

CITY OF HAWKINS, TEXAS
ANNUAL FINANCIAL REPORT AND INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANT'S OPINION
YEAR ENDED SEPTEMBER 30, 2021

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SEPTEMBER 30, 2021**

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INTRODUCTORY SECTION

**CITY OF HAWKINS, TEXAS
GENERAL INFORMATION
ROSTER OF PUBLIC OFFICIALS
SEPTEMBER 30, 2021**

Elected Officials

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

Appointed Officials

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

FINANCIAL SECTION



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

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT'S OPINION
ON FINANCIAL STATEMENTS

Report on Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of City of Hawkins, Texas as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, the major fund and the aggregate remaining fund information of City of Hawkins, Texas as of September 30, 2021, 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 - 14), the Budgetary Comparison Schedule for the General Fund (page 64), the Schedules of Net Pensions Liability and Related Ratios and Contributions (pages 60 - 62) and Schedule of Changes in the City's Total OPEB Liability and Related Ratios (page 63), be presented to supplement the basic financial statements. Such supplementary information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the supplementary information and comparing the supplementary information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge which I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the supplementary information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Emory, Texas
January 21, 2022



**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

As management of 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, 2021. We encourage readers to read the information presented here in conjunction with additional information we have furnished in the City's financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$8,832,452 (net position). Of this amount, \$7,794,616 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 \$3,073,693. This results in a deficit in net position of \$2,035,857.
- The government's total net position increased by \$140,041 due to the increase in the governmental activities net position of \$53,708 and an increase in business-type net position of \$86,333. The business-type fund continued to face challenges with the waste water disposal system as a result of failures of old equipment. The increase in current expenses from the prior year is primarily the result of these failures. The fund continued to need assistance to cover the cost of repairs to the water/sewer system.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,929,813, an increase of \$3,201,462, in comparison with the prior year. A total of \$851,849 is available for spending at the City's discretion (unassigned fund balance). The primary reason for this increase in fund balance is the issuance of Certificates of Obligation, Series 2020, in the amount of \$3,200,000.
- In connection with the issuance of the Certificates of Obligation, which will be used primarily for rehabilitation of the waste water treatment system, a debt service fund has been created. As of the current fiscal year end, the fund balance was \$169,895, and use of this amount is restricted to debt service payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components:

(1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information which will enhance the reader's understanding of the financial condition of the City.

BASIC FINANCIAL STATEMENTS

The first two statements (pages 16 - 17) 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.

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

The next statements (pages 18 - 25) are Fund Financial Statements. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail information than the government-wide statements. There are two parts to the Fund Financial Statements: (1) the governmental fund statements and (2) the proprietary (business-type) fund statements.

The next section of the basic financial statements is the notes (pages 26 - 58). The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, required supplementary information (pages 60 - 64) is provided to show details about the City's pension plan, OPEB and General Fund budgetary comparison information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements are on pages 16 and 17 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

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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.

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

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

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document which incorporates input from the citizens of the City, the management of the City and the decisions of the council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language and classifications as the legal budget document. The statement shows four (4) columns: (1) the original budget as approved by council; (2) the final budget as amended by the council; (3) the actual resources, charges to appropriations and ending balances in the General Fund; and (4) the difference or variance between the final budget and the actual resources and charges. The Governmental Fund financial statements can be found on pages 18 - 21 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.

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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 22 - 25 of this report.

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 26 - 58 of this report.

OTHER INFORMATION

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

**COMPARATIVE NET POSITION
SEPTEMBER 30, 2021 AND 2020**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$4,274,017	\$910,430	\$370,245	\$349,161	\$4,644,262	\$1,259,591
Capital assets	4,931,179	5,037,551	2,985,444	2,939,293	7,916,623	7,976,844
Total assets	9,205,196	5,947,981	3,355,689	3,288,454	12,560,885	9,236,435
Total deferred outflows of resources	21,773	14,988	13,084	7,124	34,857	22,112
Current liabilities	318,718	90,035	113,368	88,382	432,086	178,417
Long-term liabilities	3,172,655	140,817	21,138	15,562	3,193,793	156,379
Total liabilities	3,491,373	230,852	134,506	103,944	3,625,879	334,796
Total deferred inflows of resources	68,025	118,254	69,386	113,086	137,411	231,340
Net position, Net investment in capital assets	4,809,172	4,870,028	2,985,444	2,939,293	7,794,616	7,809,321
Restricted	3,073,693	1,108	0	0	3,073,693	1,108
Unrestricted (deficit)	(2,215,294)	742,727	179,437	139,255	(2,035,857)	881,982
Total net position	\$5,667,571	\$5,613,863	\$3,164,881	\$3,078,548	\$8,832,452	\$8,692,411

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

As noted earlier, net position may serve over time as an indicator of a government's financial condition. The net position of the City exceeded liabilities by \$8,866,758 as of September 30, 2021.

NET INVESTMENT IN CAPITAL ASSETS

The City's net position increased by \$140,041, for the period ended September 30, 2021. However, the largest portion of net position, 88.2%, 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 \$3,073,693 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

There is no unrestricted net position available to fund the City's programs for citizens and creditors as unrestricted net position is a deficit in the amount of \$2,035,857.

**COMPARATIVE STATEMENT OF ACTIVITY
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues						
Program revenues,						
Charges for services	\$157,737	\$91,353	\$929,973	\$728,954	\$1,087,710	\$820,307
Operating grants and contributions	306,568	298,756	0	0	306,568	298,756
General revenues,						
Property taxes	914,043	768,925	0	0	914,043	768,925
Sales and other taxes	294,958	228,927	0	0	294,958	228,927
Hotel taxes	3,134	5,108	0	0	3,134	5,108
Franchise taxes	32,552	41,438	0	0	32,552	41,438
Interest income	6,742	9,468	0	0	6,742	9,468
Gain on sale of assets	11,790	0	0	0	11,790	0
	<u>1,727,524</u>	<u>1,443,975</u>	<u>929,973</u>	<u>728,954</u>	<u>2,657,497</u>	<u>2,172,929</u>

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Expenses						
Program expenses,						
Animal shelter	3,525	0	0	0	3,525	0
General government	323,542	277,795	0	0	323,542	277,795
Library	95,355	83,979	0	0	95,355	83,979
Public safety	437,590	361,896	0	0	437,590	361,896
Public services and operations	11,891	16,439	0	0	11,891	16,439
Public works	96,976	121,560	0	0	96,976	121,560
Parks	44,481	283,930	0	0	44,481	283,930
Interest	72,428	4,099	0	0	72,428	4,099
Water and sewer	0	0	1,431,668	947,727	1,431,668	947,727
	<u>1,085,788</u>	<u>1,149,698</u>	<u>1,431,668</u>	<u>947,727</u>	<u>2,517,456</u>	<u>2,097,425</u>
Change in net position before other revenues and financing sources (uses)	641,736	294,277	(501,695)	(218,773)	140,041	75,504
Transfers	(588,028)	(244,034)	588,028	244,034	0	0
Total change in net position	53,708	50,243	86,333	25,261	140,041	75,504
Net position, beginning of period	<u>5,613,863</u>	<u>5,563,620</u>	<u>3,078,548</u>	<u>3,053,287</u>	<u>8,692,411</u>	<u>8,616,907</u>
Net position, end of period	<u>\$5,667,571</u>	<u>\$5,613,863</u>	<u>\$3,164,881</u>	<u>\$3,078,548</u>	<u>\$8,832,452</u>	<u>\$8,692,411</u>

The governmental activities have increased net position in the amount of \$53,708. This is primarily due to the beginnings of a correction of a systemic and historical undervaluation of assessed values for property tax purposes. In addition, a significant increase in sales tax was realized due to new businesses opening in the City.

