

**CITY OF HUBBARD, TEXAS**

**COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE**

**FOR THE YEAR ENDING SEPTEMBER 30, 2019**

***ALTON D. THIELE, P.C.***

Certified Public Accountant

300 East Avenue C

P.O. Box 808

Belton, Texas 76513-00808

# ***ALTON D. THIELE, P.C.***

Certified Public Accountant  
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June 9, 2020

To the Honorable Mayor and City Council  
City of Hubbard, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hubbard, Texas for the year ended September 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Governmental Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 19, 2019. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Hubbard are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was:

Management's estimate of the estimated useful lives of fixed assets is based on historical experience. We evaluated the key factors and assumptions used to develop the lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for doubtful accounts is based on historical experience. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 9, 2020.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our response was not a condition of our retention. We would like to mention these items noted during the performance of audit procedures as follows:

- 1) When reconciling the RVS customer deposit balance with what was recorded in QuickBooks there was a difference noted. The RVS balance and the QuickBooks balance should be the same. The Council and City Management should determine which balance is most accurate and then adjust accordingly.

This information is intended solely for the use of the city council and management of the City of Hubbard, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Alton D. Thiele, P.C.

**CITY OF HUBBARD, TEXAS**  
**BASIC FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

**September 30, 2019**

***ALTON D. THIELE, P. C.***

Certified Public Accountant  
300 East Avenue C  
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**CITY OF HUBBARD, TEXAS  
TABLE OF CONTENTS**

	<u>Page</u>
<b>Independent Auditors' Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-8
<b>Basic Financial Statements</b>	
<b>Government - Wide Financial Statements:</b>	
Statement of Net Position	9
Statement of Activities	10
<b>Fund Financial Statements:</b>	
Balance Sheet – Governmental Funds	11
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	14
Statement of Net Position – Proprietary Fund	15
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund	16
Statement of Cash Flows – Proprietary Fund	17
<b>Notes to Financial Statements</b>	18-41
<b>Required Supplementary Information:</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual-General Fund	42
Notes to Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual - General Fund	43
Schedule of Changes in Net Pension Liability and Related Ratios-Pension Plan	44
Schedule of Contributions-Pension Plan	45
Schedule of Changes in Total OPEB Liability and Related Ratios	46
Schedule of Employer Contributions-OPEB-Supplemental Death Benefit Fund	47
<b>Compliance Section:</b>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48-49
Schedule of Findings and Responses	50

# **ALTON D. THIELE, P. C.**

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## **INDEPENDENT AUDITORS' REPORT**

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

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

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

## **Other Matters**

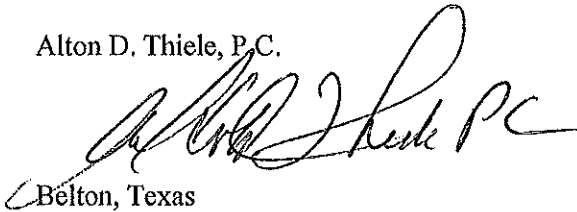
### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 3-8, budgetary comparison information, on page 42, and employee retirement and post-employment benefit information, on pages 44-47, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2020, on our consideration of the City of Hubbard, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Alton D. Thiele, P.C.



Belton, Texas

June 9, 2020

CITY OF HUBBARD, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Hubbard's (the City) financial performance provides an overview and analysis of the City's financial activities for the year ended September 30, 2019. Please read it in conjunction with the Independent Auditors' Report on pages 1-2, and the accompanying basic financial statements.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the year by \$3,298,147 (net position).
- During the year, the City had total expenses of \$1,859,750 compared to revenues of \$1,959,884 resulting in an increase in net position \$100,134.
- The City's investment in capital assets totaled \$5,951,076 net of accumulated depreciation of \$4,624,239.
- Total debt of \$3,494,570 was reduced by principal payments of \$240,119 during the year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements.** The *government-wide financial statements* are designed to provide the readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether its financial health is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods. This may include uncollected taxes and other revenue or expenses that are appropriate for the current year even though cash is not received or expended until the following year.



CITY OF HUBBARD, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities include general government, judicial, law enforcement, and public works. The business-type activities include water, sewer, and sanitation.

The government-wide financial statements can be found on pages 9-10 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported 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 spendable resources available at the end the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the 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 balances provide a reconciliation to facilitate the comparison between government funds and governmental activities.

The City maintains one governmental fund, the General Fund. The basic governmental fund financial statements can be found on pages 11-14 of this report.

**Proprietary Funds.** The only type of proprietary fund of the City is the Enterprise Fund. This fund is used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The City uses the enterprise fund to account for its water, sewer, and sanitation.

The proprietary financial statements can be found on pages 15-17 of this report.

CITY OF HUBBARD, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Notes to the Financial Statements.** The notes provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements. These can be found starting on page 18.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position.** The City's assets exceed liabilities by \$3,298,279 as of September 30, 2019. A large portion of the City's net position reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. (See Table I).

**Table I  
NET POSITION**

	Governmental		Business-type		Total	
	Activities		Activities		Primary	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 460,270	\$ 467,038	\$ 577,318	\$ 670,965	\$ 1,037,588	\$ 1,138,003
Capital assets, net	1,028,646	1,097,695	4,922,430	4,859,040	5,951,076	5,956,735
Total assets	1,488,916	1,564,733	5,499,748	5,530,005	6,988,664	7,094,738
Deferred outflows of resources	18,336	1,641	6,991	490	25,327	2,131
Total deferred outflows of resources	18,336	1,641	6,991	490	25,327	2,131
Current liabilities	59,815	64,694	138,536	135,375	198,351	200,069
Noncurrent liabilities	120,132	75,163	3,397,229	3,616,239	3,517,361	3,691,402
Total liabilities	179,947	139,857	3,535,765	3,751,614	3,715,712	3,891,471
Deferred inflows of resources	-	5,744	-	1,506	-	7,250
Total deferred inflows of resources	-	5,744	-	1,506	-	7,250
Net position:						
Net investment in capital assets	968,974	1,020,300	1,530,530	1,247,430	2,499,504	2,267,730
Restricted for:						
Municipal court	230,225	143,618	-	-	230,225	143,618
Law enforcement	14,995	13,992	-	-	14,995	13,992
Debt service	-	-	14,642	34,157	14,642	34,157
Other	19,608	19,529	76,026	50,273	95,634	69,802
Unrestricted	93,503	223,333	349,776	445,515	443,279	668,848
Total net position	\$ 1,327,305	\$ 1,420,772	\$ 1,970,974	\$ 1,777,375	\$ 3,298,279	\$ 3,198,147

CITY OF HUBBARD, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the City's net position represents resources that are subject to external and internal restrictions and on how they may be used. The remaining balance of the unrestricted net position may be used to meet the City's ongoing obligations to its citizens.

