4,957,544                  | 3,102,055                   | 8,059,599          | 0                 |
| Restricted for,<br>Library  | 3,495                      | 0                           | 3,495              | 0                 |
| Municipal court   | 450                        | 0                           | 450                | 0                 |
| Police department   | 857                        | 0                           | 857                | 0                 |
| Volunteer fire department   | 6,445                      | 0                           | 6,445              | 0                 |
| Unrestricted  | <u>1,138,739</u>           | <u>50,887</u>               | <u>1,189,626</u>   | <u>290,709</u>    |
| <b>TOTAL NET POSITION</b>   | <u>\$6,107,530</u>         | <u>\$3,152,942</u>          | <u>\$9,260,472</u> | <u>\$290,709</u>  |

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, 2017**

| Function/Programs                          | Program Revenues |                     |                                    |                                 | Primary government      |                          |             | Component Unit |
|--|------------------|---------------------|------------------------------------|---------------------------------|-------------------------|--------------------------|-------------|----------------|
|  | Expense          | Charge for Services | Operating Grants and Contributions | Capital Grants and Contribution | Governmental Activities | Business-type Activities | Total       |                |
| <b>GOVERNMENTAL ACTIVITIES</b>             |                  |                     |                                    |                                 |                         |                          |             |                |
| General government                         | \$348,202        | \$2,376             | \$0                                | \$0                             | (\$345,826)             |                          | (345,826)   |                |
| Library                                    | 80,725           | 7,692               | 8,000                              | 0                               | (65,033)                |                          | (65,033)    |                |
| Public safety                              | 405,490          | 12,799              | 40,680                             | 0                               | (352,011)               |                          | (352,011)   |                |
| Public services                            | 15,096           | 18,550              | 0                                  | 0                               | 3,454                   |                          | 3,454       |                |
| Public works                               | 184,277          | 0                   | 0                                  | 0                               | (184,277)               |                          | (184,277)   |                |
| Parks                                      | 58,150           | 3,718               | 0                                  | 0                               | (54,432)                |                          | (54,432)    |                |
| Interest                                   | 7,609            | 0                   | 0                                  | 0                               | (7,609)                 |                          | (7,609)     |                |
| Total governmental activities              | 1,099,549        | 45,135              | 48,680                             | 0                               | (1,005,734)             |                          | (1,005,734) |                |
| <b>BUSINESS-TYPE ACTIVITIES</b>            |                  |                     |                                    |                                 |                         |                          |             |                |
| Water and sewer                            | 960,002          | 692,707             |                                    |                                 | 0                       | (\$267,295)              | (267,295)   |                |
| Total business-type activities             | 960,002          | 692,707             | 0                                  | 0                               | 0                       | (267,295)                | (267,295)   |                |
| Total primary government                   | \$2,059,551      | \$737,842           | \$48,680                           | \$0                             | (1,005,734)             | (267,295)                | (1,273,029) |                |
| <b>COMPONENT UNIT</b>                      |                  |                     |                                    |                                 |                         |                          |             |                |
| Community Development Corporation          | \$52,140         | \$0                 | \$0                                | \$0                             | 0                       | 0                        | 0           | (\$52,140)     |
| <b>GENERAL REVENUES</b>                    |                  |                     |                                    |                                 |                         |                          |             |                |
| Property taxes                             |                  |                     |                                    |                                 | 651,238                 | 0                        | 651,238     | 0              |
| Sales and other taxes                      |                  |                     |                                    |                                 | 220,103                 | 0                        | 220,103     | 108,730        |
| Hotel taxes                                |                  |                     |                                    |                                 | 3,982                   | 0                        | 3,982       | 0              |
| Franchise fees                             |                  |                     |                                    |                                 | 33,887                  | 0                        | 33,887      | 0              |
| Contributions received                     |                  |                     |                                    |                                 | 36,000                  | 0                        | 36,000      | 0              |
| Gain on sale of assets                     |                  |                     |                                    |                                 | 4,961                   | 0                        | 4,961       | 0              |
| Interest income                            |                  |                     |                                    |                                 | 8,192                   | 0                        | 8,192       | 388            |
| <b>TRANSFERS</b>                           |                  |                     |                                    |                                 | (218,834)               | 218,834                  | 0           | 0              |
| Total general revenues                     |                  |                     |                                    |                                 | 739,529                 | 218,834                  | 958,363     | 109,118        |
| <b>INCREASE (DECREASE) IN NET POSITION</b> |                  |                     |                                    |                                 | (266,205)               | (48,461)                 | (314,666)   | 56,978         |
| NET POSITION, October 1, 2016              |                  |                     |                                    |                                 | 6,373,735               | 3,201,403                | 9,575,138   | 233,731        |
| <b>NET POSITION, September 30, 2017</b>    |                  |                     |                                    |                                 | \$6,107,530             | \$3,152,942              | \$9,260,472 | \$290,709      |

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

**CITY OF HAWKINS, TEXAS  
BALANCE SHEET - GOVERNMENTAL FUND  
SEPTEMBER 30, 2017**

|   | <u>General<br/>Fund</u> |
|---|-------------------------|
| <b>ASSETS</b>   |                         |
| Cash and cash equivalents   | \$467,410               |
| Certificates of deposit   | 725,830                 |
| Restricted cash   | 11,247                  |
| Receivables,  |                         |
| Property taxes, less allowance for uncollectible<br>taxes of \$52,113 | 22,334                  |
| Sales and other taxes   | <u>49,804</u>           |
|   | <u>\$1,276,625</u>      |
| <b>LIABILITIES</b>  |                         |
| Accounts payable  | \$3,724                 |
| Other liabilities   | 7,031                   |
| Due to other fund   | <u>16,356</u>           |
|   | <u>27,111</u>           |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                  |                         |
| Unavailable revenue, property tax                                     | <u>16,143</u>           |
|   | <u>16,143</u>           |
| <b>FUND BALANCE</b>   |                         |
| Restricted for,   |                         |
| Library   | 3,495                   |
| Municipal court   | 450                     |
| Police department   | 857                     |
| Volunteer fire department   | 6,445                   |
| Unassigned  | <u>1,222,124</u>        |
|   | <u>1,233,371</u>        |
|   | <u>\$1,276,625</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, 2017**

|   |                           |
|---|---------------------------|
| Fund balance, Balance Sheet (Governmental Funds)  | \$1,233,371               |
| 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  | 6,777,281                 |
| Accumulated depreciation has not been included in the governmental fund financial statements  | (1,621,534)               |
| Compensated absences are not due and payable in the current period and; therefore, are not reported in the funds.   | (13,219)                  |
| Notes payable are not due and payable in the current period and, therefore, not reported in the funds as follows,   |                           |
| Notes Payable   |                           |
| due wthin one year  | (29,631)                  |
| not due wthin one year  | (168,572)                 |
| Accrued interest  | (2,429)                   |
| Deferred outflows/inflows of resources and net pension liability related to pensions are applicable to future periods and, therefore, are not reported in the funds | (83,880)                  |
| Property taxes receivable that are unavailable to pay for current period expenditures are deferred in the funds   | <u>16,143</u>             |
| Net position - Statement of Net Position  | <u><u>\$6,107,530</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, 2017**