The business-type activities increased net position in the amount of \$86,333. This is primarily due to the need for assistance to cover the costs of rehabilitation to the water/sewer system.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

As of the close of the current fiscal year, the governmental funds reported combined ending fund balance of \$3,929,813, a 439.5% increase from last year. Approximately \$851,849 or 21.7% of this total amount constitutes unassigned fund balance, which is available for spending at the government's discretion. Restricted fund balance, of \$171,658, is set aside for State or donor imposed restrictions. In addition, \$2,902,035 has been restricted for use in connection with the City's waste water treatment plant and street improvement project.

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 \$3,759,918. 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 86.2% of total General Fund expenditures.

General Fund Budgetary Highlights

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

Revenues were more than budgeted due to higher property taxes, more sales and use tax collections and unbudgeted grant revenue. Expenditures were more than budgeted amounts due to capital outlays and continued support for payment of repair to the aging water and sewer system.

Business-type (Proprietary) Funds

The City's proprietary fund provides the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the proprietary funds at the end of the fiscal year amounted to \$179,437.

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, 2021, totals \$7,916,623 (net of accumulated depreciation). These assets include land, buildings, infrastructure, improvements, machinery and equipment, vehicles and construction-in-progress.

Major capital asset transactions during the year include:

- Street and sewer construction in progress

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**CAPITAL ASSETS (net of accumulated depreciation)
SEPTEMBER 30, 2021**

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$185,891	\$185,891	\$0	\$0	\$185,891	\$185,891
Construction in progress	0	0	331,067	171,864	331,067	171,864
Infrastructure	4,178,150	4,205,558	2,608,601	2,712,782	6,786,751	6,918,340
Buildings and Improvements	220,137	234,580	10,582	11,855	230,719	246,435
Machinery and equipment	347,001	411,523	35,194	42,793	382,195	454,316
	<u>\$4,931,179</u>	<u>\$5,037,552</u>	<u>\$2,985,444</u>	<u>\$2,939,294</u>	<u>\$7,916,623</u>	<u>\$7,976,846</u>

Long-Term Debt

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

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

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

On September 14, 2020, the City Council approved the issuance of Certificates of Obligation Series 2020, in the amount of \$3,200,000, bearing interest at 2.15% with a permissible increase of not more than 2% on October 1, 2035. Principal reduction of these Certificates will begin on October 1, 2021, in the amount of \$129,000 and will continue each six months thereafter with a \$3,000 increase over the prior principal payment. The use of the funds is limited to:

Waste water plant rehabilitation	\$2,030,500
Street repairs	712,898
Water line extension project	256,602
Contingency	143,500
Fees	56,500

**CITY OF HAWKINS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

The property tax rate for fiscal year ending in 2022 will be \$0.86 for maintenance and operations per \$100 assessed value and \$0.1177 per \$100 assessed value for payment of debt for a total assessment of \$0.9777 per \$100 assessed value. The City's certified taxable value for calendar year 2021 is \$90,694,780. This is 1.47% less than last year as a result of a systemic and historical undervaluation of assessed values for property tax purposes.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF HAWKINS, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2021

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$661,185	\$152,411	\$813,596	\$403,911
Certificates of deposit	127,778	0	127,778	12,954
Restricted cash and cash equivalents	3,073,693	73,300	3,146,993	0
Receivables, less allowance for uncollectibles of \$33,880	159,644	79,251	238,895	23,347
Internal balances	80,856	(80,856)	0	0
Prepaid assets	4,271	1,033	5,304	0
Nondepreciable capital assets,				
Land	185,891	0	185,891	0
Construction in progress	0	331,067	331,067	0
Depreciable capital assets, net,				
Infrastructure	4,178,150	2,608,601	6,786,751	0
Buildings and improvements	220,137	10,582	230,719	0
Machinery and equipment	347,001	35,194	382,195	0
	<u>9,038,606</u>	<u>3,210,583</u>	<u>12,249,189</u>	<u>440,212</u>
NON CURRENT ASSETS				
Net pension assets	166,590	145,106	311,696	0
DEFERRED OUTFLOWS OF RESOURCES				
	21,773	13,084	34,857	0
TOTAL ASSETS AND DEFERRED OUTFLOWS				
	<u>9,226,969</u>	<u>3,368,773</u>	<u>12,595,742</u>	<u>440,212</u>
LIABILITIES				
Accounts payable	10,659	16,070	26,729	0
Other liabilities	102,442	6,160	108,602	0
Due to component unit	23,347	0	23,347	0
Customer deposits	450	73,300	73,750	0
Noncurrent liabilities,				
Due within one year,				
Compensated absences	8,197	17,838	26,035	0
Obligations due within one year	173,623	0	173,623	0
Due in more than one year,				
Net other post retirement benefits liability	24,271	21,138	45,409	0
Obligations due in more than one year	3,148,384	0	3,148,384	0
TOTAL LIABILITIES	<u>3,491,373</u>	<u>134,506</u>	<u>3,625,879</u>	<u>0</u>
DEFERRED INFLOWS OF RESOURCES				
	68,025	69,386	137,411	0
NET POSITION				
Net investment in capital assets	4,809,172	2,985,444	7,794,616	0
Restricted for,				
Police department	1,763	0	1,763	0
Debt service	169,895	0	169,895	0
Waste water system rehabilitation and street improvements	2,902,035	0	2,902,035	0
Unrestricted (deficit)	(2,215,294)	179,437	(2,035,857)	440,212
TOTAL NET POSITION	<u>\$5,667,571</u>	<u>\$3,164,881</u>	<u>\$8,832,452</u>	<u>\$440,212</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, 2021**

Function/Programs	Net (Expense) Revenue and Changes in Net Position						Component Unit
	Program Revenues			Primary government			
	Expense	Charge for Services	Operating Grants and Contributions	Capital Grants and Contribution	Governmental Activities	Business-type Activities	
GOVERNMENTAL ACTIVITIES							
Animal shelter	\$3,525	\$0	\$0	\$0	(\$3,525)		(\$3,525)
General government	323,542	0	208,095	0	(115,447)		(115,447)
Library	95,355	0	36,014	0	(59,341)		(59,341)
Public safety	437,590	14,465	51,239	0	(371,886)		(371,886)
Public services	11,891	139,402	0	0	127,511		127,511
Public works	96,976	0	0	0	(96,976)		(96,976)
Parks	44,481	3,870	11,220	0	(29,391)		(29,391)
Interest	72,428	0	0	0	(72,428)		(72,428)
Total governmental activities	1,085,788	157,737	306,568	0	(621,483)		(621,483)
BUSINESS-TYPE ACTIVITIES							
Water and sewer	1,431,668	929,973	0	0		(\$501,695)	(501,695)
Total business-type activities	1,431,668	929,973	0	0		(501,695)	(501,695)
Total primary government	\$2,517,456	\$1,087,710	\$306,568	\$0	(621,483)	(501,695)	(1,123,178)
COMPONENT UNIT							
Community Development Corporation	\$44,792	\$0	\$0	\$0			(\$44,792)
GENERAL REVENUES							
Property taxes					914,043	0	914,043
Sales and other taxes					294,958	0	294,958
Hotel taxes					3,134	0	3,134
Franchise fees					32,552	0	32,552
Gain on sale of assets					11,790	0	11,790
Interest income					6,742	0	6,742
TRANSFERS					(588,028)	588,028	0
Total general revenues					675,191	588,028	1,263,219
INCREASE IN NET POSITION					53,708	86,333	140,041
NET POSITION, October 1, 2020					5,613,863	3,078,548	8,692,411
NET POSITION, September 30, 2021					\$5,667,571	\$3,164,881	\$8,832,452

