

CITY OF HALLSVILLE, TEXAS
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
SEPTEMBER 30, 2020

CITY OF HALLSVILLE, TEXAS

CITY COUNCIL

<u>Name</u>	<u>Address</u>	<u>Usual Occupation</u>
Jesse Casey, Mayor	109 Mallard Lane Hallsville, Texas	Retired - Public Educator/Administrator
Gary Lovelace, Mayor Pro-tem	445 Cal Young Road Hallsville, Texas	Retired - Public Educator/Administrator
<u>Aldermen</u>		
Lauren Bresch	115 Winifreds Way Hallsville, Texas	Assistant Director - 1 st Christian Prep School
Brant Cain	717 Waldrons Ferry Road Hallsville, Texas	Medical Practice Manager
Charlie Hunt	110 Mossy Creek Hallsville, Texas	Engineer - Texas Eastman
Guy Walker	203 Trailridge Drive Hallsville, Texas	Hallsville Independent School District - Maintenance

CITY OF HALLSVILLE, TEXAS

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INDEPENDENT AUDITORS' REPORT

City Council
City of Hallsville, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Hallsville, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise City of Hallsville, Texas' 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.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of City of Hallsville, Texas, as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund 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 5 through 9, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contributions, and Schedule of Changes in Net OPEB Liability and Related Ratios 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 inquires 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hallsville, Texas’ basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2021, on our consideration of City of Hallsville, Texas’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hallsville, Texas’ internal control over financial reporting and compliance.

Respectfully submitted,

KNUCKOLS, DUVALL, HALLUM & CO.



Certified Public Accountants

Marshall, Texas

August 24, 2021

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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 GOVERNMENT AUDITING STANDARDS

City Council
City of Hallsville, Texas

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Hallsville, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise City of Hallsville, Texas' basic financial statements, and have issued our report thereon dated August 24, 2021.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hallsville, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

KNUCKOLS, DUVALL, HALLUM & CO.


Certified Public Accountants

Marshall, Texas

August 24, 2021

CITY OF HALLSVILLE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2020

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Hallsville, Texas (City), discuss and analyze the City's financial performance for the year ended September 30, 2020. Please read it in conjunction with the Independent Auditors' Report on page 1, and the City's Basic Financial Statements, which begin on page 10.

USING THIS REPORT

This report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources. For proprietary activities, fund financial statements tell how services of the City were sold to external customers and how the sales revenues covered the expenses of the services.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

REPORTING THE CITY AS A WHOLE

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begin on page 10. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all of the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs and revenues provided by taxpayers (property, sales, and franchise tax revenue). All of the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating.

CITY OF HALLSVILLE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2020

In the Statement of Net Position, the City has two types of activities:

Governmental activities – Most of the City's basic services are reported here, including administrative, police, and parks. Property taxes, sales taxes, franchise fees, sanitation fees, and fines finance most of these activities.

Business-type activities – The City charges a fee to “customers” to help it cover all or most of the cost of certain services it provides. The City's water and sewer activities are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds – not the City as a whole. 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 as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses 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 evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than 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 this comparison between governmental funds and governmental activities.

The City maintains two governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund and the Debt Service Fund. The General Fund is considered to be the major fund.

Proprietary Funds – The City maintains one type of proprietary fund, which is the enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for the water and sewer activities.

CITY OF HALLSVILLE, TEXAS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2020**

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund, which is considered to be a major fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indication of a government's financial position. In the case of the City of Hallsville, assets exceeded liabilities by \$9,151,857 as of September 30, 2020. This includes \$207,066 of TMRS and OPEB Liability. Approximately 54% of the City's net position is unrestricted.