**Changes in Net Position.** Revenues totaled \$1,959,884 for the year, an increase of \$88,523 over the prior year. An increase in grant revenue is the primary cause of the rise. Expenses totaled \$1,859,750 for the year, an increase of \$79,364. This increase was primarily the result of lower expenses in public works, judicial and parks and recreation offset by increases in general government, public safety and water and sewer. (See Table II)

**Table II  
CHANGES IN NET POSITION**

	Governmental		Business-type		Total	
	Activities		Activities		Primary	
	2019	2018	2019	2018	2019	2018
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 225,409	\$ 214,329	\$ 904,793	\$ 922,262	\$ 1,130,202	\$ 1,136,591
Grant income	3,003	82,098	162,848	12,335	165,851	94,433
<b>General Revenues:</b>						
Property tax	374,229	360,427	63,164	64,043	437,393	424,470
Sales tax	116,333	104,626	-	-	116,333	104,626
Franchise and other taxes	82,067	71,803	-	-	82,067	71,803
Other income	14,394	38,027	13,644	1,411	28,038	39,438
<b>Total revenues</b>	<b>815,435</b>	<b>871,310</b>	<b>1,144,449</b>	<b>1,000,051</b>	<b>1,959,884</b>	<b>1,871,361</b>
<b>Expenses:</b>						
General government	215,681	200,386	-	-	215,681	200,386
Judicial	126,143	139,198	-	-	126,143	139,198
Public safety	363,217	335,827	-	-	363,217	335,827
Public works	138,354	146,188	-	-	138,354	146,188
Parks and recreation	61,796	72,638	-	-	61,796	72,638
Interest	3,711	3,961	119,329	125,714	123,040	129,675
Water and Sewer	-	-	831,519	756,474	831,519	756,474
<b>Total Expenses</b>	<b>908,902</b>	<b>898,198</b>	<b>950,848</b>	<b>882,188</b>	<b>1,859,750</b>	<b>1,780,386</b>
Change in position	(93,467)	(26,888)	193,601	117,863	100,134	90,975
Net position - beginning	1,420,772	1,447,660	1,777,373	1,659,510	3,198,145	3,107,170
Net position - ending	\$ 1,327,305	\$ 1,420,772	\$ 1,970,974	\$ 1,777,373	\$ 3,298,279	\$ 3,198,145

CITY OF HUBBARD, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

**Governmental Funds.** The focus of the City's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in accessing the City's financing requirements. In particular, unassigned and assigned fund balances may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The Governmental Accounting Standards Board (GASB) Statement 54 requires fund balances to be classified as follows:

*Nonspendable* – Amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

*Restricted* – Amounts with restrictions that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

*Committed* – Amounts that can only be used for specific purposes and imposed by formal action of the government's highest level of decision making authority. In the case of the City it is the City Council and the formal action would be an ordinance to modify or rescind the commitment.

*Assigned* – Amounts constrained by City management's intent to be used for specific purposes but are not formally restricted by external resources or committed by City Council.

*Unassigned* – Amount of the remaining fund balance not in any of the other classifications.

As the City completed the year, its general fund (as presented in the balance sheet on page 11) reported a total fund balance of \$277,223 (a decrease from prior year of \$55,265). This decrease was largely due to expenses increasing more than revenue increases.

**General Fund Budget Highlights.** Actual revenues were \$118,429 lower than the budget. Actual expenditures were \$47,668 lower than the budget, reflecting a net unfavorable variance of \$70,761 in excess expenditures over revenue. A positive, \$1,790 variance in other financing sources helped to reduce the overall unfavorable variance to \$68,971. The budget is presented in the required supplemental information section on page 42.

CITY OF HUBBARD, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At September 30, 2019, the City had invested \$5,951,076 in capital assets (net of accumulated depreciation of \$4,624,239), including equipment and land. Major additions were ongoing utility system improvements and recreation center roof improvements.

More detailed information about the City's capital assets is presented in the Notes to the Financial Statements starting on page 27.

**Debt**

At year-end, the City had \$3,494,570 in total debt. The net decrease of \$194,435 in debt was the result of principal payments made during the fiscal year and the addition of a new note payable. More detailed information about the City's long-term debt is presented in the Notes to the Financial Statements starting on page 29.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City's officials considered many factors when setting the fiscal year 2020 budget and tax rates. Some of those factors include the economy and the anticipated needs of the City for operations and capital outlay in the next year.

The City adopted a \$937,405 general fund budget for fiscal year 2019-2020, reflecting a surplus balance of \$31,818. It will be funded primarily through property, sales and franchise taxes, and court fines.

If the City does not incur any unforeseen expenditures or reductions in revenue, the City's management is confident they will accomplish the task of providing improved services within its available resources.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances for all those with an interest therein. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City's business office at: City of Hubbard, 118 N. Magnolia Avenue, Hubbard, Texas 76648.