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

CITY OF HAWKINS, TEXAS
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2021

	General Fund	Debt Service Fund	Total
ASSETS			
Cash and cash equivalents	\$661,185	\$0	\$661,185
Certificates of deposit	127,778	0	127,778
Restricted cash	2,903,798	169,895	3,073,693
Receivables,			
Property taxes, less allowance for uncollectible taxes of \$9,461	85,151	0	85,151
Sales and other taxes	70,573	0	70,573
Service fees	3,920	0	3,920
Due from Water/Sewer Fund	80,856	0	80,856
Prepaid assets	4,271	0	4,271
	\$3,937,532	\$169,895	\$4,107,427
LIABILITIES			
Accounts payable	\$10,659	\$0	\$10,659
Other liabilities	66,893	0	66,893
Due to other fund	23,347	0	23,347
	100,899	0	100,899
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue, property tax	76,715	0	76,715
	76,715	0	76,715
FUND BALANCE			
Nonspendable,			
Prepaid items	4,271	0	4,271
Restricted for,			
Police department	1,763	0	1,763
Debt service	0	169,895	169,895
Committed, waste water treatment plant and streets improvement project	2,902,035	0	2,902,035
Unassigned	851,849	0	851,849
	3,759,918	169,895	3,929,813
	\$3,937,532	\$169,895	\$4,107,427

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

**CITY OF HAWKINS, TEXAS
RECONCILIATION OF BALANCE SHEET (GOVERNMENTAL FUNDS)
TO STATEMENT OF NET POSITION
SEPTEMBER 30, 2021**

Fund balance, Balance Sheet (Governmental Funds)	\$3,929,813
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets reported in the statement of net position are not financial resources and are not reported in the fund balance sheet.	6,978,696
Accumulated depreciation has not been included in the governmental fund financial statements	(2,047,517)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(8,197)
Notes payable are not due and payable in the current period and, therefore, not reported in the funds as follows,	
Notes Payable,	
due within one year	(173,623)
not due within one year	(3,148,382)
Accrued interest	(36,001)
Deferred outflows/inflows of resources and net liability applicable to future periods and, therefore, are not reported in the funds	
Related to pensions	115,012
Related to other post retirement benefits	(18,945)
Property taxes receivable that are unavailable to pay for current period expenditures are deferred in the funds	<u>76,715</u>
Net position - Statement of Net Position	<u><u>\$5,667,571</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, 2021

	General Fund	Debt Service Fund	Total
REVENUES			
Taxes,			
Property	\$751,028	\$107,247	\$858,275
Sales and use	294,961	0	294,961
Hotel tax	3,134	0	3,134
Charges for services	27,061	0	27,061
Contributions received	30,843	0	30,843
Fines and forfeitures	126,802	0	126,802
Franchise fees	32,552	0	32,552
Grant income	8,390	0	8,390
Interest income	6,742	0	6,742
Intergovernmental	258,608	0	258,608
Licenses and permits	3,182	0	3,182
	<u>1,543,303</u>	<u>107,247</u>	<u>1,650,550</u>
EXPENDITURES			
Current,			
Animal shelter	3,525	0	3,525
General government	272,906	0	272,906
Library	96,209	0	96,209
Parks and recreation	15,991	0	15,991
Public safety	429,180	0	429,180
Public services	16,266	0	16,266
Public works	90,910	0	90,910
Debt service,			
Principal retirement	45,518	0	45,518
Interest	5,691	34,209	39,900
Capital outlays,			
Public safety	6,877	0	6,877
Public works	5,200	0	5,200
	<u>988,273</u>	<u>34,209</u>	<u>1,022,482</u>
EXCESS OF REVENUES OVER EXPENDITURES	555,030	73,038	628,068
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of Certificates of Obligation	3,200,000	0	3,200,000
Proceeds from sale of assets	12,050	0	12,050
Insurance proceeds from accidents	5,872	0	5,872
Fees for Certificate of Obligation issuance	(56,500)	0	(56,500)
Transfers	(684,885)	96,857	(588,028)
	<u>3,031,567</u>	<u>169,895</u>	<u>3,201,462</u>
FUND BALANCE, October 1, 2020	728,351	0	728,351
FUND BALANCE, September 30, 2021	<u>\$3,759,918</u>	<u>\$169,895</u>	<u>\$3,929,813</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, 2021**

Increase in fund balance - Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	\$3,201,462
Amounts reported for governmental activities in the statement of net position are different because:	
The depreciation of capital assets used in governmental activities is not reported in the funds.	(118,190)
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.	12,077
Acquisition of property and equipment are expenditures in the fund financial statement. Therefore, the net book value of assets sold must be reported in the government wide financial statements	
Cost of assets sold	(61,729)
Less depreciation reported	61,469
Deferred outflows/inflows of resources and net liability are applicable to future periods and, therefore, are not reported in the funds	
Related to pensions	92,480
Related to other post retirement benefits	(1,688)
Repayment of debt principal and accrued interest is an expenditure in the funds but the payment reduces the liabilities in the government-wide statement of net position. Debt principal payments and accrued interest are as follows:	
Notes payable	
Scheduled payment	45,518
(Increase) Decrease of accrued interest	(32,527)
Issuance of Certificated of Obligation is reported as Other Financing Sources in the fund financial statements, but they are shown as an increase in long-term debt the government-wide? financial statements.	(3,200,000)
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.	(929)
Property taxes receivable that are unavailable to pay for current period expenditures are deferred in the funds	<u>55,765</u>
Increase in net position - Statement of Activities	<u>\$53,708</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, 2021**

		Water and Sewer
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash	\$152,411	
Restricted cash	73,300	
Receivables, less allowance for uncollectibles of \$24,419	79,251	
Prepaid assets	1,033	
Total current assets		\$305,995
CAPITAL ASSETS		
Construction-in-progress		331,067
Infrastructure	8,591,568	
Buildings and improvements	17,035	
Machinery and equipment	258,378	
	8,866,981	
Less accumulated depreciation	(6,212,604)	
Net capital assets		2,654,377
NON CURRENT ASSETS		
Net pension assets		145,106
DEFERRED OUTFLOWS OF RESOURCES		
		13,084
		\$3,449,629
LIABILITIES AND DEFERRED INFLOWS		
CURRENT LIABILITIES		
Accounts payable	\$16,070	
Other liabilities	6,160	
Due to General Fund	80,856	
Customer deposits	73,300	
Total current liabilities		\$176,386
NON CURRENT LIABILITIES		
Due within one year,		
Compensated absences	17,838	
Due in more than one year,		
Other post retirement benefit payable	21,138	
		38,976
DEFERRED INFLOWS OF RESOURCES		
		69,386
NET POSITION		
Net investment in capital assets	2,985,444	
Unrestricted	179,437	
		3,164,881
		\$3,449,629

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, 2021

	<u>Water and Sewer</u>
OPERATING REVENUES	
Charges for services,	
Water sales	\$442,847
Sewer	275,705
Garbage	164,576
Grant funds received	<u>46,845</u>
	\$929,973
OPERATING EXPENSES	
Personnel services	206,048
Supplies and materials	36,467
Maintenance and repair	767,525
Utilities	89,628
Contractual services	11,212
Garbage contract	130,057
Penalty and permit fees	4,170
Depreciation	<u>186,561</u>
	<u>1,431,668</u>
OPERATING INCOME (LOSS)	<u>(501,695)</u>
INCOME (LOSS) BEFORE TRANSFERS	(501,695)
TRANSFERS	<u>588,028</u>
INCREASE IN NET POSITION	86,333
NET POSITION, October 1, 2020	<u>3,078,548</u>
NET POSITION, September 30, 2021	<u>\$3,164,881</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, 2021**