|   |                  | <u>General<br/>Fund</u>   |
|---|------------------|---------------------------|
| <b>REVENUES</b>                                   |                  |                           |
| Taxes,  |                  |                           |
| Property  | \$648,523        |                           |
| Sales and use                                     | 220,103          |                           |
| Hotel tax   | 3,982            |                           |
| Franchise fees                                    | 33,887           |                           |
| Licenses and permits                              | 150              |                           |
| Fines and forfeitures                             | 18,280           |                           |
| Charges for services                              | 19,096           |                           |
| Intergovernmental                                 | 48,680           |                           |
| Contributions received                            | 5,292            |                           |
| Interest income                                   | 8,193            |                           |
| Miscellaneous income                              | <u>2,376</u>     |                           |
|   |                  | \$1,008,562               |
| <b>EXPENDITURES</b>                               |                  |                           |
| Current,  |                  |                           |
| General government                                | 328,359          |                           |
| Public works                                      | 168,528          |                           |
| Public safety                                     | 302,656          |                           |
| Parks and recreation                              | 23,318           |                           |
| Library   | 65,775           |                           |
| Public services                                   | 14,632           |                           |
| Debt service,                                     |                  |                           |
| Principal retirement                              | 28,807           |                           |
| Interest  | 8,522            |                           |
| Capital outlays,                                  |                  |                           |
| General government                                | 13,959           |                           |
| Public safety                                     | <u>62,455</u>    |                           |
|   |                  | <u>1,017,011</u>          |
| <b>EXCESS (DEFICIT) OF REVENUES OVER EXPENSES</b> |                  | (8,449)                   |
| <b>OTHER FINANCING SOURCES (USES)</b>             |                  |                           |
| Proceeds from sale of assets                      | 16,326           |                           |
| Transfers   | <u>(218,834)</u> |                           |
|   |                  | <u>(202,508)</u>          |
| <b>INCREASE (DECREASE) IN FUND BALANCE</b>        |                  | (210,957)                 |
| FUND BALANCE, October 1, 2016                     |                  | <u>1,444,328</u>          |
| <b>FUND BALANCE, September 30, 2017</b>           |                  | <u><u>\$1,233,371</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, 2017**

|  |                    |
|--|--------------------|
| Increase (decrease) in fund balance - Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds   | (\$210,957)        |
| The depreciation of capital assets used in governmental activities is not reported in the funds.   | (166,437)          |
| 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.   | 76,414             |
| Net cost of assets sold were shown as expenditures on the funds statement in prior years but shown as assets on the government wide statement of net position  | (11,365)           |
| Fair value of vehicle received from Texas A & M Forest Service for use as a fire truck which is recognized in the government-wide financial statement but not in the funds financial statement   | 36,000             |
| Deferred outflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds  | (20,769)           |
| 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: |                    |
| Note payable   | 28,807             |
| Reduction of accrued interest  | 913                |
| 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.  | (1,526)            |
| Property taxes receivable that are unavailable to pay for current period expenditures are deferred in the funds  | <u>2,715</u>       |
| Increase (decrease) in net position - Statement of Activities  | <u>(\$266,205)</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, 2017**

|   |                    | Water and<br>Sewer        |
|---|--------------------|---------------------------|
| <b>ASSETS AND DEFERRED OUTFLOWS</b>                               |                    |                           |
| <b>CURRENT ASSETS</b>   |                    |                           |
| Cash  | \$72,294           |                           |
| Restricted cash   | 49,710             |                           |
| Receivables, less allowance for uncollectibles of \$5,440         | <u>63,811</u>      |                           |
| Total current assets  |                    | \$185,815                 |
| <b>CAPITAL ASSETS</b>   |                    |                           |
| Construction-in-progress  | 68,619             |                           |
| Infrastructure  | 8,125,724          |                           |
| Buildings and improvements  | 11,505             |                           |
| Machinery and equipment   | <u>231,391</u>     |                           |
|   | 8,437,239          |                           |
| Less accumulated depreciation                                     | <u>(5,335,184)</u> |                           |
| Net capital assets  |                    | 3,102,055                 |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                             |                    |                           |
| Difference between expected and actual economic experience        | 1,882              |                           |
| Differences between projected and actual earnings on pension plan | 28,401             |                           |
| Difference resulting from changes in assumptions                  | 13,993             |                           |
| Contributions subsequent to measurement date                      | <u>23,838</u>      |                           |
| Total deferred outflows of resources                              |                    | <u>68,114</u>             |
|   |                    | <u><u>\$3,355,984</u></u> |
| <b>LIABILITIES AND DEFERRED INFLOWS</b>                           |                    |                           |
| <b>CURRENT LIABILITIES</b>  |                    |                           |
| Accounts payable  | \$18,262           |                           |
| Other liabilities   | 986                |                           |
| Customer deposits   | <u>48,879</u>      |                           |
| Total current liabilities   |                    | \$68,127                  |
| <b>NON CURRENT LIABILITIES</b>                                    |                    |                           |
| Due within one year,<br>Compensated absences                      | 15,662             |                           |
| Due in more than one year,<br>Net pension liability               | <u>119,253</u>     |                           |
|   |                    | 134,915                   |
| <b>NET POSITION</b>   |                    |                           |
| Net investment in capital assets                                  | 3,102,055          |                           |
| Unrestricted  | <u>50,887</u>      |                           |
|   |                    | <u>3,152,942</u>          |
|   |                    | <u><u>\$3,355,984</u></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, 2017**

|  |                | <u>Water and<br/>Sewer</u> |
|--|----------------|----------------------------|
| <b>OPERATING REVENUES</b>                      |                |                            |
| Charges for services,                          |                |                            |
| Water sales                                    | \$328,063      |                            |
| Sewer  | 188,940        |                            |
| Garbage  | 169,847        |                            |
| Miscellaneous income                           | <u>5,857</u>   |                            |
|  |                | \$692,707                  |
| <br><b>OPERATING EXPENSES</b>                  |                |                            |
| Personnel services                             | 249,100        |                            |
| Supplies and materials                         | 35,561         |                            |
| Maintenance and repair                         | 165,174        |                            |
| Utilities                                      | 75,007         |                            |
| Contractual services                           | 64,503         |                            |
| Garbage contract                               | 120,638        |                            |
| Penalty and permit fees                        | 11,130         |                            |
| Depreciation                                   | <u>238,889</u> |                            |
|  |                | <u>960,002</u>             |
| <br><b>OPERATING INCOME (LOSS)</b>             |                | <u>(267,295)</u>           |
| <br><b>INCOME (LOSS) BEFORE TRANSFERS</b>      |                | (267,295)                  |
| <br><b>TRANSFERS</b>                           |                | <u>218,834</u>             |
| <br><b>INCREASE (DECREASE) IN NET POSITION</b> |                | (48,461)                   |
| <br>NET POSITION, October 1, 2016              |                | <u>3,201,403</u>           |
| <br><b>NET POSITION, September 30, 2017</b>    |                | <u><u>\$3,152,942</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, 2017**