**TABLE I
CITY OF HALLSVILLE, TEXAS' NET POSITION**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current and Other Assets	2,252,112	1,504,448	3,175,235	3,230,429	5,427,347	4,734,877
Capital Assets	<u>3,022,172</u>	<u>3,095,305</u>	<u>7,052,631</u>	<u>7,160,099</u>	<u>10,074,803</u>	<u>10,255,404</u>
Total Assets	<u>5,274,284</u>	<u>4,599,753</u>	<u>10,227,866</u>	<u>10,390,528</u>	<u>15,502,150</u>	<u>14,990,281</u>
Deferred Outflows - TMRS	<u>30,554</u>	<u>28,314</u>	<u>-</u>	<u>-</u>	<u>30,554</u>	<u>28,314</u>
Long-Term Liabilities	1,069,292	1,212,661	5,013,300	5,202,650	6,082,592	6,415,311
Other Liabilities	<u>20,359</u>	<u>62,269</u>	<u>232,422</u>	<u>227,917</u>	<u>252,781</u>	<u>290,186</u>
Total Liabilities	<u>1,089,651</u>	<u>1,274,930</u>	<u>5,245,722</u>	<u>5,430,567</u>	<u>6,335,373</u>	<u>6,705,497</u>
Deferred Inflows - TMRS	<u>45,474</u>	<u>24,780</u>	<u>-</u>	<u>-</u>	<u>45,474</u>	<u>24,780</u>
Net Position:						
Invested in Capital Assets, Net of Related Debt	2,125,472	2,097,955	2,039,331	3,432,269	4,164,803	5,530,224
Restricted for: Debt Service	85,356	70,032	-	-	85,356	70,032
Unrestricted	<u>1,958,885</u>	<u>1,160,370</u>	<u>2,942,813</u>	<u>1,527,692</u>	<u>4,901,698</u>	<u>2,688,062</u>
Total Net Position	<u>4,169,713</u>	<u>3,328,357</u>	<u>4,982,144</u>	<u>4,959,961</u>	<u>9,151,857</u>	<u>8,288,318</u>

CITY OF HALLSVILLE, TEXAS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2020**

**TABLE II
CITY OF HALLSVILLE, TEXAS' CHANGES IN NET POSITION**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenue:						
Program Revenues:						
Fees, Fines, & Charges for Serv.	769,198	612,712	1,635,513	1,461,543	2,404,711	2,074,255
Operating Grants & Contributions	7,480	-	-	-	7,480	-
Capital Grants	-	349,453	-	-	-	349,453
General Revenues:						
Property Taxes	901,370	897,847	-	-	901,370	897,847
Sales Taxes	880,559	742,966	-	-	880,559	742,966
Franchise Taxes	109,160	94,264	-	-	109,160	94,264
Investment Earnings	6,861	12,132	10,256	10,057	17,117	22,189
Miscellaneous	<u>88,315</u>	<u>14,945</u>	<u>-</u>	<u>-</u>	<u>88,315</u>	<u>14,945</u>
Total Revenue	<u>2,762,943</u>	<u>2,724,319</u>	<u>1,645,769</u>	<u>1,471,600</u>	<u>4,408,712</u>	<u>4,195,919</u>
Expenses:						
General Govt. & Public Safety	1,555,912	1,616,197	-	-	1,555,912	1,616,197
Water and Sewer	<u>-</u>	<u>-</u>	<u>1,989,261</u>	<u>1,685,285</u>	<u>1,989,261</u>	<u>1,685,285</u>
Total Expenses	<u>1,555,912</u>	<u>1,616,197</u>	<u>1,989,261</u>	<u>1,685,285</u>	<u>3,545,173</u>	<u>3,301,482</u>
Increase (Decrease) in Net Position Before Transfers	1,207,031	1,108,122	(343,492)	(213,685)	863,539	894,437
Transfers	<u>(365,675)</u>	<u>(368,979)</u>	<u>365,675</u>	<u>368,979</u>	<u>-</u>	<u>-</u>
Increase in Net Position	841,356	739,143	22,183	155,294	863,539	894,437
Net Position at Beginning of Year	<u>3,328,357</u>	<u>2,589,214</u>	<u>4,959,961</u>	<u>4,804,667</u>	<u>8,288,318</u>	<u>7,393,881</u>
Net Position at End of Year	<u>4,169,713</u>	<u>3,328,357</u>	<u>4,982,144</u>	<u>4,959,961</u>	<u>9,151,857</u>	<u>8,288,318</u>

As of September 30, 2020, the City is able to report positive balances in all three categories of net position for the government as a whole.