Water and Sewer

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$897,912	
Cash received from other sources	46,845	
Cash payments to employees for services	(265,498)	
Cash payments to suppliers for goods and services	<u>(1,019,412)</u>	
Net cash provided by (used in) operating activities		(\$340,153)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers from other funds	<u>588,028</u>	
Net cash provided by (used in) noncapital financing activities		588,028

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payable to General Fund	80,856	
Acquisition and construction of capital assets	<u>(232,711)</u>	
Net cash provided by (used in) capital and related financing activities		(151,855)

CASH FLOW FROM INVESTING ACTIVITIES

0

INCREASE IN CASH AND CASH EQUIVALENTS

96,020

CASH AND RESTRICTED CASH, October 1, 2020

129,691

CASH AND RESTRICTED CASH, September 30, 2021

\$225,711

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, 2021**

Water and Sewer

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

Operating income (loss)		(\$501,695)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities,		
Depreciation	\$186,561	
Changes in assets and liabilities,		
Decrease (increase) in receivables	9,523	
Decrease (increase) in prepaid assets	362	
Decrease (increase) in net pension assets	(15,806)	
Decrease (increase) in net deferred outflow resources	(5,960)	
Increase (decrease) in accounts payable	15,483	
Increase (decrease) in other liabilities	3,803	
Increase (decrease) in customer deposits	5,260	
Decrease (increase) in net deferred inflow resources	5,576	
Increase (decrease) in compensated absences	440	
Increase (decrease) in net pension assets	<u>(43,700)</u>	
Total adjustments		<u>161,542</u>
Net cash provided (used) by operating activities		<u>(\$340,153)</u>

NON CASH INVESTING AND FINANCING ACTIVITIES

Construction in process from prior year completed in current year		<u>\$70,404</u>
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The accompanying notes to financial statements are an integral part of these statements.

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hawkins, Texas (the 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 the proprietary fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

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

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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 .5 percent to be used for the promotion and development of new or expanded business enterprises and any other purposes authorized by Section 4B of the Development Corporation Act of 1979. The HCDC was formed and is a not-for-profit corporation organized under the Development Corporation Act of 1979 and is governed by section 4B of the Act. The City Council appoints the governing board of the entity and the entity is fiscally dependent on the primary government (the City). The City does not have a voting majority of the corporation. There are no separately issued financial statements for the HCDC.

b. BASIS OF PRESENTATION - BASIS OF ACCOUNTING

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

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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

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

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

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

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

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

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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

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

c. MEASUREMENT FOCUS - BASIS OF ACCOUNTING

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

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

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

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

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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.
- The Debt Service Fund accounts for the accumulation of financial resources for payment of principal and interest on the Certificates of Obligation Series 2020. The City annually levies ad valorem taxes restricted for the retirement of the Certificates. The fund reports the collection of these taxes and related debt service activity.
- Proprietary (or business-type) 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

**CITY OF HAWKINS, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021**

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 sewer service are, by law, to be considered restricted assets. These activities are included in the Water and Sewer Fund.

(3) RECEIVABLE AND PAYABLE BALANCES

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

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

(4) CAPITAL ASSETS

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is not included as part of the capitalized value of the assets constructed and is expensed in the period incurred.

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

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

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

CITY OF HAWKINS, TEXAS
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SEPTEMBER 30, 2021

(5) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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

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

(6) COMPENSATED ABSENCES

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

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

(7) LONG-TERM OBLIGATIONS

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

(8) NET POSITION FLOW ASSUMPTION

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

(9) FUND EQUITY

In the fund financial statements, government funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the

CITY OF HAWKINS, TEXAS
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SEPTEMBER 30, 2021

extent to which the City is bound to honor constraints on how specific amounts can be spent.

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

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

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

CITY OF HAWKINS, TEXAS
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(10) FUND BALANCE FLOW ASSUMPTION

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

(11) COMPARATIVE DATA

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

(12) PROPERTY TAXES

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

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

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

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution, applicable to cities of less than 5,000 population, limits the ad valorem tax rate to \$1.50 per \$100 assessed valuation. For the fiscal year ended September 30, 2021, the City had a tax rate of \$0.9294 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,

**CITY OF HAWKINS, TEXAS
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 SEPTEMBER 30, 2021**

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.

(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

**CITY OF HAWKINS, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021**

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

c. GOVERNMENT-WIDE NET POSITION DEFICIT

As discussed in Note 8b, the City issued Certificates of Obligation, totaling \$3,200,000, during the year ended September 30, 2021. To the extent the proceeds from the issue are unexpended as of the year end, that amount is reportable as restricted net assets. As of the year end, unexpended funds amount to \$2,902,035. As these funds are used for new infrastructure assets of the City, restricted net assets will reduce and unrestricted net assets will increase. The expenditure of these funds for the repair of roads and rehabilitation of the waste water system, although reducing restricted net assets, will not increase unrestricted net assets, as the payment will result in an operating expenditure and will have no net affect on unrestricted net assets.

d. 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 64.

The following procedures are followed in establishing the budgetary data:

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

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

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 3 - CASH AND INVESTMENTS

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

a. CASH DEPOSITS

At September 30, 2021, the carrying amount of the City's deposits (cash, certificates of deposit and interest-bearing savings accounts included in temporary investments) was \$4,088,367 and the bank balance was \$4,146,711. At September 30, 2021, and at times during the year ended September 30, 2021, the City's cash deposits were not adequately covered by FDIC insurance and by pledged collateral held on behalf of the City's depository banks in the City's name.

	Governmental Activities	Business-type Activities	Total	Component Unit
Statements of Net Position				
Primary government,				
Cash and cash equivalents	\$661,185	\$152,411	\$813,596	\$403,911
Certificates of deposit	127,778	0	127,778	12,954
Restricted cash and cash equivalents	3,073,693	73,300	3,146,993	0
Total cash and cash equivalents	<u>\$3,862,656</u>	<u>\$225,711</u>	<u>\$4,088,367</u>	<u>\$416,865</u>

Restricted cash and cash equivalents as of September 30, 2021, consist of:

	Governmental Activities	Business-type Activities	Total	Component Unit
Governmental financial statements				
Police department	\$1,763	\$0	\$1,763	\$0
Debt service	169,895	0	169,895	0
Waste water system and street improvements	2,902,035	0	2,902,035	0
Total governmental	<u>3,073,693</u>	<u>0</u>	<u>3,073,693</u>	<u>0</u>
Business-type financial statements,				
Customer deposits		73,300	73,300	
Total business-type		<u>73,300</u>	<u>73,300</u>	
Total restricted cash and cash equivalents	<u>\$3,073,693</u>	<u>\$73,300</u>	<u>\$3,146,993</u>	<u>\$0</u>

CITY OF HAWKINS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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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, 2021, consist of certificates of deposit and money market accounts totaling \$127,778, bearing interest at 1.15%-1.68%, maturing at varying dates until May 2021, are summarized as follows:

	Governmental Activities	Business-type Activities	Total	Component Unit
City National Bank	\$5,362	\$0	\$5,362	\$12,954
Mineola Community Bank	122,416	0	\$122,416	0

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 banks used by the City should be fully insured by the FDIC or the depository bank should place a properly executed pledge agreement when the City's cash and certificate of deposit balance exceeded the FDIC insurance limit.