|  |                  | Water and<br>Sewer       |
|--|------------------|--------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                  |                          |
| Cash received from customers   | \$687,499        |                          |
| Cash received from other sources   | 5,858            |                          |
| Cash payments to employees for services  | (230,109)        |                          |
| Cash payments to suppliers for goods and services  | <u>(485,058)</u> |                          |
| Net cash provided by (used in) operating activities  |                  | (\$21,810)               |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>   |                  |                          |
| Transfer from construction-in-progress   | 45,729           |                          |
| Transfers from other funds   | <u>218,834</u>   |                          |
| Net cash provided by (used in) noncapital financing activities                                 |                  | 264,563                  |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                                |                  |                          |
| Acquisition and construction of capital assets   | <u>(162,697)</u> |                          |
| Net cash provided by (used in) capital and related financing activities                        |                  | (162,697)                |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>   |                  |                          |
|  |                  | <u>0</u>                 |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>   |                  |                          |
|  |                  | 80,056                   |
| CASH AND CASH EQUIVALENTS, October 1, 2016   |                  | <u>41,948</u>            |
| <b>CASH AND CASH EQUIVALENTS, September 30, 2017</b>   |                  | <u><u>\$122,004</u></u>  |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>         |                  |                          |
| Operating income (loss)  |                  | (\$267,295)              |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities, |                  |                          |
| Depreciation   | \$238,889        |                          |
| Changes in assets and liabilities,   |                  |                          |
| Decrease (increase) in receivables   | (6,382)          |                          |
| Decrease (increase) in net deferred pension inflows/outflows liability                         | 10,549           |                          |
| Increase (decrease) in bank overdraft  | (1,727)          |                          |
| Increase (decrease) in accounts payable  | (10,932)         |                          |
| Increase (decrease) in other liabilities   | (386)            |                          |
| Increase (decrease) in customer deposits   | 7,031            |                          |
| Increase (decrease) in net pension liability   | 3,550            |                          |
| Increase (decrease) in compensated absences  | <u>4,893</u>     |                          |
| Total adjustments  |                  | <u>245,485</u>           |
| Net cash provided (used) by operating activities   |                  | <u><u>(\$21,810)</u></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, 2017**

**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

**CITY OF HAWKINS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

impose specific financial burdens on, the City. The City also may be financially 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



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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 © 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,

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grants, entitlements and contributions. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and 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 with 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 and 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.

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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.

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**(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.

**(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<br/>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

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recognized as an outflow of resources (expenses/expenditures) until then.

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, 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. All vacation time is accrued at 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 in-tact such as the principal of an endowment.

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- *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. 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

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unrestricted fund balance. Further, when the components of unrestricted fund balance can be 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/RECLASSIFICATION**

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, 2017, the City had a tax rate of \$0.8038 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        |



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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 56 .

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, shall 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 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, 2017, the carrying amount of the City's deposits (cash, certificates of deposit and interest-bearing savings accounts included in temporary investments) was \$1,326,491 and the bank balance was \$1,500,728. The City's cash deposits at September 30, 2017, and during the year ended September 30, 2017, were covered by FDIC insurance or by pledged collateral held on behalf of the City's depository bank in the City's name. As of September 30, 2017, the Hawkins Community Development Corporation has \$24,941 in excess of FDIC coverage at its primary bank and there was no pledged collateral agreement in place.

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|                                      | Governmental<br>Activities | Business-type<br>Activities | Total              | Component<br>Unit |
|--------------------------------------|----------------------------|-----------------------------|--------------------|-------------------|
| Statement of Net Position            |                            |                             |                    |                   |
| Primary government                   |                            |                             |                    |                   |
| Cash and cash equivalents            | \$467,410                  | \$72,294                    | \$539,704          | \$261,971         |
| Certificates of deposit              | 725,830                    | 0                           | 725,830            | 12,382            |
| Restricted cash and cash equivalents | 11,247                     | 49,710                      | 60,957             | 0                 |
| <br>                                 |                            |                             |                    |                   |
| Total cash and cash equivalents      | <u>\$1,204,487</u>         | <u>\$122,004</u>            | <u>\$1,326,491</u> | <u>\$274,353</u>  |

Restricted cash and cash equivalents as of September 30, 2017, consist of:

|  |                 |                 |                 |            |
|--|-----------------|-----------------|-----------------|------------|
| Governmental financial statements,         |                 |                 |                 |            |
| Municipal court                            | \$450           | \$0             | \$450           | \$0        |
| Police department                          | 857             | 0               | 857             | 0          |
| Volunteer fire department                  | 6,445           | 0               | 6,445           | 0          |
| Library                                    | 3,495           | 0               | 3,495           | 0          |
| <br>                                       |                 |                 |                 |            |
| Total governmental                         | <u>11,247</u>   | <u>0</u>        | <u>11,247</u>   | <u>0</u>   |
| <br>                                       |                 |                 |                 |            |
| Business-type financial statements,        |                 |                 |                 |            |
| Customer deposits                          | <u>0</u>        | <u>49,710</u>   | <u>49,710</u>   | <u>0</u>   |
| <br>                                       |                 |                 |                 |            |
| Total business-type                        | <u>0</u>        | <u>49,710</u>   | <u>49,710</u>   | <u>0</u>   |
| <br>                                       |                 |                 |                 |            |
| Total restricted cash and cash equivalents | <u>\$11,247</u> | <u>\$49,710</u> | <u>\$60,957</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, 2017, consist of certificates of deposit totaling \$725,830, bearing interest at .55% - 1.0 %, maturing at varying dates until February, 2018, are summarized as follows:

|                        | Governmental<br>Activities | Business-type<br>Activities | Total            | Component<br>Unit |
|------------------------|----------------------------|-----------------------------|------------------|-------------------|
| City National Bank     | \$5,135                    | \$0                         | \$5,135          | \$12,382          |
| Mineola Community Bank | 118,044                    | 0                           | 118,044          | 0                 |
| Southside Bank         | 602,651                    | 0                           | 602,651          | 0                 |
|                        | <u>\$725,830</u>           | <u>\$0</u>                  | <u>\$725,830</u> | <u>\$12,382</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, 2017, the City's primary bank had pledged securities with a face value of \$1,400,000 and a market value of \$1,173,144 for the City's cash deposits and certificates of deposit totaling \$818,461 in excess of FDIC insurance.