Governmental Activities - The City's general revenues increased approximately 13% for the year, while general government and public service and safety expenses decreased about 4%. Fees, fines, and charges for services increased approximately 26% this year. Capital grants and contributions decreased 100% this year. This was due to all capital grants were received last year. Property tax revenue increased less than 1%, which was due to the fact that the City's property tax assessed values increased 1% from last year and property tax rates decreased \$.004241 per \$100 valuation. Sales taxes revenue increased 18%.

Business-Type Activities - Business-type activities net position increased by \$22,183 or less than 1%.

CITY OF HALLSVILLE, TEXAS

***MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2020***

CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$2,216,520, which is an increase over last year's total of \$1,426,425. Included in this year's change in fund balance is an increase of \$774,771 in the General Fund. This increase was mainly due to revenues were more than anticipated and expenditures were less than budgeted.

At the end of the year, unrestricted net position for the enterprise fund was \$2,942,813. Net position for the Water and Sewer Fund increased \$22,183 for the year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020, the City had \$17,832,618 invested in a broad range of capital assets. This amount represents a net increase of approximately 2% above last year.

This year's major additions included:

Police and Other General Fund Equipment	67,076
Street Improvements	6,539
Park Improvements	26,350
Water and Sewer System Equipment	8,100
Water and Sewer System Improvements	<u>222,594</u>
Total	<u>330,659</u>

Long-Term Debt

At year-end, the City had \$5,910,000 in bonds outstanding versus \$6,200,000 last year - a decrease of \$290,000 or 5%. The General Obligation Bonds are secured by the City's limited ad valorem tax levy.

UNCERTAINTY

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and it is currently affecting many parts of the world, including the United States and Texas. The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

The City's elected officials and administration considered many factors when approving the property tax rate of \$.362731 in September 2020, which consists of \$.166289 for the General Fund and \$.196442 for the Debt Service Fund.

CONTACTING CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's office at 115 W. Main, Hallsville, Texas.

CITY OF HALLSVILLE, TEXAS

**GOVERNMENT-WIDE STATEMENT OF NET POSITION
SEPTEMBER 30, 2020**

	<u>PRIMARY GOVERNMENT</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash on Hand and in Bank	1,553,541	411,663	1,965,204
Temporary Investments	601,433	916,633	1,518,066
Investments - Time Certificates of Deposit	72,151	-	72,151
Receivables (Net, Where Applicable, of Allowance for Uncollectibles)	146,259	157,383	303,642
Internal Balances	(121,272)	121,272	-
Restricted Assets:			
Cash on Hand and in Bank	-	223,462	223,462
Temporary Investments	-	1,302,197	1,302,197
Investments - Time Certificates of Deposit	-	42,625	42,625
Capital Assets:			
Construction in Progress	6,539	102,800	109,339
Land	76,892	180,720	257,612
Buildings	454,201	-	454,201
Water and Sewer System	-	12,021,133	12,021,133
Equipment	1,067,031	823,773	1,890,804
Improvements	179,066	-	179,066
Infrastructure	2,920,463	-	2,920,463
Accumulated Depreciation	(1,682,020)	(6,075,795)	(7,757,815)
TOTAL ASSETS	<u>5,274,284</u>	<u>10,227,866</u>	<u>15,502,150</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to Pensions	21,529	-	21,529
Deferred Outflows Related to OPEB	9,025	-	9,025
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>30,554</u>	<u>-</u>	<u>30,554</u>
LIABILITIES			
Accounts Payable	9,567	65,727	75,294
Accrued Interest Payable	2,787	21,587	24,374
Accrued Liabilities	8,005	-	8,005
Payable From Restricted Assets:			
Customer Deposits	-	145,108	145,108
Noncurrent Liabilities:			
Due Within One Year	103,700	196,300	300,000
Due in More Than One Year	793,000	4,817,000	5,610,000
Net Pension Liability (City's Share)	133,025	-	133,025
Net OPEB Liability	39,567	-	39,567
TOTAL LIABILITIES	<u>1,089,651</u>	<u>5,245,722</u>	<u>6,335,373</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to Pensions	37,005	-	37,005
Deferred Inflows Related to OPEB	8,469	-	8,469
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>45,474</u>	<u>-</u>	<u>45,474</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	2,125,472	2,039,331	4,164,803
Restricted for:			
Debt Service	85,356	-	85,356
Unrestricted	<u>1,958,885</u>	<u>2,942,813</u>	<u>4,901,698</u>
TOTAL NET POSITION	<u>4,169,713</u>	<u>4,982,144</u>	<u>9,151,857</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