As of September 30, 2021, one of the City's primary banks has pledged securities with a face value of \$350,000 and a market value of \$404,926 for the City's cash deposits and certificates of deposit totaling \$394,839. Another bank has pledged a portion of a letter of credit it has received from its lending bank in the amount of \$500,000 for cash deposits and certificates of deposit totaling \$3,568,027. In addition, the bank has pledged an Irrevocable Standby Letter of Credit, issued by its lending bank, in the amount of \$2,720,000. Also see Note 3a.

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

CITY OF HAWKINS, TEXAS
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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:

	Governmental Activities	Business-type Activities	Total
Receivables,			
Property tax	\$94,612	\$103,670	\$198,282
Sales and other tax	70,573	0	70,573
Fees and charges	3,920	0	<u>3,920</u>
Gross receivables			272,775
Less allowance for uncollectibles	<u>(9,461)</u>	<u>(24,419)</u>	<u>(33,880)</u>
	<u>\$159,644</u>	<u>\$79,251</u>	<u>\$238,895</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2021, was as follows:

	Beginning Balances	Additions	Decreases	Ending Balances
Governmental Activities				
Capital assets not being depreciated,				
Land	\$185,891	\$0	\$0	\$185,891
Total capital assets not being depreciated	<u>185,891</u>	<u>0</u>	<u>0</u>	<u>185,891</u>
Capital assets, being depreciated,				
Infrastructure	4,506,173		0	4,506,173

CITY OF HAWKINS, TEXAS
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	Beginning Balances	Additions	Decreases	Ending Balances
Buildings and improvements	654,201	0	0	654,201
Machinery and equipment	1,682,083	12,077	(61,729)	1,632,431
Total capital assets being depreciated	<u>6,842,457</u>	<u>12,077</u>	<u>(61,729)</u>	<u>6,792,805</u>
Less accumulated depreciation for,				
Infrastructure	(300,615)	(27,408)	0	(328,023)
Buildings and Improvements	(419,621)	(14,443)	0	(434,064)
Machinery and equipment	(1,270,560)	(76,339)	61,469	(1,285,430)
Total accumulated depreciation	<u>(1,990,796)</u>	<u>(118,190)</u>	<u>61,469</u>	<u>(2,047,517)</u>
Total capital assets being depreciated, net	<u>4,851,661</u>	<u>(106,113)</u>	<u>(260)</u>	<u>4,745,288</u>
Governmental activities capital assets, net	<u>\$5,037,552</u>	<u>(\$106,113)</u>	<u>(\$260)</u>	<u>\$4,931,179</u>
Business-type Activities				
Capital assets not being depreciated,				
Construction in progress	\$171,864	\$247,292	(\$88,089)	\$331,067
Total capital assets not being depreciated	<u>171,864</u>	<u>247,292</u>	<u>(88,089)</u>	<u>331,067</u>
Capital assets being depreciated,				
Infrastructure	8,521,164	70,404	0	8,591,568
Buildings and Improvements	17,035	0	0	17,035
Machinery and equipment	255,274	3,104	0	258,378
Total capital assets being depreciated	<u>8,793,473</u>	<u>73,508</u>	<u>0</u>	<u>8,866,981</u>
Less accumulated depreciation for,				
Infrastructure	(5,808,382)	(174,585)	0	(5,982,967)
Buildings and Improvements	(5,180)	(1,273)	0	(6,453)
Machinery and equipment	(212,481)	(10,703)	0	(223,184)
Total accumulated depreciation	<u>(6,026,043)</u>	<u>(186,561)</u>	<u>0</u>	<u>(6,212,604)</u>
Total capital assets being depreciated, net	<u>2,767,430</u>	<u>(113,053)</u>	<u>0</u>	<u>2,654,377</u>
Business-type activities capital assets, net	<u>\$2,939,294</u>	<u>\$134,239</u>	<u>(\$88,089)</u>	<u>\$2,985,444</u>

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

Governmental activities,	
General government	\$5,042
Library	10,016
Parks and recreation	24,152

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Public safety	6,066
Public works	<u>72,914</u>
 Total depreciation expense, governmental activity's	 <u>\$118,190</u>
 Business-type activities, Water and sewer	 <u>\$186,561</u>

In addition to depreciable capital assets purchased, the business-type fund includes \$70,404 of assets transferred to construction-in-progress during the current fiscal year.

NOTE 6 - DEFERRED OUTFLOWS/INFLOWS

Deferred outflows/inflows as of September 30, 2021, are summarized as follows:

	Government Wide		Proprietary Fund	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Pension plan				
Difference between expected and actual economic experience	\$0	\$33,595	\$0	\$35,215
Differences between projected and actual earnings on pension plan	0	32,413	0	34,171
Difference resulting from changes in assumptions	0	2,017	1,844	0
Contributions subsequent to measurement date	16,447	0	7,896	0
Other post retirement benefits				
Difference between expected and actual economic experience	3,052	0	1,364	0
Difference resulting from changes in assumptions	1,995	0	1,738	0
Contributions subsequent to measurement date	279	0	242	0
	<u>\$21,773</u>	<u>\$68,025</u>	<u>\$13,084</u>	<u>\$69,386</u>

NOTE 7 - CONSTRUCTION COMMITMENTS

The City has two (2) active construction project as of September 30, 2021.

Project	Spent-to-date	Remaining * Commitment
Certificate of Obligation		
Waste water plant rehabilitation	\$178,112	\$1,852,388
Street repair project	0	712,898
Water line extension project	179,046	77,556
 Department of Agriculture		
Waste water plant project	<u>72,395</u>	<u>202,605</u>
	<u>\$429,553</u>	<u>\$2,845,447</u>

* Estimated cost based on engineering estimates.

CITY OF HAWKINS, TEXAS
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NOTE 8 - LONG-TERM OBLIGATIONS

a. NOTES PAYABLE AND CAPITALIZED LEASE OBLIGATIONS

A summary of notes payable and capitalized lease obligations, including current portion, for the year ended September 30, 2021, is as follows:

Description	Date Issued	Interest Rate Payable	Amounts Outstanding 09/30/2020	Issued	Retired	Amounts Outstanding 09/30/2021	Due within one year
Governmental activities,							
Fire trucks	02/21/2018	3%	\$115,259	\$0	24,342	\$90,917	\$25,073
Police car	12/27/2018	4.75%	19,229	0	10,637	8,592	8,592
Police car	02/18/2020	3.996%	33,036	0	10,538	22,498	10,959
Compensated absences			7,269	8,197	7,269	8,197	8,197
Total governmental activities			\$174,793	\$8,197	\$52,786	\$130,204	\$52,821
Business-type activities,							
Compensated absences			\$19,588	\$17,838	\$17,398	17,838	\$17,838

The debt service requirements for the notes payable are:

Year ending September 30,	Principal	Interest	Total
2022	\$44,624	\$4,034	\$48,658
2023	37,365	2,435	39,800
2024	26,601	1,199	27,800
2025	13,416	401	13,817
	\$122,006	\$8,069	\$130,075

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

Interest incurred on these notes payables for the year ended September 30, 2021, amounted to \$3,913.

b. CERTIFICATES OF OBLIGATION

Certificates of obligation represent general obligations of the City and are backed by the full faith and credit of the City and require the City to annually assess ad valorem taxes sufficient to provide for payment of the certificates as they mature. The certificates are additionally secured by and payable from a pledge of surplus revenues of the City's water and waste water system which remain after payment of all operation and maintenance expenses thereof. The certificates are approved by the City Council and repaid with

CITY OF HAWKINS, TEXAS
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property taxes and the waste water service fee assessed to all residential and commercial customers. Only current requirements for principal and interest of these obligations are accounted for in the Debt Service Fund.