**CITY OF HUBBARD, TEXAS**  
**STATEMENT OF NET POSITION**  
**September 30, 2019**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Hubbard Economic Development Corporation
<b>ASSETS</b>				
Cash	\$ 99,339	\$ 276,613	\$ 375,952	\$ 73,227
Investments	-	1,051	1,051	-
Accounts receivable, net	77,733	113,453	191,186	-
Due from other funds	2,040	-	2,040	-
Capital assets not being depreciated:				
Land	8,817	3,573	12,390	125,000
Construction in progress	-	149,606	149,606	-
Capital assets being depreciated:				
Buildings and improvements	1,568,068	-	1,568,068	255,394
Machinery and equipment	786,824	336,063	1,122,887	10,530
Utility system	-	7,722,364	7,722,364	-
Less: accumulated depreciation	(1,335,063)	(3,289,176)	(4,624,239)	(52,596)
Net pension asset	16,330	2,111	18,441	-
Restricted assets:				
Cash and investments	264,828	90,668	355,496	-
Cash held in escrow - loan funds	-	93,422	93,422	-
<b>Total assets</b>	<b>1,488,916</b>	<b>5,499,748</b>	<b>6,988,664</b>	<b>411,555</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources related to:				
Other post employment benefits	1,798	546	2,344	-
Pension plan	16,538	6,445	22,983	-
<b>Total deferred outflows of resources</b>	<b>18,336</b>	<b>6,991</b>	<b>25,327</b>	<b>-</b>
<b>LIABILITIES</b>				
Accounts payable	44,961	27,391	72,352	402
Accrued liabilities	14,854	19,848	34,702	-
Customer deposits	-	89,257	89,257	-
Due to other funds	-	2,040	2,040	-
Noncurrent liabilities				
Due within one year	18,487	228,098	246,585	13,838
Due in more than one year	101,645	3,169,131	3,270,776	212,420
<b>Total liabilities</b>	<b>179,947</b>	<b>3,535,765</b>	<b>3,715,712</b>	<b>226,660</b>
<b>NET POSITION</b>				
Net investment in capital assets	968,974	1,530,530	2,499,504	112,070
Restricted for:				
Debt service	-	14,642	14,642	-
Municipal court	230,225	-	230,225	-
Law enforcement	14,995	-	14,995	-
Other	19,608	76,026	95,634	-
Unrestricted	93,503	349,776	443,279	72,825
<b>Total net position</b>	<b>\$ 1,327,305</b>	<b>\$ 1,970,974</b>	<b>\$ 3,298,279</b>	<b>\$ 184,895</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF HUBBARD, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2019**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Hubbard Economic Development Corporation
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
<b>Primary Government:</b>								
Governmental activities:								
General government	\$ 215,681	\$ 7,547	\$ 1,000	\$ -	\$ (207,134)	\$ -	\$ (207,134)	\$ -
Judicial	126,143	217,862	-	-	91,719	-	91,719	-
Public safety	363,217	-	140	-	(363,077)	-	(363,077)	-
Public works	138,354	-	-	-	(138,354)	-	(138,354)	-
Parks and recreation	61,796	-	1,863	-	(59,933)	-	(59,933)	-
Interest expense	3,711	-	-	-	(3,711)	-	(3,711)	11,671
Total governmental activities	908,902	225,409	3,003	-	(680,490)	-	(680,490)	11,671
Business-type activities:								
Water and sewer fund	950,848	904,793	-	162,848	-	116,793	116,793	-
Total business-type activities	950,848	904,793	-	162,848	-	116,793	116,793	-
Total primary government	<u>\$1,859,750</u>	<u>\$ 1,130,202</u>	<u>\$ 3,003</u>	<u>\$ 162,848</u>	<u>(680,490)</u>	<u>116,793</u>	<u>(563,697)</u>	<u>11,671</u>
<b>Component units:</b>								
Hubbard Economic								
Development Corporation	\$ 31,572	\$ 16,208	\$ 2,545	\$ -	-	-	-	(12,819)
Total component units	<u>\$ 31,572</u>	<u>\$ 16,208</u>	<u>\$ 2,545</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,490)</u>
General revenues:								
Property taxes					374,229	63,164	437,393	-
Sales tax					116,333	-	116,333	57,299
Franchise and other taxes					82,067	-	82,067	-
Penalties and interest					10,925	-	10,925	-
Interest earned					1,187	5,892	7,079	86
Gain on disposal of assets					-	7,752	7,752	-
Other income					2,282	-	2,282	5,751
Total general revenues					<u>587,023</u>	<u>76,808</u>	<u>663,831</u>	<u>63,136</u>
Changes in position					(93,467)	193,601	100,134	38,646
Net position - beginning of year					<u>1,420,772</u>	<u>1,777,373</u>	<u>3,198,145</u>	<u>146,249</u>
Net position - end of year					<u>\$ 1,327,305</u>	<u>\$ 1,970,974</u>	<u>\$ 3,298,279</u>	<u>\$ 184,895</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF HUBBARD, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2019**

	General	Total Governmental Funds
<b>ASSETS</b>		
Cash	\$ 99,339	\$ 99,339
Accounts receivable, net	77,733	77,733
Due from other funds	2,040	
Restricted assets:		
Cash	261,676	261,676
Investments	3,152	3,152
Total assets	\$ 443,940	\$ 441,900
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 44,961	\$ 44,961
Accrued liabilities	5,630	5,630
Total liabilities	50,591	50,591
<b>DEFERRED INFLOW OF RESOURCES</b>		
Unavailable revenue:		
Property taxes	73,626	73,626
Loan proceeds	42,500	42,500
Total deferred inflow of resources	116,126	116,126
<b>FUND BALANCE</b>		
Restricted	264,828	264,828
Unassigned	12,395	12,395
Total fund balance	277,223	277,223
Total liabilities, deferred inflow of resources and fund balance	\$ 443,940	\$ 443,940

The accompanying notes are an integral part of the financial statements.