<u>PROGRAM ACTIVITIES</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION</u>		
		<u>Fees, Fines and Charges For Services</u>	<u>Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental Activities:						
General Government and Public Safety	<u>1,555,912</u>	<u>769,198</u>	<u>7,480</u>	<u>(779,234)</u>	<u>-</u>	<u>(779,234)</u>
Total Governmental Activities	<u>1,555,912</u>	<u>769,198</u>	<u>7,480</u>	<u>(779,234)</u>	<u>-</u>	<u>(779,234)</u>
Business-Type Activities:						
Water and Sewer	<u>1,989,261</u>	<u>1,635,513</u>	<u>-</u>	<u>-</u>	<u>(353,748)</u>	<u>(353,748)</u>
Total Business-Type Activities	<u>1,989,261</u>	<u>1,635,513</u>	<u>-</u>	<u>-</u>	<u>(353,748)</u>	<u>(353,748)</u>
Total Government	<u>3,545,173</u>	<u>2,404,711</u>	<u>7,480</u>	<u>(779,234)</u>	<u>(353,748)</u>	<u>(1,132,982)</u>
General Revenues:						
Taxes:						
Property				901,370	-	901,370
Sales				880,559	-	880,559
Franchise				109,160	-	109,160
Miscellaneous				88,315	-	88,315
Investment Earnings				6,861	10,256	17,117
Transfers				<u>(365,675)</u>	<u>365,675</u>	<u>-</u>
Total General Revenues and Transfers				<u>1,620,590</u>	<u>375,931</u>	<u>1,996,521</u>
Changes in Net Position				<u>841,356</u>	<u>22,183</u>	<u>863,539</u>
Net Position At Beginning of Year				<u>3,328,357</u>	<u>4,959,961</u>	<u>8,288,318</u>
Net Position At End of Year				<u>4,169,713</u>	<u>4,982,144</u>	<u>9,151,857</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

**GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2020**

<u>ASSETS</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Cash on Hand and in Bank	1,355,820	197,721	1,553,541
Temporary Investments	601,433	-	601,433
Investments - Time Certificates of Deposit	72,151	-	72,151
Sales Tax Receivable	73,249	-	73,249
Taxes Receivable	16,279	19,179	35,458
Street Usage Fees Receivable	19,627	-	19,627
Garbage Collection Fees Receivable	31,436	-	31,436
Other Receivable	3,928	-	3,928
Allowance for Uncollectible Taxes	(8,184)	(9,255)	(17,439)
Due from Other Funds	<u>4,855</u>	<u>-</u>	<u>4,855</u>
TOTAL ASSETS	<u>2,170,594</u>	<u>207,645</u>	<u>2,378,239</u>
<u>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE</u>			
<u>Liabilities:</u>			
Accounts Payable	9,567	-	9,567
Accrued Liabilities	8,005	-	8,005
Due to Other Funds	<u>13,762</u>	<u>112,365</u>	<u>126,127</u>
Total Liabilities	<u>31,334</u>	<u>112,365</u>	<u>143,699</u>
<u>Deferred Inflows of Resources:</u>			
Unavailable Revenue - Property Taxes	<u>8,096</u>	<u>9,924</u>	<u>18,020</u>
Total Inflows of Resources	<u>8,096</u>	<u>9,924</u>	<u>18,020</u>
<u>Fund Balance:</u>			
Restricted:			
Construction	4,716	-	4,716
Muni-Court Technology	10,216	-	10,216
Purpose of Grantors	7,599	-	7,599
Debt Service	-	85,356	85,356
Assigned:			
Street Repairs	72,151	-	72,151
Unassigned	<u>2,036,482</u>	<u>-</u>	<u>2,036,482</u>
Total Fund Balance	<u>2,131,164</u>	<u>85,356</u>	<u>2,216,520</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	<u>2,170,594</u>	<u>207,645</u>	<u>2,378,239</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020**