**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<br>Activities | Business-type<br>Activities | Total            |
|-----------------------------------|----------------------------|-----------------------------|------------------|
| Receivables,                      |                            |                             |                  |
| Property tax                      | \$74,447                   |                             | \$74,447         |
| Sales and other tax               | 49,804                     |                             | 49,804           |
| Insurance claim receivable        |                            | \$2,989                     | 2,989            |
| Fees and charges                  |                            | 66,262                      | <u>66,262</u>    |
| Gross receivables                 |                            |                             | 193,502          |
| Less allowance for uncollectibles | <u>(52,113)</u>            | <u>(5,440)</u>              | <u>(57,553)</u>  |
|                                   | <u>\$72,138</u>            | <u>\$63,811</u>             | <u>\$135,949</u> |

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the period ended September 30, 2017, was as follows:

|   | Beginning<br>Balances | Additions         | Decreases         | Ending<br>Balances |
|---|-----------------------|-------------------|-------------------|--------------------|
| <b>Governmental Activities</b>              |                       |                   |                   |                    |
| Capital assets not being depreciated,       |                       |                   |                   |                    |
| Land  | \$178,312             | \$4,839           | \$0               | \$183,151          |
| Total capital assets not being depreciated  | <u>178,312</u>        | <u>4,839</u>      | <u>0</u>          | <u>183,151</u>     |
| Capital assets, being depreciated,          |                       |                   |                   |                    |
| Infrastructure                              | 4,489,200             | 0                 | (34,033)          | 4,455,167          |
| Buildings and improvements                  | 635,846               | 9,120             | (1,900)           | 643,066            |
| Machinery and equipment                     | 1,629,032             | 119,360           | (252,495)         | 1,495,897          |
| Total capital assets being depreciated      | <u>6,754,078</u>      | <u>128,480</u>    | <u>(288,428)</u>  | <u>6,594,130</u>   |
| Less accumulated depreciation for,          |                       |                   |                   |                    |
| Infrastructure                              | (231,199)             | (32,101)          | 21,189            | (242,111)          |
| Buildings and Improvements                  | (359,618)             | (16,838)          | 517               | (375,939)          |
| Machinery and equipment                     | (1,120,437)           | (138,403)         | 255,356           | (1,003,484)        |
| Total accumulated depreciation              | <u>(1,711,254)</u>    | <u>(187,342)</u>  | <u>277,062</u>    | <u>(1,621,534)</u> |
| Total capital assets being depreciated, net | <u>5,042,824</u>      | <u>(58,862)</u>   | <u>(11,366)</u>   | <u>4,972,596</u>   |
| Governmental activities capital assets, net | <u>\$5,221,136</u>    | <u>(\$54,023)</u> | <u>(\$11,366)</u> | <u>\$5,155,747</u> |
| <b>Business-type Activities</b>             |                       |                   |                   |                    |
| Capital assets not being depreciated,       |                       |                   |                   |                    |
| Construction-in-progress                    | \$1,500               | \$112,848         | (\$45,729)        | \$68,619           |
| Total capital assets not being depreciated  | <u>1,500</u>          | <u>112,848</u>    | <u>(45,729)</u>   | <u>68,619</u>      |

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|  | Beginning<br>Balances | Additions         | Decreases         | Ending<br>Balances |
|--|-----------------------|-------------------|-------------------|--------------------|
| Capital assets being depreciated,                  |                       |                   |                   |                    |
| Infrastructure                                     | 8,108,624             | 45,729            | (28,629)          | 8,125,724          |
| Buildings and Improvements                         | 7,385                 | 4,120             | 0                 | 11,505             |
| Machinery and equipment                            | 239,624               | 0                 | (8,233)           | 231,391            |
| <b>Total capital assets being depreciated</b>      | <b>8,355,633</b>      | <b>49,849</b>     | <b>(36,862)</b>   | <b>8,368,620</b>   |
| Less accumulated depreciation for,                 |                       |                   |                   |                    |
| Infrastructure                                     | (4,994,976)           | (213,841)         | 28,628            | (5,180,189)        |
| Buildings and Improvements                         | (1,382)               | (870)             | 0                 | (2,252)            |
| Machinery and equipment                            | (136,798)             | (24,178)          | 8,233             | (152,743)          |
| <b>Total accumulated depreciation</b>              | <b>(5,133,156)</b>    | <b>(238,889)</b>  | <b>36,861</b>     | <b>(5,335,184)</b> |
| <b>Total capital assets being depreciated, net</b> | <b>3,222,477</b>      | <b>(189,040)</b>  | <b>(1)</b>        | <b>3,033,436</b>   |
| Business-type activities capital assets, net       | <u>\$3,223,977</u>    | <u>(\$76,192)</u> | <u>(\$45,730)</u> | <u>\$3,102,055</u> |

Changes in capital assets used in governmental activities consist of the following:

|  | Additions          | Decreases        |
|--|--------------------|------------------|
| Capital assets,                                      |                    |                  |
| Assets purchased                                     | \$76,414           |                  |
| Cost of 1992 fire truck written<br>off in error      | 20,905             |                  |
| Value of truck received from<br>Texas Forest Service | 36,000             |                  |
| Cost of assets sold                                  |                    | \$166,921        |
| Costs of assets abandoned                            |                    | 121,507          |
|  | <u>\$133,319</u>   | <u>\$288,428</u> |
| Accumulated depreciation,                            |                    |                  |
| Adjustment for 1992 fire truck                       | (\$20,905)         |                  |
| Depreciation on assets sold                          |                    | \$155,556        |
| Depreciation on assets abandoned                     |                    | 121,506          |
| Current year depreciation                            | (166,437)          |                  |
|  | <u>(\$187,342)</u> | <u>\$277,062</u> |

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

|                          |          |
|--------------------------|----------|
| Governmental activities, |          |
| General government       | \$15,694 |
| Library                  | 12,973   |

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|   |                      |
|---|----------------------|
| Parks and recreation                                    | 34,832               |
| Public safety   | 88,674               |
| Public works  | <u>14,264</u>        |
| <br>Total depreciation expense, governmental activities | <br><u>\$166,437</u> |
| <br>Business-type activities,<br>Water and sewer        | <br><u>\$238,889</u> |

In addition to depreciable capital assets, the business-type fund includes \$45,729 of assets transferred from construction-in-progress. This addition was acquired in prior years and did not use cash in the current fiscal year. It has been classified as a non cash financing and investing activity for cash flow reporting purposes.