**CITY OF HUBBARD, TEXAS**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**September 30, 2019**

Total fund balance – governmental funds (page 11) \$ 277,223

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund. These assets consist of:

Land	8,817	
Buildings and improvements	1,568,068	
Machinery and equipment	786,824	
Accumulated depreciation	<u>(1,335,063)</u>	
Net Capital Assets		1,028,646

Some revenues in the governmental fund are recorded as deferred inflow of resources because they are not collected within the prescribed time period (60 days) after yearend, and are therefore unavailable resources. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected. 116,126

Deferred outflows of resources represent the consumption of net position that applies to future periods and will not be recognized as an expense until then:

Deferred amounts on other post employment benefits	1,798	
Deferred amounts on pension plan	<u>16,538</u>	18,336

Some assets and liabilities are not considered resources available or due in the current period and therefore are not reported in the governmental fund. These consist of:

Long-term debt	(102,671)	
Compensated absences	(9,225)	
Other post employment benefits liability	(17,461)	
Net pension asset	<u>16,330</u>	
Total		<u>(113,027)</u>

Net position of governmental activities (page 9) \$ 1,327,305

The accompanying notes are an integral part of the financial statements

**CITY OF HUBBARD, TEXAS**  
**STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended**  
**September 30, 2019**

	<u>General</u>	<u>Total Governmental Funds</u>
<b>REVENUE</b>		
Property tax	\$ 357,819	\$ 357,819
Sales taxes	116,333	116,333
Franchise and other taxes	82,067	82,067
Fines	217,862	217,862
Penalties and interest	10,925	10,925
Charges for services	7,547	7,547
Other income	2,282	2,282
Total revenue	<u>794,835</u>	<u>794,835</u>
<b>EXPENDITURES</b>		
General government	212,341	212,341
Judicial	125,358	125,358
Public safety	335,147	335,147
Public works	116,246	116,246
Parks and recreation	44,263	44,263
Debt service:		
Principal	17,724	17,724
Interest	3,211	3,211
Total expenditures	<u>854,290</u>	<u>854,290</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(59,455)</u>	<u>(59,455)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Gain on sale of assets	-	-
Interest income	1,187	1,187
Contributions and grants	3,003	3,003
Total Other Financing Sources (Uses)	<u>4,190</u>	<u>4,190</u>
<b>EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	(55,265)	(55,265)
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>332,488</u>	<u>332,488</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 277,223</u>	<u>\$ 277,223</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF HUBBARD, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2019**

Net change in fund balances – total governmental funds (page 13)	\$ (55,265)
Amounts reported for governmental activities in the statement of activities are different because:	
Long-term debt principal payments are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the statement of net position.	17,724
Miscellaneous fees associated with a new loan were expensed in the statement of activities, but will be part of future principal payments in the fund statement of revenues, expenditures and changes in funds balance	(500)
Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflow of resources in the governmental fund. This is the net change from the previous period.	16,409
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(69,049)
Pension-related expenses do not require the use of current resources, and therefore are not reported in the fund statements. This is the amount by which pension related expenses exceeded current year contributions.	(7,805)
Compensated absences are not a current requirement of resources and therefore are not accrued in the general fund. This is the net change in compensated absences from the previous period.	<u>5,019</u>
Change in net position of governmental activities (page 10)	<u><u>\$ (93,467)</u></u>

The accompanying notes are an integral part of the financial statements.

**CITY OF HUBBARD, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**Year Ended September 30, 2019**

	<b>Business-type Activities</b>
	<b>Water and Sewer</b>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 276,613
Investments	1,051
Accounts receivable, net	113,453
Restricted assets:	
Cash and investments	90,668
Cash held in escrow - loan funds	93,422
Total current assets	575,207
Noncurrent assets:	
Net pension asset	2,111
Capital assets, net	4,922,430
Total noncurrent assets	4,924,541
Total assets	5,499,748
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	6,445
Deferred outflows of resources related other post employment benefits (OPEB)	546
Total deferred outflows of resources	6,991
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	27,391
Accrued liabilities	19,848
Customer deposits	89,257
Due to other funds	2,040
Current portion of bonds payable	228,098
Total current liabilities	366,634
Noncurrent liabilities	
Bonds payable, net of current portion	3,163,802
OPEB liability	5,329
Total noncurrent liabilities	3,169,131
Total liabilities	3,535,765
<b>NET POSITION</b>	
Net investment in capital assets	1,530,530
Restricted for:	
Debt service	14,642
Special purposes	76,026
Unrestricted	349,776
Total net position	\$ 1,970,974

The accompanying notes are an integral part of the financial statements.

**CITY OF HUBBARD, TEXAS**  
**STATEMENT OF REVENUE, EXPENSES**  
**AND CHANGES IN NET POSITION - PROPRIETARY FUND**  
**Year Ended September 30, 2019**

	<b>Business-type Activities</b>
	<b>Water and Sewer</b>
<b>OPERATING REVENUE</b>	
Charges for services:	
Water	\$ 498,584
Sewer	193,371
Sanitation	190,530
Reconnect and late fees	21,332
Property taxes	63,164
Other	976
Total Operating Revenue	967,957
<b>OPERATING EXPENSES</b>	
Salary and wages	131,235
Employee benefits	26,109
Sanitation expense	166,722
Water purchased	95,240
Repairs and maintenance	102,653
Utilities	62,291
Professional and technical expense	24,110
Supplies	5,868
Depreciation	198,954
Other	18,337
Total Operating Expenses	831,519
<b>OPERATING GAIN (LOSS)</b>	136,438
<b>NON-OPERATING REVENUE (EXPENSES)</b>	
Interest income	5,892
Grant proceeds	162,848
Gain on disposal of assets	7,752
Interest expense	(119,329)
Total Non-operating Revenue (Expense)	57,163
<b>CHANGE IN NET POSITION</b>	193,601
Net Position - beginning of year, as restated	1,777,373
Net Position - end of year	\$ 1,970,974

The accompanying notes are an integral part of the financial statements.

**CITY OF HUBBARD, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**Year Ended September 30, 2019**

	<b>Business-type Activities Water and Sewer</b>
<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 891,287
Cash received from property taxes	63,164
Cash payments to suppliers	(469,458)
Cash payments to employees	(157,344)
Net Cash Provided by Operating Activities	327,649
<b>Cash Flows from Non-Capital Financing Activities</b>	
Transfers from general fund	-
Net Cash (Used) by Non-Capital Financing Activities	-
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition of capital assets	(311,282)
Proceeds from loan escrow account	93,939
Proceeds from issuance of long-term debt	-
Increase in restricted cash	(6,238)
Payments on long-term debt	(219,711)
Interest expense	(119,329)
Insurance recovery	56,689
Grant proceeds	162,848
Net Cash Provided (Used) by Capital and Related Financing Activities	(343,084)
<b>Cash Flows from Investing Activities</b>	
Increase in investments	(24)
Interest received	5,892
Net Cash Provided by Investing Activities	5,868
Net Increase in Cash and Cash Equivalents	(9,567)
Cash and cash equivalents - beginning of year	286,180
Cash and cash equivalents - end of year	\$ 276,613
<b>Reconciliation of operating income/(loss) to net cash provided by operating activities:</b>	
Operating gain (loss)	\$ 136,438
Adjustments to reconcile operating income /(loss) to net cash provided by operating activities:	
Depreciation expense	198,954
(Increase) decrease in accounts receivable	(13,689)
(Increase) decrease in net pension assets	10,092
(Increase) decrease in pension deferrals	(7,951)
(Increase) decrease in OPEB deferrals	(56)
Increase (decrease) in accounts payable and accrued liabilities	1,839
Increase (decrease) in due from other funds	2,040
Increase (decrease) in OPEB liability	700
Increase (decrease) in customer deposits	(718)
Total adjustments	191,211
Net Cash Provided by Operating Activities	\$ 327,649

The accompanying notes are an integral part of the financial statements.