Terms of the certificates of obligation require the City to establish a sinking fund in order to accumulate resources for the repayment of principal and interest on the certificates as they mature. At year end the City was in compliance with these sinking fund requirements. Amounts set aside to meet interest and sinking fund requirements are reflected as restricted cash at year end.

The certificates bear interest at 2.15% with a permissible increase of not more than 2% on October 1, 2035. The debt service requirements to maturity for the Certificates of Obligation are as follows at year-end:

Maturity Date	Principal	Interest Amount	Total Debt Service	Total 09/30 FY Debt Service
10/01/2021	\$129,000	\$34,400	\$163,400	
04/01/2022		33,013	33,013	\$196,413
10/01/2022	132,000	33,013	165,013	
04/01/2023		31,594	31,594	196,608
10/01/2023	135,000	31,594	166,594	
04/01/2024		30,143	30,143	196,737
10/01/2024	138,000	30,143	168,143	
04/01/2025		28,660	28,660	196,803
10/01/2025	141,000	28,660	169,660	
04/01/2026		27,144	27,144	196,804
10/01/2026 - 09/30/2031	752,000	231,727	983,727	
10/01/2031 - 09/30/2036*	838,000	155,701	993,701	
10/01/2036 - 09/30/2041	935,000	98,666	1,033,666	
	<u>\$3,200,000</u>	<u>\$794,458</u>	<u>\$3,994,458</u>	

* Assumes the minimum 2% interest rate increase as of October 1, 2035.

Interest incurred on these certificates for the year ended September 30, 2021, amounted to \$68,515, of which \$34,306 is included in accrued liabilities on the government-wide statement of net position.

NOTE 9 - OPERATING LEASES

The City leases two copiers to provide equipment for the printing, copying, faxing and scanning needs of the City during daily operation. The total cost for the leases was

**CITY OF HAWKINS, TEXAS
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\$1,380 for the year ended September 30, 2021, and is included in the appropriate departmental expenses. The future minimum lease payments for this lease are as follows:

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

NOTE 10 - PENSION PLAN

a. DEFINED BENEFIT PENSION PLAN

(1) PLAN DESCRIPTION

The City participates as one of 895 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code.

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

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

(2) BENEFITS PROVIDED

TMRS provides retirement, disability and death benefits.

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.

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

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

Employees covered by benefit terms

As of the December 31, 2020, the valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>9</u>
	<u>26</u>

(3) CONTRIBUTIONS

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

Employees of the City are required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 6.82% and 6.06% in calendar years 2021 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2021, were \$32,465, and was equal to the required contribution. There was a payable to the plan as of September 30, 2021, in the amount of \$2,823.

CITY OF HAWKINS, TEXAS
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(4) NET PENSION LIABILITY

The City's Net Pension Liability (NPL) was measured as of December 31, 2020, 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, 2020, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment or younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on

CITY OF HAWKINS, TEXAS
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the area between (1) arithmetic mean (aggressive) without an adjustment or time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in the fiscal year ended December 31, 2020, are summarized in the following table:

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

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed employee and employer contributions will be made at the rates specified in the statute. Based 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 (Asset)</u>
Balance December 31, 2019	<u>\$2,075,861</u>	<u>\$2,332,513</u>	<u>(\$256,652)</u>
Changes for the year,			
Service cost	65,165	0	65,165
Interest	139,724	0	139,724
Change of benefit terms	0	0	0
Difference between expected and actual experience	(29,712)	0	(29,712)
Changes of assumptions	0	0	0
Contributions, employer	0	25,169	(25,169)
Contributions, employee	0	29,073	(29,073)

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	Total Pension Liability	Plan Fiduciary Net Position	Net Position Liability (Asset)
Net investment income	0	177,170	(177,170)
Benefit payments, including refunds of employee contributions	(76,924)	(76,924)	0
Administrative expenses	0	(1,146)	1,146
Other changes	0	(45)	45
Net changes	<u>98,253</u>	<u>153,297</u>	<u>(55,044)</u>
Balance December 31, 2020	<u>\$2,174,114</u>	<u>\$2,485,810</u>	<u>(\$311,696)</u>
Plan fiduciary net position as a percentage of the total pension liability			114.34%
Covered employee payroll			\$415,327
Net pension liability (asset) as a percentage of covered employee payroll			-75.05%

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability/(asset)	(\$66,033)	(\$311,696)	(\$519,867)

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.tmr.com.

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

For the year ended September 30, 2021, the city recognized pension expense amounting to \$122,198.

CITY OF HAWKINS, TEXAS
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As of September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Amortization Period	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	3.24 - 5.00 years	\$0	\$68,810
Changes in actuarial assumptions	2.83 years	1,844	2,017
Differences between projected and actual investment earnings	2.83 years	0	66,584
Contributions subsequent to measurement date	1 year	<u>24,343</u>	<u>0</u>
Total		<u>\$26,187</u>	<u>\$137,411</u>

\$24,343 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction in the net pension liability for the year ended September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending September 30,</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2022	(\$82,385)
2023	(8,060)
2024	(41,177)
2025	<u>(3,945)</u>
	<u>(\$135,567)</u>

b. DEFINED CONTRIBUTION PENSION PLAN

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

The City contributes \$36 per month for each firefighter who participates in at least 25% of the emergencies and attends at least 20 hours of training during the year. No

CITY OF HAWKINS, TEXAS
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contributions are required of the firefighter. For the year ended September 30, 2021, the City recognized retirement plan expense of \$600. There were no City contributions unpaid as of September 30, 2021.

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

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

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

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

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

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

Effective October 1, 2017, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement addresses accounting and financial reporting for other postemployment benefits (OPEB) which are provided to the employees of the City. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions which are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB are also addressed.

a. GENERAL INFORMATION ABOUT THE OPEB PLAN

(1) PLAN DESCRIPTION

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

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

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

(2) BENEFITS PROVIDED

The City's contributions to the TMRS SDBF for the years ended 2021, 2020 and 2019 were \$1,031, \$577 and \$1,355, respectively, which equaled the required contributions each year. There was no payable to the plan as of September 30, 2021.

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

(3) EMPLOYEES COVERED BY BENEFIT TERMS

As of December 31, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments*	5
Inactive employees entitled to but not yet receiving benefit payments*	2
Active employees	<u>9</u>
	<u>16</u>

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

CITY OF HAWKINS, TEXAS
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b. TOTAL OPEB LIABILITY - ACTUARIAL ASSUMPTIONS AND OTHER INPUTS

The total OPEB liability per the December 31, 2020, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	3.5% to 11.5% including inflation
Discount rate*	2.0%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

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

The actuarial assumptions used in the December 31, 2020, valuation were based on the results of an actuarial experience study for the period December 31, 2014, to December 31, 2018.

c. CHANGES IN THE TOTAL OPEB LIABILITY

Total OPEB Liability, December 31, 2019	<u>\$34,374</u>
Changes for the year,	
Service cost	1,744
Interest on Total OPEB Liability	967
Differences between expected and actual experience	2,310
Changes in assumptions or other inputs	6,180

**CITY OF HAWKINS, TEXAS
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Benefit payments **	(166)
Net changes	<u>11,035</u>
Total OPEB Liability, December 31, 2020	<u>\$45,409</u>
Covered payroll	\$415,327
Total OPEB liability as a percentage of payroll	10.93%

Changes of assumptions and other inputs will generally only be the annual change in the discount rate to 2.0% in 2020 from 2.5% in 2019.