**NOTE 6 - CONSTRUCTION COMMITMENTS**

The City has two (2) active construction project as of September 30, 2017.

| Project            | Spent-to-date   | Remaining<br>Commitment |
|--------------------|-----------------|-------------------------|
| New sewer lines    | \$65,611        | \$2,872                 |
| Wastewater project | <u>3,008</u>    | <u>4,500,000 *</u>      |
|                    | <u>\$68,619</u> | <u>\$4,502,872</u>      |

\* Estimated cost including cost of new water meters.

**NOTE 7 - LONG-TERM OBLIGATIONS**

A summary of long-term debt transactions, including current portion, for the year ended September 30, 2017, is as follows:

| Description                   | Date<br>Issued | Interest<br>Rate<br>Payable | Amounts<br>Outstanding<br>09/30/2016 | Issued          | Retired           | Amounts<br>Outstanding<br>09/30/2017 | Due within<br>one year |
|-------------------------------|----------------|-----------------------------|--------------------------------------|-----------------|-------------------|--------------------------------------|------------------------|
| Governmental activities,      |                |                             |                                      |                 |                   |                                      |                        |
| Notes payable,                |                |                             |                                      |                 |                   |                                      |                        |
| 2014 F550 Fire Truck          | 07/17/2014     | 2.75%                       | \$62,127                             | \$0             | (\$27,298)        | \$34,829                             | \$28,058               |
| 2015 F550 Fire Truck          | 08/28/2015     | 4.24%                       | 164,883                              | 0               | (1,509)           | 163,374                              | 1,573                  |
|                               |                |                             | <u>\$227,010</u>                     | <u>\$0</u>      | <u>(\$28,807)</u> | <u>\$198,203</u>                     | <u>\$29,631</u>        |
| Governmental activities,      |                |                             |                                      |                 |                   |                                      |                        |
| Fire trucks                   |                |                             | \$227,010                            | \$0             | (\$28,807)        | \$198,203                            | \$29,631               |
| Compensated absences          |                |                             | <u>11,692</u>                        | <u>13,219</u>   | <u>(11,692)</u>   | <u>13,219</u>                        | <u>13,219</u>          |
| Total governmental activities |                |                             | <u>\$238,702</u>                     | <u>\$13,219</u> | <u>(\$40,499)</u> | <u>\$211,422</u>                     | <u>\$42,850</u>        |

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| Description                                       | Date Issued | Interest Rate Payable | Amounts Outstanding 09/30/2016 | Issued   | Retired    | Amounts Outstanding 09/30/2017 | Due within one year |
|---|-------------|-----------------------|--------------------------------|----------|------------|--------------------------------|---------------------|
| Business-type activities,<br>Compensated absences |             |                       | \$10,769                       | \$15,662 | (\$10,769) | \$15,662                       | \$15,662            |

The debt service requirements for the notes payable are:

| Year ending<br>September 30, | Principal        | Interest        | Total            |
|------------------------------|------------------|-----------------|------------------|
| 2018                         | \$29,631         | \$7,698         | \$37,329         |
| 2019                         | 8,411            | 6,954           | 15,365           |
| 2020                         | 21,009           | 6,791           | 27,800           |
| 2021                         | 21,900           | 5,900           | 27,800           |
| 2022                         | 22,828           | 4,972           | 27,800           |
| 2023 - 2026                  | 94,424           | 9,789           | 104,213          |
|                              | <u>\$198,203</u> | <u>\$42,104</u> | <u>\$240,307</u> |

Interest incurred on these notes payables for the year ended September 30, 2017 amounted to \$7,609.

**NOTE 8 - OPERATING LEASES**

The City leases two copiers 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 \$1,167 for the year ended September 30, 2017, and is included in the appropriate departmental expenses. The future minimum lease payments for these leases are as follows:

| Year Ending<br>September 30, | Copier - Fire<br>Department | Copier - City<br>Hall | Total          |
|------------------------------|-----------------------------|-----------------------|----------------|
| 2017                         | \$778                       | \$778                 | \$1,556        |
| 2018                         | 778                         | 778                   | 1,556          |
| 2020                         | <u>194</u>                  | <u>195</u>            | <u>389</u>     |
|                              | <u>\$1,750</u>              | <u>1,750</u>          | <u>\$3,501</u> |

**NOTE 9 - PENSION PLAN**

**a. DEFINED BENEFIT PENSION PLAN**

**(1) PLAN DESCRIPTION**

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement

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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 defined benefit pension plan is 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.

**(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)                                  | 1.5 to 1       |
| Years required for vesting   | 5              |
| Service retirement eligibility (expressed as age/years of service) | 60/5, 0/20     |
| Updated service credit   | 100% Repeating |
| Annuity increase (to retirees)                                     | 0% of CPI      |

**Employees covered by benefit terms.**

As of the December 31, 2016, the valuation and measurement date, the following employees were covered by the benefit terms:

|  |           |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 10        |
| Inactive employees entitled to but not yet receiving benefits    | 3         |
| Active employees   | <u>11</u> |
|  | <u>24</u> |



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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](http://www.tmr.com).

**(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 were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 14.97% and 3.17% in calendar years 2017 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$67,195, and was equal to the required contributions. There was no payable to the plan as of September 30, 2017.

**(4) NET PENSION LIABILITY**

The city's Net Pension Liability (NPL) was measured as of December 31, 2016, 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, 2016, actuarial valuation was determined using the following actuarial assumptions:

|                           |  |
|---------------------------|--|
| Inflation                 | 2.5% per year  |
| Overall payroll growth    | 3.0% per year  |
| Investment Rate of Return | 6.75%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members, retirees and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables With Blue Collar Adjustments, with male rates multiplied by 109% and female rates multiplied by 103%. For cities with fewer than 20 employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than six members, 85% for employers with six to ten members, 100% for employers with 11 to 15 members, and 115% for employees with less than

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100 members. There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%).

For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by one year for each active member less than the 20 member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use  $(25 - (20 - 8)) = 13$  year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be  $(25 - (20 - 1)) = 6$  years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years.