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Hubbard (the City) conform to generally accepted accounting principles (GAAP) in the United States of America, applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for established governmental accounting and financial reporting principles. The more significant of the City's policies are described below.

**A. REPORTING ENTITY**

The City is a general law city in Hill County, Texas which operates under a council-mayor form of government and provides such services as public safety (police and fire), highways and streets, water and sanitation, public improvements, planning and zoning, judicial, general administrative and other services as are authorized by its code of ordinances and its citizens.

In evaluating the City's financial reporting entity, management has considered all potential component units. The decision to include potential component units was made as set forth in GASB Statement No. 61. The component units discussed below have been included based on this criterion.

**Hubbard Economic Development Corporation (HEDC)** is included as a component unit because of its operational and financial relationship with the City. The Corporation receives its primary funding from a portion of the sales tax assessed by the City, and the City appoints the members of the governing board. The Corporation was created by the City to enhance the economic development of the Hubbard community. The Hubbard Economic Development Corporation is presented as a discretely presented component unit.

**B. BASIS OF PRESENTATION**

*Government-Wide 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 non-fiduciary activities of the City. As a general rule, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

CITY OF HUBBARD, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***B. BASIS OF PRESENTATION (Continued)***

*Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

*Fund Financial Statements*

Separate financial statements are provided for governmental funds and proprietary funds.

The City reports the following major governmental fund:

General Fund-The general fund is the City's primary operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

Enterprise Fund-The enterprise fund accounts for the activities of the water distribution system, the sewage treatment plant, sewage pumping stations and solid waste collections systems.

Governmental funds report as *program revenues* 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating revenues* and expenses from *non-operating* items. Operating revenues and expenses 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 enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds 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.

***C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING***

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.



**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING (Continued)**

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered 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 City 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 accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other governmental fund revenues are considered to be measurable and available only when cash is received by the City. Property taxes receivable not determined to be available to finance current period obligations are recorded and deferred in the fund statements.

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

**D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

**a. Cash and Cash Equivalents**

The City's cash and cash equivalents for the purpose of the statements of net position and the statement of cash flows of the proprietary fund consist of cash on hand and saving accounts which are available for immediate withdrawal.

**b. Accounts Receivables**

Receivables include amounts due from customers for water, sewer and sanitation services in the proprietary fund. In the governmental funds, receivables include primarily property tax, sales tax, franchise fees and fines. All receivables are current and therefore due within one year. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (Continued)**

**c. Capital Assets**

Capital assets, which include land, buildings and improvements, machinery and equipment, infrastructure, and water and sewer facilities are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City has elected not to report major general infrastructure assets retroactively as permitted by GASB Statement No. 34 for smaller governments. The City will report newly acquired or constructed general infrastructure assets in the statement of net position in the period they acquire or construct those assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Assets	Years
Buildings and improvements	20-50
Machinery and equipment	5-10
Water and sewer system	30-40
Infrastructure	20-35

**d. Restricted Assets**

Certain proceeds of the City's enterprise fund bonds, as well as certain resources of the City are set aside primarily for the repayment of its notes and capital lease obligations and accordingly are classified as restricted assets on the statement of net position because their use is limited by applicable covenants.

**e. Compensated Absences**

The City accrues a liability for compensated absences which meet the following criteria:

- a) The City's obligation relating to employees' rights to receive compensation for future absences is attributable to the employees' services already rendered.
- b) The obligation relates to rights that vest or accumulate.
- c) Payment of the compensation is probable.
- d) The amount can be reasonably estimated.

In accordance with the above criteria, the City has accrued a liability for vacation pay which has been earned but not taken by employees in the government-wide and proprietary fund financial statement

CITY OF HUBBARD, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (Continued)**

**f. Long- Term Debt**

In the government-wide financial statements and in the fund financial statements for proprietary fund types, long-term debt is reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts received on debt issuances are also reported as other financing sources or uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt services expenditures.

**g. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has items that qualify for reporting in this category, which are the deferred outflow of resources related to the defined benefit pension plan and other post-employment benefit (OPEB) plan. The deferred outflows of resources related to the defined benefit pension and OPEB plans are reported in the government-wide financial statements. The deferred outflows of resources result from two transactions: contributions to the defined benefit pension and OPEB plans subsequent to the plans' year end through the City's fiscal year end and the variance between the plans' actual investment earnings compared to the plan's assumed investment earnings.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has items that qualify for reporting in this category. Deferred inflow of resources from *unavailable revenue-property taxes*, is reported in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the periods the amounts become available. Deferred inflow of resources due to differences in projected and actual investment earnings in the pension and OPEB plans and the difference in expected and actual plan experience are reported in the government-wide financial statements. Difference in projected and actual investment earnings are deferred and amortized over a closed five five-year period and the difference in expected and actual experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

**h. Estimates**

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

CITY OF HUBBARD, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (Continued)**

**i. Pensions and OPEB**

For the purposes of measuring the net pension liability/asset, OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions, OPEB and pension and OPEB expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and TMRS Supplemental Death Benefits Fund (SDBF) and additions to/deductions from TMRS's Fiduciary Net Position and OPEB liability 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 to the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**j. Equity Classifications**

In the government-wide financial statements, equity is shown as net position and classified into three components:

*Net investment in capital assets* – Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

*Restricted* – Consists of assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; 2) law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources, as they are needed.