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

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

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.0 percent) or 1-percentage-point higher (3.0 percent) than the current discount rate:

	1% Decrease in Discount Rate (1.0%)	Discount Rate (2.0%)	1% Increase in Discount Rate (3.0%)
Total OPEB liability	<u>\$55,752</u>	<u>\$45,409</u>	<u>\$37,440</u>

For the year ended September 30, 2021, the City recognized OPEB expense of \$4,666 as follows:

Service costs	\$1,744
Interest on Total OPEB Liability	967
Recognition of deferred outflows/inflows of resources:	
Differences between expected and actual experience	(492)
Changes in assumptions or other inputs	<u>2,447</u>
Total OPEB expense	<u>\$4,666</u>

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	Amortization Period	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	5.00 - 5.78 years	\$4,416	\$0
Changes in actuarial assumptions	5.00 - 5.789 years	3,733	0
Contributions subsequent to measurement date	1 year	<u>521</u>	<u>0</u>
		<u>\$8,670</u>	<u>\$0</u>

\$521 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction in the OPEB liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending September 30,</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2022	\$1,955
2023	1,862
2024	1,866
2025	1,572
Thereafter	<u>894</u>
	<u>\$8,149</u>

NOTE 12 - HEALTH CARE COVERAGE

During the year ended September 30, 2021, employees of the City were covered by a health and dental insurance plan. The City contributed \$655 per month per employee and 0% of the cost for dependents. Employees, at their option, authorize payroll withholdings to pay contributions for dependents. All contributions were paid to TML Health Benefits Pool. The Plan was authorized by Article 3.51-2, Texas Insurance Code and is documented by contractual agreement.

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees and natural disasters. The City had general liability coverage at a cost which is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal

CITY OF HAWKINS, TEXAS
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League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for this coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category has its own level of reinsurance. The City will carry commercial insurance for other risks of loss, if needed. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

NOTE 14 - LITIGATION

On July 27, 2021, a lawsuit styled *Jesus Christ Open Alter Church, LLC v. the City of Hawkins, Texas, Alvin Flynn, Donna Jordan, Mike Mayberry, Tom Parker, Howard Coquat, Wayne Kirkpatrick, Norman Oglesby, Cody Jorgenson and Stephen Lucas.*

The causes of action relate to an easement granted to City of Hawkins, Texas. In earlier litigation with the Plaintiff, City of Hawkins, Texas prevailed and an easement across Plaintiff's property was affirmed. City of Hawkins then constructed a roadway across the easement. The Plaintiff claims the City "seized" a sign on the easement, violated the Open Meetings Act, violated the Public Information Act and violated a Transportation Code provision. The City has thoroughly investigated the claims and causes of action and firmly believe they do not have any merit, either legally or factually. On behalf of the defendants the City has asserted defenses of governmental immunity, official immunity and legislative immunity. The City, its officials and employees intend to vigorously defend the lawsuit. Based upon current law and the facts known to date, the City anticipates a favorable outcome on all claims and causes of action. The City does not anticipate a financial loss for this matter.

NOTE 15 - ADDITIONAL WATER AND SEWER INFORMATION

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

Water Accountability Report

Gallons Pumped - 59,721,596

Gallons Billed - 45,340,000

In addition to the 45,340,000 gallons billed to customers during this fiscal year ended September 30, 2021, 8,612,690 gallons were used for the city buildings, public safety, sewer treatment and other city services.

NOTE 16 - INTERFUND TRANSACTIONS

a. INTERFUND TRANSFERS

Transfers between funds during the fiscal year were as follows:

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	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	<u>\$684,885</u>	
Debt Service Fund		<u>\$96,857</u>
Water/Sewer Fund		<u>\$588,028</u>

Transfers are used to move funds for sewer lines and waste water system repairs ongoing throughout the year. In addition, funds were transferred to the debt service fund to pay debt services due October 1, 2021.

b. AMOUNTS DUE TO/FROM COMPONENT UNIT

Amounts due to/from the component unit as of September 30, 2021, represent the sales tax collected for August and September 2021, payable to Hawkins Community Development Corporation.

NOTE 17 - COMPLIANCE, STEWARDSHIP AND ACCOUNTABILITY

a. FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

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

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

b. EXPENDITURES OVER APPROPRIATIONS

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

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Interest	\$0	\$5,691	\$5,691
Capital outlays,			
Public safety	0	6,877	6,877
Public works	0	5,200	5,200

The excess of actual cost over budgeted amounts for interest represents the full amounts of the note payment in the line item for principal. The excess of actual cost over budgeted amounts for capital outlays for equipment for the public safety and public works departments represents unexpected capital purchases by those departments.

**CITY OF HAWKINS, TEXAS
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NOTE 18 - WARRANTS RECEIVABLE

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

NOTE 19 - STATE AND FEDERAL GRANTS

During the fiscal year the City received the following state and federal grants:

<u>Grantor</u>	<u>Department</u>	<u>Amount</u>
Texas State Library and Archive Commission	Library	\$687
State of Texas pass-through grant from U.S. Department of Homeland Security	Police	7,500
Texas Department of Agriculture, Texas Community Development Block Grant Program - 2019 Community Development Fund*	Water/Sewer	275,000
Texas Division of Emergency Management Coronavirus Relief Fund	General	280,095

* This is a reimbursement type grant originating in a prior year and current year expenditures were \$48,825. The City has a matching requirement for this grant in the amount of \$13,750, of which none remains unspent as of September 30, 2021.

NOTE 20 - SUBSEQUENT EVENTS

The City has evaluated all events or transactions through January 21, 2022, the date the financial statements were available to be issued.

NOTE 21 - ECONOMIC DEPENDENCE

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

NOTE 22 - RELATED ORGANIZATIONS

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

CITY OF HAWKINS, TEXAS
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NOTE 23 - HAWKINS COMMUNITY DEVELOPMENT CORPORATION

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

a. DEPOSITS AND INVESTMENTS

Cash and investments as of September 30, 2021, consist of and are summarized in Notes 3a and 3b.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. HCDC had no custodial credit risk during the year ended September 30, 2021.

b. RECEIVABLES

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

Receivables, sales tax	<u>\$23,347</u>
------------------------	-----------------

c. SUBSEQUENT EVENTS

The HCDC has evaluated all events or transactions through January 21, 2022, the date the financial statements were available to be issued. During this period, management did not identify any subsequent events requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2014	2015	2016	2017	2018	2019	2020
TOTAL PENSION LIABILITY							
Balance, beginning of year	\$1,276,959	\$1,736,978	\$1,936,358	\$2,107,564	\$2,190,367	\$1,943,117	\$2,075,861
Changes for the year,							
Service cost	43,063	62,599	72,805	70,697	65,845	63,141	65,165
Interest	113,013	122,572	131,731	140,882	147,419	130,846	139,724
Change of benefit terms	324,288	0	0	0	0	0	0
Difference between expected and actual experience	(3,731)	(2,116)	9,040	(17,234)	(381,901)	11,791	(29,712)
Changes of assumptions	0	50,814	0	0	0	(589)	0
Benefit payments, including refunds of employee contributions	(16,614)	(34,489)	(42,370)	(111,542)	(78,613)	(72,445)	(76,924)
Net changes	460,019	199,380	171,206	82,803	(247,250)	132,744	98,253
Balance, end of year	<u>\$1,736,978</u>	<u>\$1,936,358</u>	<u>\$2,107,564</u>	<u>\$2,190,367</u>	<u>\$1,943,117</u>	<u>\$2,075,861</u>	<u>\$2,174,114</u>
PLAN FIDUCIARY NET POSITION							
Balance, beginning of year	\$1,501,669	\$1,607,731	\$1,656,137	\$1,818,565	\$2,056,458	\$2,008,615	\$2,332,513
Changes for the year,							
Contributions, employer	15,177	53,112	61,737	67,196	64,204	59,330	25,169
Contributions, employee	22,485	29,000	32,420	31,421	29,451	28,080	29,073
Net investment income	85,911	2,372	111,973	252,191	(61,632)	310,740	177,170
Benefit payments, including refunds of employee contributions	(16,614)	(34,489)	(42,370)	(111,542)	(78,613)	(72,445)	(76,924)
Administrative expenses	(897)	(1,445)	(1,264)	(1,306)	(1,191)	(1,755)	(1,146)
Other	0	(144)	(68)	(67)	(62)	(52)	(45)
Net changes	106,062	48,406	162,428	237,893	(47,843)	323,898	153,297
Balance, end of year	<u>\$1,607,731</u>	<u>\$1,656,137</u>	<u>\$1,818,565</u>	<u>\$2,056,458</u>	<u>\$2,008,615</u>	<u>\$2,332,513</u>	<u>\$2,485,810</u>
NET PENSION LIABILITY (ASSET)	<u>\$129,247</u>	<u>\$280,221</u>	<u>\$288,999</u>	<u>\$133,909</u>	<u>(\$65,498)</u>	<u>(\$256,652)</u>	<u>(\$311,696)</u>