The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010, through December 31, 2014, first used in the December 31, 2015, valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013, valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation. After the Asset Allocation Study analysis and experience investigation, the Board amended the long-term expected rate of return on pension assets to 6.75% from 7%.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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| <u>Asset Class</u>    | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|-----------------------|--------------------------|--|
| Domestic Equity       | 17.5%                    | 4.55%  |
| International Equity  | 17.5%                    | 6.35%  |
| Core Fixed Income     | 10.0%                    | 1.00%  |
| Non-Core Fixed Income | 20.0%                    | 3.65%  |
| Real Return           | 10.0%                    | 4.15%  |
| Real Estate           | 10.0%                    | 4.75%  |
| Absolute Return       | 10.0%                    | 4.00%  |
| Private Equity        | <u>5.0%</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 statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

**Changes in Net Position Liability**

|   | <u>Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net Position Liability</u> |
|---|--------------------------------|------------------------------------|-------------------------------|
| Balance December 31, 2015                                     | <u>\$1,936,358</u>             | <u>\$1,656,137</u>                 | <u>\$280,221</u>              |
| Changes for the year,   |                                |                                    |                               |
| Service cost  | 72,805                         | 0                                  | 72,805                        |
| Interest  | 131,731                        | 0                                  | 131,731                       |
| Change of benefit terms                                       | 0                              | 0                                  | 0                             |
| Difference between expected and actual experience             | 9,040                          | 0                                  | 9,040                         |
| Changes of assumptions  | 0                              | 0                                  | 0                             |
| Contributions, employer                                       | 0                              | 61,737                             | (61,737)                      |
| Contributions, employee                                       | 0                              | 32,420                             | (32,420)                      |
| Net investment income   | 0                              | 111,973                            | (111,973)                     |
| Benefit payments, including refunds of employee contributions | (42,370)                       | (42,370)                           | 0                             |
| Administrative expenses                                       | 0                              | (1,264)                            | 1,264                         |
| Other changes   | 0                              | (68)                               | 68                            |

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|   | Total<br>Pension<br>Liability | Plan Fiduciary<br>Net Position | Net Position<br>Liability |
|---|-------------------------------|--------------------------------|---------------------------|
| Net changes   | 171,206                       | 162,428                        | 8,778                     |
| Balance December 31, 2016   | <u>\$2,107,564</u>            | <u>\$1,818,565</u>             | <u>\$288,999</u>          |
| Plan fiduciary net position as a percentage<br>of the total pension liability |                               |                                | 86.29%                    |
| Covered employee payroll  |                               |                                | \$463,138                 |
| Net pension liability as a percentage of<br>covered employee payroll          |                               |                                | 62.40%                    |

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

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

|   | 1% Decrease in<br>Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in<br>Discount Rate (7.75%) |
|---|---|-----------------------|---|
| City's net pension<br>liability/(asset) | <u>\$546,150</u>                        | <u>\$288,999</u>      | <u>\$72,352</u>                         |

**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](http://www.tmrs.com).

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

For the year ended September 30, 2017, the city recognized pension expense amounting to \$100,953.

As of September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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|  | Amortization<br>Period | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|------------------------|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience  | 4.5726 -<br>4.09 years | \$4,308                           | \$0                              |
| Changes in actuarial assumptions                             | 4.5726 -<br>4.09 years | 25,966                            | 0                                |
| Differences between projected and actual investment earnings | 5.00 years             | 73,634                            | 0                                |
| Contributions subsequent to measurement date                 | 1 year                 | <u>50,072</u>                     | <u>0</u>                         |
| Total  |                        | <u>\$153,980</u>                  | <u>\$0</u>                       |

\$50,072 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 ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ending<br/>September 30,</u> | <u>Net Deferred Outflows<br/>(Inflows) of Resources</u> |
|--------------------------------------|---|
| 2018                                 | \$39,224  |
| 2019                                 | 40,924  |
| 2020                                 | <u>23,760</u>   |
|                                      | <u>\$103,908</u>  |

**b. DEFINED CONTRIBUTION PENSION PLAN**

The City adopted the defined contribution retirement plan now administered by the Texas Emergency Services Retirement System (TESRS). The City contributes to the TESRS for its volunteer firefighters who meet certain requirements.

Benefit terms, including contribution requirements, for TESRS are established and may be amended by its 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, 2017, the City recognized retirement plan expense of \$1,404. There were no City contributions unpaid as of September 30, 2017.

At age 55 with 15 years of qualified service, a member is eligible for a retirement of six

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(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.tesre.org/retirees-benefit-claims](http://www.tesre.org/retirees-benefit-claims).

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 expenses.

**c. GROUP TERM LIFE INSURANCE**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). 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.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). Retired employees are insured for \$7,500. This coverage is an "other postemployment benefit," or OPEB. The 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 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's contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$855, \$673, and \$580, respectively, which equaled the required contributions each year.

**NOTE 10 - HEALTH CARE COVERAGE**

During the year ended September 30, 2017, employees of the City were covered by a health and dental insurance plan. The City contributed \$827 per month per employee and 0% of the cost for dependents. Employees, at their option, authorize payroll withholdings to pay

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contributions for dependents. All contributions were paid to TML Intergovernmental Employee Benefit Pool (IEBP). The Plan was authorized by Article 3.51-2, Texas Insurance Code and is documented by contractual agreement.

In accordance with State statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League, a commercial insurer licensed and eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$125,000 and for aggregate loss. According to the latest actuarial opinion, dated October 1, 2008, the unfunded claim benefit obligation included no reported claims which were unpaid and no estimated claims incurred, but not reported.

**NOTE 11 - 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 continues to carry commercial insurance for other risks of loss. 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 12 - LITIGATION**

On August 3, 2015, William Rogers, as plaintiff, filed an amended lawsuit alleging violations of his constitutional rights, privileges and immunities under the Fourth and Fourteenth Amendments to the United States Constitution by certain City employees, certain elected City officials and certain citizens of the City. (The second amendment to the lawsuit was filed September 15, 2015.) Defendants named in the amended lawsuit are as follows:

Eileen Frazier, individually and in her capacity as a Hawkins police officer, Chief Code Enforcement Officer and City Fire Marshal,  
Ron Voda, individually and in his capacity as Hawkins Chief of Police,  
Dona Jordan, individually and in her capacity as City Judge and City Secretary,  
Wayne Kirkpatrick, individually and in his capacity as Alderman of the City of Hawkins,  
Sherry Davis, individually and in her capacity as Alderwoman of the City of Hawkins,  
Norma Oglesby, individually and in her capacity as Alderwoman of the City of Hawkins,  
Jackie Rucker, individually and in her capacity as Alderwoman of the City of Hawkins,  
Mike Maberry, individually and in his capacity as Director of Public Works in Hawkins,  
Texas,  
Howard Coquat, individually (former Mayor of the City of Hawkins),  
Glyndia Lane, individually,  
Clint McNear, individually,

**CITY OF HAWKINS, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2017**

Todd Eddington, individually, and  
 Candyce Palmertree, individually.

The plaintiff was elected Mayor of the City on May 10, 2014. The lawsuit was settled during the year ended September 30, 2017, for \$20,000. The cost to the City was \$1,000.