*Unrestricted* – All other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

The City reports governmental fund balances by the five following classifications:

*Nonspendable* – Amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

*Restricted* – Amounts with restrictions that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

*Committed* – Amounts that can only be used for specific purposes and imposed by formal action of the government's highest level of decision-making authority. In the case of the City it is the City Council and the formal action would be an ordinance to modify or rescind the commitment.

*Assigned* – Amounts constrained by City management's intent to be used for specific purposes but are not formally restricted by external resources or committed by City Council.

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (Continued)**

*Unassigned* – Amount of the remaining fund balance not in any of the other classifications.

For the classification of fund balances, the City considers restricted amounts to have been spent first when an expenditure is incurred for the purpose for which restricted and unrestricted fund balance is available. Expenditures are to be spent from restricted fund balance first, followed by committed, assigned, and lastly unassigned fund balance.

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETARY INFORMATION**

The City Council follows these procedures in establishing the budgetary data reflected in the required supplemental information:

Prior to the end of each fiscal year, the City Secretary submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data from the preceding year.

Public hearings are conducted to obtain taxpayer comments. Prior to September 30, the budget is legally enacted through passage by majority vote of the City Council. The Council may authorize supplemental appropriations during the year.

The final amended budget is used in this report. Unused appropriations lapse at the end of the year unless carried forward to the next year by Council action. No encumbrances are recognized or recorded. The operating budget includes proposed expenditures for the General Fund.

**3. DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank 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.

At September 30, 2019, the carrying amount of the City's and HEDC's cash deposits were \$772,277 and \$73,227 respectively, the bank balances were \$794,899 and \$73,222, respectively.

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**3. DETAILED NOTES ON ALL FUNDS (Continued)**

***DEPOSITS AND INVESTMENTS (Continued)***

**Legal and Contractual Provisions Governing Deposits and Investments**

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy.

That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds (8) investment pools,

(9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

As of September 30, 2018, the City's investments were invested with Citizens State Bank and TexStar. The City categorizes its fair value measurements within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are other observable inputs; and Level 3 inputs are unobservable inputs. As of September 30, 2018, the City had the following investments:

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Input Level</u>
<u>Primary Government</u>			
Citizens State Bank	\$ 49,441	\$ 49,441	1
Investment pools:			
TexStar	<u>4,202</u>	<u>4,202</u>	2
Total investment pools	<u>4,202</u>	<u>4,202</u>	
Total investments	<u>53,643</u>	<u>53,643</u>	

**Policies Governing Deposits and Investments**

In compliance with the Public Funds Investments Act, the City has adopted a deposit and investment policy. That policy addresses the following risks:

**Custodial Credit Risk – Deposits:** This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City's deposits for the year were collateralized with pledged securities from the City's depository bank. When the balance of the escrow funds held in the City's name exceeds the FDIC limit of \$250,000, the excess balance is secured by pledged securities.

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**3. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. DEPOSITS AND INVESTMENTS (Continued)**

**Custodial Credit Risk – Investments:** This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy requires investments, other than investment pools, to be held by a third-party custodian bank. All of the City's investments, other than investment pools, were held by the City's third-party custodian bank in the City's name.

**Interest Rate Risk:** In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to less than 90 days for investment pools and maturity no more than two years from purchase date for certificates of deposit and money market funds. As of September 30, 2019, the weighted average maturity of TexStar was 22 days.

**Other Credit Risk:** In compliance with the City's Investment Policy, as of September 30, 2019, the City minimized credit risk losses due to a default of a security issuer or backer, by limiting investments to the safest types of securities; limiting Certificates of Deposit that are insured by the Federal Deposit Insurance Corporation (FDIC); limiting the City's investments to obligations issued, guaranteed, insured by or backed by the full faith and credit of the United States or its agencies and instrumentalities; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business; and diversifying the investment portfolio so that potential losses on individual securities were minimized.

TexStar has been established for governmental entities in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexStar's governing body consists of participants in TexStar and other persons who do not have a business relationship with TexStar. The Board holds legal title to all money, investments and assets and has the authority to employ personnel, contract for services and engage in other administrative activities necessary or convenient to accomplish the objectives of TexStar. TexStar is rated AAAM by Standard & Poor's. The City's fair value position is stated at the value of the position upon withdrawal.

Below is a reconciliation of cash and investments, as shown in the Statement of Net Position for the City

	Primary Government	Discretely Presented Component Unit	Total Reporting Entity
Cash and investments (from previous pages)			
Carrying amount of deposits	\$ 772,277	\$ 73,227	\$ 845,504
Carrying amount of investments	53,645	-	53,645
<b>Total</b>	<b>\$ 825,922</b>	<b>\$ 73,227</b>	<b>\$ 899,149</b>
Statement of Net Position:			
Cash	\$ 375,952	\$ 73,227	\$ 449,179
Restricted cash and investments	356,548	-	356,548
Restricted cash held in escrow	93,422	-	93,422
<b>Total</b>	<b>\$ 825,922</b>	<b>\$ 73,227</b>	<b>\$ 899,149</b>

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**3. DETAILED NOTES ON ALL FUNDS (Continued)**

**B. CAPITAL ASSETS**

Changes in capital assets during the year ended September 30, 2019, were as follows:

	Balance October 1, 2018	Additions	Transfers/ Retirements	Balance September 30, 2019
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 8,817	\$ -	\$ -	\$ 8,817
Total capital assets not being depreciated	<u>8,817</u>	<u>-</u>	<u>-</u>	<u>8,817</u>
Capital assets being depreciated:				
Buildings and improvements	1,551,568	16,500	-	1,568,068
Machinery and equipment	786,824	-	-	786,824
Total capital assets being depreciated	<u>2,338,392</u>	<u>16,500</u>	<u>-</u>	<u>2,354,892</u>
Less accumulated depreciation	<u>(1,249,515)</u>	<u>(85,549)</u>	<u>-</u>	<u>(1,335,063)</u>
Total capital assets being depreciated, net	<u>1,088,877</u>	<u>(69,049)</u>	<u>-</u>	<u>1,019,829</u>
Governmental activities capital assets, net	<u>\$ 1,097,694</u>	<u>\$ (69,049)</u>	<u>\$ -</u>	<u>\$ 1,028,645</u>
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 3,573	\$ -	\$ -	\$ 3,573
Construction in progress	12,335	137,271	-	149,606
Total capital assets not being depreciated	<u>15,908</u>	<u>137,271</u>	<u>-</u>	<u>153,179</u>
Capital assets being appreciated:				
Water & sewer system	7,600,440	172,549	(50,625)	7,722,364
Machinery and equipment	334,602	1,461	-	336,063
Total capital assets being depreciated	<u>7,935,042</u>	<u>174,010</u>	<u>(50,625)</u>	<u>8,058,427</u>
Less accumulated depreciation	<u>(3,091,910)</u>	<u>(198,954)</u>	<u>1,688</u>	<u>(3,289,176)</u>
Total capital assets being depreciated, net	<u>4,843,132</u>	<u>(24,944)</u>	<u>(48,937)</u>	<u>4,769,251</u>
Business-type activities capital assets, net	<u>\$ 4,859,040</u>	<u>\$ 112,327</u>	<u>\$ (48,937)</u>	<u>\$ 4,922,430</u>



**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**3. DETAILED NOTES ON ALL FUNDS (Continued)**

**B. CAPITAL ASSETS (Continued)**

	Balance October 1, 2018	Additions	Transfers/ Retirements	Balance September 30, 2019
<b>Component Unit:</b>				
Hubbard Economic Development Corporation:				
Capital assets not being depreciated:				
Land	\$ 125,000	\$ -	\$ -	\$ 125,000
Total capital assets not being depreciated	<u>\$ 125,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,000</u>
Capital assets being depreciated:				
Buildings and improvements	255,394	-	-	255,394
Equipment	10,530	-	-	10,530
Total capital assets being depreciated	265,924	-	-	265,924
Less accumulated depreciation	(40,742)	(11,854)	-	(52,596)
Total capital assets being depreciated, net	<u>225,182</u>	<u>(11,854)</u>	<u>-</u>	<u>213,328</u>
Total capital assets, net	<u>\$ 350,182</u>	<u>\$ (11,854)</u>	<u>\$ -</u>	<u>\$ 338,328</u>

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

Governmental activities:	
General government	\$ 7,558
Public safety	22,763
Public works	21,195
Parks and recreation	34,033
Total depreciation expense - governmental activities	<u>\$ 85,549</u>
Business-type activities:	
Water and sewer	<u>\$ 198,954</u>

Depreciation expense was charge to functions/programs of the component unit as follows:

Component Unit:	
Hubbard Economic Development Corporation	<u>11,854</u>
Total depreciation - component unit	<u>\$ 11,854</u>

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**3. DETAILED NOTES ON ALL FUNDS (Continued)**

**C. LONG-TERM DEBT**

The following is a summary of long-term debt transactions for the year ended September 30, 2019:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Equipment loans	\$ 69,838	\$ -	\$ (10,167)	\$ 59,671	\$ 10,630
Government Capital Corp.	-	43,000	-	43,000	7,857
Police vehicles	7,557	-	(7,557)	-	-
OPEB liability	15,498	1,963	-	17,461	-
Governmental activity long-term liabilities	<u>\$ 92,893</u>	<u>\$ 44,963</u>	<u>\$ (17,724)</u>	<u>\$ 120,132</u>	<u>\$ 18,487</u>
<b>Business - type activities:</b>					
Refunding Bond 2014	\$ 2,195,000	\$ -	\$ (170,000)	\$ 2,025,000	\$ 175,000
Government Capital Corp.	91,610	-	(14,711)	76,899	18,098
Tax & Revenue Certificates of Obligation, Series 2012	1,325,000	-	(35,000)	1,290,000	35,000
OPEB liability	4,629	700	-	5,329	-
Business-type activity long-term liabilities	<u>\$ 3,616,239</u>	<u>\$ 700</u>	<u>\$ (219,711)</u>	<u>\$ 3,397,228</u>	<u>\$ 228,098</u>
<b>Component Unit activities:</b>					
Note Payable	<u>\$ 239,451</u>	<u>\$ -</u>	<u>\$ (13,194)</u>	<u>\$ 226,257</u>	<u>\$ 13,838</u>

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2019

**3. DETAILED NOTES ON ALL FUNDS (Continued)**

**C. LONG-TERM DEBT (Continued)**

Long-term debt at September 30, 2019 is comprised of the following:

	<b>Governmental Type Activities</b>	<b>Business- Type Activities</b>
<b>Combination Tax and Revenue Bonds:</b>		
\$1,500,000 Tax & Revenue Certificates of Obligation, Series 2012, due in annual installments of \$35,000 to \$80,000 through 2043; interest at .35% to 4.25%	\$ -	\$ 1,290,000
\$2,810,000 Tax and Revenue Refunding Bonds, Series 2014 due in annual installments of \$150,000 to \$235,000 through 2029; interest at 3.26%	-	2,025,000
<b>Loans payable:</b>		
\$125,000 loan due in quarterly installments of \$5,223 through 2023; interest at 3.982% for water treatment plant upgrades	-	76,899
\$28,140 bank loan, due in monthly installments of \$451 through 2023; interest at 4.82%, for the purchase of a truck.	19,647	-
\$43,000 loan, due in annual installments of \$9,801 through 2024, interest at 4.52% for the purchase of a police vehicle	43,000	-
\$62,000 loan, due in annual installments of \$7,624 through 2025; interest at 3.92% for the purchase of machinery	40,024	-
	\$ 102,671	\$ 3,391,899

The annual debt service requirements to maturity for business-type activities are as follows:

Year Ended September 30,	Principal	Interest	Total
2020	228,098	112,730	340,828
2021	233,829	105,460	339,289
2022	244,590	97,866	342,456
2023	250,382	89,931	340,313
2024	240,000	81,945	321,945
2025-2029	1,310,000	291,018	1,601,018
2030-2034	260,000	153,939	413,939
2035-2039	320,000	97,445	417,445
2040-2043	305,000	26,448	331,448
Total	\$ 3,391,899	\$ 1,056,782	\$ 4,448,681