(continued)

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

	2014	2015	2016	2017	2018	2019	2020
Plan fiduciary net position as a percentage of the total pension liability	92.56%	85.53%	86.29%	93.89%	103.37%	112.36%	114.34%
Covered employee payroll	\$374,744	\$414,288	\$463,138	\$448,868	\$420,735	\$401,149	\$415,327
Net pension liability/(asset) as a percentage of covered employee payroll	34.49%	67.64%	62.40%	29.83%	(15.57%)	(63.98%)	(75.05%)

Note to Schedule

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

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

Year Ending September 30,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Actual Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	\$42,426	\$42,426	\$0	\$383,358	11.07%
2016	60,041	60,041	0	453,574	13.24%
2017	66,311	66,311	0	455,964	14.54%
2018	68,938	68,938	0	445,938	15.46%
2019	57,113	57,113	0	383,029	14.91%
2020	35,700	35,700	0	411,539	8.67%
2021	31,434	31,434	0	415,327	7.57%

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

Other Information:

Notes: There were no benefit changes during the year.

CITY OF HAWKINS, TEXAS
SCHEDULE OF CHANGES IN THE CITY'S TOTAL
OPEB LIABILITY AND RELATED RATIOS
FOR THE LAST 10 YEARS**

	2017	2018	2019	2020
Total OPEB Liability - beginning of year	\$26,803	\$31,422	\$24,922	\$34,374
Changes for the year,				
Service cost	1,302	1,388	1,284	1,744
Interest on Total OPEB Liability	1,034	1,060	945	967
Differences between expected and actual experience	0	(6,906)	1,376	2,310
Changes in assumptions or other inputs	2,463	(1,874)	6,007	6,180
Benefit payments **	(180)	(168)	(160)	(166)
Net changes	4,619	(6,500)	9,452	11,035
Total OPEB Liability - end of year	\$31,422	\$24,922	\$34,374	\$45,409
Covered payroll	\$448,868	\$420,735	\$401,149	\$415,327
Total OPEB liability as a percentage of payroll	7.00%	5.92%	8.57%	10.93%

Note to Schedule

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

**CITY OF HAWKINS
GENERAL FUND BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	Budgeted amounts		Actual	Variance with Final Budget Positive
	Original	Final		(Negative)
REVENUES				
Taxes,				
Property	\$766,966	\$766,966	\$751,028	(\$15,938)
Sales and use	152,500	152,500	294,961	142,461
Hotel tax	4,200	4,200	3,134	(1,066)
Charges for services	9,100	9,100	27,061	17,961
Contributions received	5,500	5,500	30,843	25,343
Fines and forfeitures	48,000	48,000	126,802	78,802
Franchise fees	35,000	35,000	32,552	(2,448)
Grant income	187,000	187,000	8,390	(178,610)
Interest income	5,000	5,000	6,742	1,742
Intergovernmental	50,513	50,513	258,608	208,095
Licenses and permits	2,500	2,500	3,182	682
Miscellaneous income	500	500	0	(500)
	<u>1,266,779</u>	<u>1,266,779</u>	<u>1,543,303</u>	<u>276,524</u>
EXPENDITURES				
Current,				
Animal shelter	3,820	3,820	3,525	295
General government	285,693	285,693	272,906	12,787
Library	77,181	96,209	96,209	0
Parks and recreation	25,000	25,000	15,991	9,009
Public safety	349,234	436,265	429,180	7,085
Public services	16,238	17,791	16,266	1,525
Public works	112,425	112,425	90,910	21,515
Debt service,				
Principal retirement	51,209	51,209	45,518	5,691
Interest	0	0	5,691	(5,691)
Capital outlays,				
Public safety	0	0	6,877	(6,877)
Public works	0	0	5,200	(5,200)
	<u>920,800</u>	<u>1,028,412</u>	<u>988,273</u>	<u>40,139</u>
EXCESS OF REVENUE OVER EXPENDITURES	345,979	238,367	555,030	316,663
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of Certificates of Obligation	0	0	3,200,000	3,200,000
Proceeds from sale of assets	0	0	12,050	12,050
Insurance proceeds from accidents	0	0	5,872	5,872
Fees for CO issuance	0	0	(56,500)	(56,500)
Transfers	0	0	(684,885)	(684,885)
INCREASE IN FUND BALANCE	<u>\$345,979</u>	<u>\$238,367</u>	3,031,567	<u>\$2,793,200</u>
FUND BALANCE, October 1, 2020			<u>728,351</u>	
FUND BALANCE, September 30, 2021			<u>\$3,759,918</u>	

SUPPLEMENTARY DATA

**CITY OF HAWKINS, TEXAS
SCHEDULE OF DELINQUENT PROPERTY
TAX RECEIVABLE (Unaudited)
SEPTEMBER 30, 2021**

Tax Roll Year	Fiscal Year Ended September 30,	Aged Balance
2020	2021	\$33,950
2019	2020	11,665
2018	2019	8,871
2017	2018	6,618
2016	2017	5,223
2015	2016	9,129
2014	2015	2,385
2013	2014	2,085
2012	2013	2,028
2011	2012	2,043
2010	2011	1,724
2009	2010	1,147
2008	2009	1,306
2007	2008	1,202
2006	2007	1,219
2005	2006	776
2004	2005	611
2003	2004	703
2002	2003	<u>1,927</u>
		94,612
	Less allowance for uncollectibles	<u>(9,461)</u>
		<u>\$85,151</u>

**CITY OF HAWKINS, TEXAS
SCHEDULE OF HISTORICAL PROPERTY TAX
RATES AND VALUATIONS (Unaudited)
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Tax Roll Year	Fiscal Year Ended September 30,	M & O Tax Rate	Debt Service Tax Rate	Net Taxable Valuation
2020	2021	\$0.80880	0.12060	\$92,052,039
2019	2020	0.72220	0.00000	102,680,712
2018	2019	0.83880	0.00000	83,012,104
2017	2018	0.77540	0.00000	83,512,523
2016	2017	0.80380	0.00000	80,631,223
2015	2016	0.55840	0.00000	116,473,000
2014	2015	0.45000	0.00000	144,406,933
2013	2014	0.43000	0.00000	141,002,528
2012	2013	0.48000	0.00000	117,493,575