On December 15, 2015, the City filed suit naming The Jesus Christ Open Alter Church, LLC, Beaty Funeral Home, Inc. and Croley Funeral Home, Inc. as defendants. The City contends two of the defendants executed a deed for conveyance of property to the third defendant. The City believes the applicable property is a City street or alley included in the townsite plat filed in Wood County, Texas in 1909 and not abandoned by the City subsequent to filing the plat. The City contends the conveyance between the defendants constitutes a cloud on the title for propriety and possessory interests of the City. The City has asked the court to declare the conveyance invalid and seeks reimbursement of court costs, attorney fees and all other relief to which it may be entitled. The court has granted the City the relief requested and the plaintiffs have appealed the decision.

On December 21, 2017, the Twelfth Court of Appeals of District of Texas issued its Judgement affirming the decision of the lower court. In addition, the judgement awarded the City reimbursement of certain fees incurred in connection with this case which are yet to be determined.

**NOTE 13 - 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 - 71,979,170

Gallons Billed - 43,324,262

In addition to the 43,324,262 gallons billed to customers during this fiscal year ended September 30, 2017, 18,502,455 gallons were used for the city buildings, public safety, sewer treatment and other city services.

**NOTE 14 - 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>\$218,834</u>     |                     |
| Water/Sewer Fund |                      | <u>\$218,834</u>    |



**CITY OF HAWKINS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017**

Transfers are used to move funds for capital projects ongoing throughout the year.

**b. AMOUNTS DUE TO/FROM OTHER FUNDS**

There were no amounts due to/from other funds as of September 30, 2017.

**NOTE 15 - 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> |
|--------------------|---------------|---------------|---------------|
| Library            | \$65,275      | \$65,775      | \$500         |
| Public services    | 9,040         | 14,632        | 5,592         |
| Capital outlays,   |               |               |               |
| General government | 0             | 13,959        | 13,959        |
| Public safety      | 0             | 62,455        | 62,455        |

**NOTE 16 - 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 17 - CONTINGENCIES**

As a result of an investigation by the Texas Commission on Environmental Quality (TCEQ) on January 26, 2017, it was determined there were ongoing maintenance and reporting violations of the TCEQ rules. These maintenance and reporting issues were resolved to the satisfaction of the TCEQ. In addition, the TCEQ alleged violations of rules relating to volume of daily waste flow measurements for the sewage treatment plant. The City is working with its consulting engineers to determine if an expansion or upgrade of the wastewater treatment and/or

**CITY OF HAWKINS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

collection facilities is the correct resolution of the alleged violation.

**NOTE 18 - SUBSEQUENT EVENTS**

The City has evaluated all events or transactions through June 12, 2018, the date the financial statements were available to be issued. During this period, the following event was noted.

- In May 2017 the City received from the Texas A & M Forest Service a 2001 Stewart & Stevenson Cargo Truck. Among the conditions of the transfer of the vehicle is the requirement for the City to retrofit the vehicle for use in firefighting and emergency services within 180 days from receipt. On, November 8, 2017, the Texas A&M Forest Service reimbursed the City for \$20,000 of the retrofit expenditures.
- In July, 2017, the City entered into an agreement with Government Capital Corporation to refinance the balance of the loans for acquisition of the 2014 and 2015 fire trucks. The loan was funded in February 2018. The loan bears interest at 3.0% and is collateralized by the fire trucks. The loan is expected to be payable in annual payments ranging from \$37,329 to \$13,824. The final payment is due March 1, 2025.

**NOTE 19 - 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 areas.

**NOTE 20 - 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, 2017, 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 or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The Public Funds Investment Act does not contain legal or policy requirements which would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: the Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged

**CITY OF HAWKINS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017**

securities in the collateral pool must equal at least 102% of the bank balance less the FDIC insurance at all times.

As indicted in Note 3a, as of September 30, 2017, HCDC deposits with its financial institution were not fully covered by the FDIC. A pledged collateral agreement was not in place.

**b. RECEIVABLES**

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

|                        |                 |
|------------------------|-----------------|
| Receivables, sales tax | <u>\$16,356</u> |
|------------------------|-----------------|

**c. SUBSEQUENT EVENTS**

The HCDC has evaluated all events or transactions through June 12, 2018, 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**

|  | 2014             | 2015             | 2016             |
|--|------------------|------------------|------------------|
| <b>TOTAL PENSION LIABILITY</b>   |                  |                  |                  |
| Balance, beginning of year   | \$1,276,959      | \$1,736,978      | \$1,936,358      |
| Changes for the year,  |                  |                  |                  |
| Service cost   | 43,063           | 62,599           | 72,805           |
| Interest   | 113,013          | 122,572          | 131,731          |
| Change of benefit terms  | 324,288          | 0                | 0                |
| Difference between expected and actual experience                          | (3,731)          | (2,116)          | 9,040            |
| Changes of assumptions   | 50,814           | 0                | 0                |
| Benefit payments, including refunds of employee contributions              | (16,614)         | (34,489)         | (42,370)         |
| Net changes  | 460,019          | 199,380          | 171,206          |
| Balance, end of year   | \$1,736,978      | \$1,936,358      | \$2,107,564      |
| <b>PLAN FIDUCIARY NET POSITION</b>   |                  |                  |                  |
| Balance, beginning of year   | \$1,501,669      | \$1,607,731      | \$1,656,137      |
| Changes for the year,  |                  |                  |                  |
| Contributions, employer  | 15,177           | 53,112           | 61,737           |
| Contributions, employee  | 22,485           | 29,000           | 32,420           |
| Net investment income  | 85,911           | 2,372            | 111,973          |
| Benefit payments, including refunds of employee contributions              | (16,614)         | (34,489)         | (42,370)         |
| Administrative expenses  | (897)            | (1,445)          | (1,264)          |
| Other  | 0                | (144)            | (68)             |
| Net changes  | 106,062          | 48,406           | 162,428          |
| Balance, end of year   | \$1,607,731      | \$1,656,137      | \$1,818,565      |
| <b>NET PENSION LIABILITY</b>   | <b>\$129,247</b> | <b>\$280,221</b> | <b>\$288,999</b> |
| Plan fiduciary net position as a percentage of the total pension liability | 92.56%           | 85.53%           | 86.29%           |
| Covered employee payroll   | \$374,744        | \$414,288        | \$463,138        |
| Net pension liability as a percentage of covered employee payroll          | 34.49%           | 67.64%           | 62.40%           |

**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<br>Ending<br>September 30, | Actuarially<br>Determined<br>Contribution | Actual<br>Employer<br>Contribution | Contribution<br>Deficiency<br>(excess) | Actual<br>Pensionable<br>Covered<br>Payroll (1) | Actual<br>Contribution<br>as a % of<br>Covered Payroll |
|---------------------------------|---|------------------------------------|--|---|--|
| 2015                            | \$15,177                                  | \$15,177                           | \$0                                    | \$397,608                                       | 3.82%  |
| 2016                            | 53,112                                    | 53,112                             | 0                                      | 414,288   | 12.82%   |
| 2017                            | 61,737                                    | 61,737                             | 0                                      | 463,138   | 13.33%   |