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**3. DETAILED NOTES ON ALL FUNDS (Continued)**

**C. LONG-TERM DEBT (Continued)**

The annual debt requirements to maturity for governmental-type activities are as follows:

Year Ended September 30,	Principal	Interest	Total
2020	\$ 18,487	\$ 4,361	\$ 22,848
2021	19,291	3,544	22,835
2022	20,145	2,690	22,835
2023	21,037	1,799	22,836
2024	16,437	988	17,425
2025 & Thereafter	7,274	288	7,562
<b>Total</b>	<b>\$ 102,671</b>	<b>\$ 13,670</b>	<b>\$ 116,341</b>

Component Unit's Long-term debt at September 30, 2019 is comprised of the following:

	<b>Economic Development Corporation</b>
<b>Note Payable:</b>	
\$262,000 Note Payable, due in monthly installments of \$2,072 through 2031; interest at 5.0%	<u>\$ 226,257</u>

The annual debt service requirements to maturity for the Economic Development Corporation are as follows:

Year Ended September 30,	Principal	Interest	Total
2020	\$ 13,838	\$ 11,027	\$ 24,865
2021	14,577	10,288	24,865
2022	15,322	9,543	24,865
2023	16,106	8,759	24,865
2024	16,908	7,957	24,865
2025 & Thereafter	149,506	28,691	178,197
<b>Total</b>	<b>\$ 226,257</b>	<b>\$ 76,265</b>	<b>\$ 302,522</b>

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**4. OTHER INFORMATION**

**A. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other governments in the State of Texas to form the Texas Municipal League Intergovernmental Risk Pool (the Pool), a public entity risk pool currently operating as a common risk management and insurance program for liability, property, and workmen's compensation coverage. The City pays a quarterly contribution to the Pool for its insurance coverage. The agreement for formation of the Pool provides that the Pool will be self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits.

The City has experienced no significant reductions in coverage through the Pool over the past year. There have been no insurance settlements exceeding Pool coverage for any of the last three years.

**B. COMMITMENTS AND CONTINGENCIES**

**a. Sanitation Services**

In April of 2018, the City agreed to a new contract with Republic Services for garbage collection. Fees are billed monthly to the City based upon a fee schedule included in the contract. During the year ended September 30, 2019 payments by the City under the contract totaled \$159,531.

**b. Water Purchase Agreement**

On February 1, 2016, the City entered into a long-term agreement to purchase water from Post Oak Special Utility District. The agreement runs through January 31, 2021. The contract requires the City to take and/or pay for a minimum quantity of water. The minimum annual take listed in the contract is 3.5 million gallons. The City is committed to pay an estimated minimum of \$29,830 for water during fiscal 2019 under the contract. During the fiscal year ended September 30, 2019, payments by the city under the contract totaled \$95,240.

**c. Grants**

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

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**4. OTHER INFORMATION (CONTINUED)**

**B. COMMITMENTS AND CONTINGENCIES (Continued)**

*d. Litigation and Violations*

The City is a party to legal proceedings, many of which occur in the normal course of operations. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the city with respect to the various proceedings.

The City entered into an Agreed Order with the Texas Commission on Environmental Quality effective May 27, 2008. The Order relates to alleged violations regarding the City's public water supply system. The City has paid the administrative penalty required by the Order in the amount of \$715.00. The Ordering Provisions of the Order require, among other things, that the City shall provide either elevated storage or pressure tank capacity, or an alternative capacity requirement that complies with TCEQ-approved requirements. The City is currently undergoing upgrades and improvements to its public water supply system to comply with the agreed upon order.

**C. PENSION PLAN**

**Plan Description**

The City of Hubbard participates as one of the 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency defined pension plan 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 advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

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

**Benefits Provided**

TMRS provides retirement, disability and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**4. OTHER INFORMATION (Continued)**

**C. PENSION PLAN (Continued)**

Plan provisions for the City were as follows:

	Plan Year 2017	Plan Year 2018
Employee deposit rate	5.0%	5.0%
Matching ratio (City to Employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0.0%	0.0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

**Employees Covered by Benefit Terms**

At the December 31, 2018, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	15
Active employees	<u>12</u>
Total	30

**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 the benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Hubbard were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Hubbard were 0.79% and 0.59% in calendar years 2019 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2019, were \$3,204 and were equal to the required contributions.

**Net Pension Liability**

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

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**4. OTHER INFORMATION (Continued)**

**C. PENSION PLAN (Continued)**

*Actuarial Assumptions:*

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

Inflation	2.5% per year
Overall payroll growth	2.6% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members and 100% for employers with 11 to 15 members, and 115% for employers with less than 100 members. There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%). For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by 1 year for each active member less than 20-member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use  $(25 - (20 - 8)) = 13$ -year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be  $25 - (20 - 1) = 6$  years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are subject on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of the TMRS.



**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**4. OTHER INFORMATION (Continued)**

***C. PENSION PLAN (Continued)***

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 various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimate of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
Total	100.0%	

***Discount Rate***

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

**CITY OF HUBBARD, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2019**

**4. OTHER INFORMATION (Continued)**

**C. PENSION PLAN (Continued)**

<i>Changes in Net Pension Liability</i>	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2017	427,583	484,399	(56,816)
Changes for the year:			
Service cost	25,734	-	25,734
Interest	29,521	-	29,521
Change of benefit terms	-	-	-
Difference between expected and actual experience	(9,122)	-	(9,122)
Changes of assumptions	-	-	-
Contributions - employer	-	2,381	(2,381)
Contributions - employee	-	20,199	(20,199)
Net investment income	-	(14,528)	14,528
Benefit payments, including refunds of employee contributions	(6,196)	(6,196)	-
Administrative expense	-	(280)	280
Other changes	-	(15)	15
Net changes	39,937	1,562	38,376
Balance at 12/31/2018	467,520	485,961	(18,441)

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

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

	1% Decrease in	1% Increase in	
	Discount Rate (5.75%)	Discount Rate (6.75%)	Discount Rate (7.75%)
City's net pension liability	46,609	(18,441)	(71,063)

***Pension Plan Fiduciary Net Position***

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

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

For the year ended September 30, 2019, the City recognized pension expense of \$11,343.