**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.

**Methods and Assumptions Used to Determine Contribution Rates:**

|                               |  |
|-------------------------------|--|
| Actuarial Cost Method         | Entry Age Normal   |
| Amortization Method           | Level Percentage of Payroll, Closed  |
| Remaining Amortization Period | 22 years   |
| Period Asset Valuation Method | 10 Year smoothed market; 15% soft corridor   |
| Inflation                     | 2.50%  |
| Salary Increases              | 3.50% to 10.50% 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 2015 valuation pursuant to an experience study of the period 2010 - 2014              |
| Mortality                     | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB |

**Other Information:**

Notes:

Removed statutory maximum

**CITY OF HAWKINS  
GENERAL FUND BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

|  | Budgeted amounts   |                    | Actual             | Variance with<br>Final Budget |
|--|--------------------|--------------------|--------------------|-------------------------------|
|  | Original           | Final              |                    | Positive<br>(Negative)        |
| <b>REVENUES</b>                                |                    |                    |                    |                               |
| Taxes,   |                    |                    |                    |                               |
| Property                                       | \$648,052          | \$680,952          | \$648,523          | (\$32,429)                    |
| Sales and use                                  | 185,000            | 185,000            | 220,103            | 35,103                        |
| Hotel tax                                      | 0                  | 0                  | 3,982              | 3,982                         |
| Franchise fees                                 | 37,000             | 37,000             | 33,887             | (3,113)                       |
| Licenses and permits                           | 400                | 400                | 150                | (250)                         |
| Fines and forfeitures                          | 15,000             | 15,000             | 18,280             | 3,280                         |
| Charges for services                           | 24,072             | 24,072             | 19,096             | (4,976)                       |
| Intergovernmental                              | 48,680             | 48,680             | 48,680             | 0                             |
| Contributions received                         | 2,500              | 2,500              | 5,292              | 2,792                         |
| Interest income                                | 4,500              | 4,500              | 8,193              | 3,693                         |
| Miscellaneous income                           | 2,500              | 2,500              | 2,376              | (124)                         |
|  | <u>967,704</u>     | <u>1,000,604</u>   | <u>1,008,562</u>   | <u>7,958</u>                  |
| <b>EXPENDITURES</b>                            |                    |                    |                    |                               |
| Current,                                       |                    |                    |                    |                               |
| General government                             | 327,328            | 344,949            | 328,359            | 16,590                        |
| Public works                                   | 185,750            | 185,750            | 168,528            | 17,222                        |
| Public safety                                  | 333,353            | 329,779            | 302,656            | 27,123                        |
| Parks and recreation                           | 28,950             | 30,618             | 23,318             | 7,300                         |
| Library  | 62,366             | 65,275             | 65,775             | (500)                         |
| Public services                                | 8,793              | 9,040              | 14,632             | (5,592)                       |
| Debt service,                                  |                    |                    |                    |                               |
| Principal retirement                           | 28,807             | 28,807             | 28,807             | 0                             |
| Interest                                       | 9,193              | 8,522              | 8,522              | 0                             |
| Capital outlays,                               |                    |                    |                    |                               |
| General government                             | 0                  | 0                  | 13,959             | (13,959)                      |
| Public safety                                  | 0                  | 0                  | 62,455             | (62,455)                      |
|  | <u>984,540</u>     | <u>1,002,740</u>   | <u>1,017,011</u>   | <u>(14,271)</u>               |
| <b>EXCESS OF REVENUE OVER<br/>EXPENDITURES</b> | <u>(16,836)</u>    | <u>(2,136)</u>     | <u>(8,449)</u>     | <u>(6,313)</u>                |
| <b>OTHER FINANCING SOURCES (USES)</b>          |                    |                    |                    |                               |
| Proceeds from sale of assets                   | 0                  | 0                  | 16,326             | 16,326                        |
| Transfers in (out)                             | 0                  | 0                  | (218,834)          | (218,834)                     |
|  | <u>0</u>           | <u>0</u>           | <u>(202,508)</u>   | <u>(202,508)</u>              |
| <b>INCREASE (DECREASE) IN FUND BALANCE</b>     | <u>(16,836)</u>    | <u>(2,136)</u>     | <u>(210,957)</u>   | <u>(\$208,821)</u>            |
| FUND BALANCE, October 1, 2016                  | <u>1,444,328</u>   | <u>1,444,328</u>   | <u>1,444,328</u>   |                               |
| <b>FUND BALANCE, September 30, 2017</b>        | <u>\$1,427,492</u> | <u>\$1,442,192</u> | <u>\$1,233,371</u> |                               |

**CITY OF HAWKINS, TEXAS  
SCHEDULE OF DELINQUENT PROPERTY  
TAX RECEIVABLE (Unaudited)  
SEPTEMBER 30, 2017**

| Tax<br>Roll<br>Year | Fiscal Year<br>Ended<br>September 30, | Aged<br>Balance |
|---------------------|---------------------------------------|-----------------|
| 2016                | 2017                                  | \$22,862        |
| 2015                | 2016                                  | 13,475          |
| 2014                | 2015                                  | 5,049           |
| 2013                | 2014                                  | 3,946           |
| 2012                | 2013                                  | 3,650           |
| 2011                | 2012                                  | 4,494           |
| 2010                | 2011                                  | 3,336           |
| 2009                | 2010                                  | 2,195           |
| 2008                | 2009                                  | 2,159           |
| 2007                | 2008                                  | 2,055           |
| 2006                | 2007                                  | 2,300           |
| 2005                | 2006                                  | 1,206           |
| 2004                | 2005                                  | 931             |
| 2003                | 2004                                  | 1,347           |
| 2002                | 2003                                  | 1,395           |
| 2001                | 2002                                  | 894             |
| 2000                | 2001                                  | 924             |
| 1999                | 2000                                  | 650             |
| 1998                | 1999                                  | <u>1,579</u>    |
|                     |                                       | 74,447          |
|                     | Less allowance for uncollectibles     | <u>(52,113)</u> |
|                     |                                       | <u>\$22,334</u> |



**CITY OF HAWKINS, TEXAS  
 SCHEDULE OF HISTORICAL PROPERTY TAX  
 RATES AND VALUATIONS (Unaudited)  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017**

| Tax<br>Roll<br>Year | Fiscal Year<br>Ended<br>September 30, | Tax<br>Rate | Net<br>Taxable<br>Valuation |
|---------------------|---------------------------------------|-------------|-----------------------------|
| 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                 |