Total Fund Balances - Total Governmental Funds	2,216,520
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	3,022,172
Long-term liabilities are not due and payable in the current period, and therefore, they are not reported in the governmental fund balance sheet.	(896,700)
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the governmental fund balance sheet.	(2,787)
Assets not available to pay for current period expenditures are deferred in the governmental fund balance sheet.	18,020
Included in the items related to debt is the recognition of the City's proportionate share of the net pension liability required by GASB 68 in the amount of \$133,025, a Deferred Resource Inflow related to TRS in the amount of \$37,005 and a Deferred Resource Outflow related to TRS in the amount of \$21,529. This amounted to a decrease in Net Position in the amount of (\$148,501).	(148,501)
Included in the items related to debt are the reporting requirements for the OPEB benefit plan through TMRS. The City's share of the TMRS plan resulted in a net OPEB liability of \$39,567 a deferred outflow of \$9,025, and a deferred inflow of \$8,469. This resulted in a net decrease in Net Position in the amount of \$(39,011).	<u>(39,011)</u>
Net Position of Governmental Activities	<u>4,169,713</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES:			
Ad Valorem Taxes, Penalties and Interest	396,526	505,705	902,231
Sales Tax	880,559	-	880,559
Garbage Collection Fees	375,709	-	375,709
Utilities Franchise Taxes (Street Rentals)	109,160	-	109,160
Interest Income	6,861	-	6,861
Police Department Income	212,453	-	212,453
Grant Income	7,480	-	7,480
Building and Mobile Home Permits	181,036	-	181,036
Miscellaneous Fees and Revenues	<u>88,315</u>	<u>-</u>	<u>88,315</u>
Total Revenues	<u>2,258,099</u>	<u>505,705</u>	<u>2,763,804</u>
EXPENDITURES:			
General Government			
Salaries, Payroll Taxes, Retirement, and Insurance	658,539	-	658,539
Repairs and Maintenance	66,273	-	66,273
Garbage Collection Cost	283,778	-	283,778
Utilities and Telephone	35,501	-	35,501
Miscellaneous Expenditures	1,835	-	1,835
City Hall Expenditures	45,990	-	45,990
Office Expenditures	19,414	-	19,414
Insurance	22,063	-	22,063
Legal and Audit Fees	9,592	-	9,592
Travel and Seminars	14,000	-	14,000
Tax Appraisal and Collection	17,047	-	17,047
Public Safety - Police	136,433	-	136,433
Street Maintenance	72,898	-	72,898
Debt Service			
Principal Retirement	-	100,650	100,650
Interest and Fees	-	24,056	24,056
Capital Outlay	<u>99,965</u>	<u>-</u>	<u>99,965</u>
Total Expenditures	<u>1,483,328</u>	<u>124,706</u>	<u>1,608,034</u>
Excess of Revenue Over Expenditures Before Other Financing (Uses)	<u>774,771</u>	<u>380,999</u>	<u>1,155,770</u>
OTHER FINANCING (USES):			
Transfer Out	<u>-</u>	<u>(365,675)</u>	<u>(365,675)</u>
Total Other Financing (Uses)	<u>-</u>	<u>(365,675)</u>	<u>(365,675)</u>
Net Change in Fund Balances	774,771	15,324	790,095
Fund Balances, Beginning of Year	<u>1,356,393</u>	<u>70,032</u>	<u>1,426,425</u>
Fund Balances, End of Year	<u>2,131,164</u>	<u>85,356</u>	<u>2,216,520</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Net Change in Fund Balances - Total Governmental Funds	790,095
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the net amount of capital assets purchased and sold in the current period.	99,965
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental fund.	(173,098)
The issuance of long-term debt provides current financial resources to governmental funds; while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however, this has no effect on net position.	100,650
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources.	340
Some property tax will not be collected for several months after the City's fiscal year end. These are not considered "available" revenues in the governmental fund until received.	(861)
Net change in TMRS expenditures, deferred resource inflows and outflows for the current year as required by GASB 68.	28,385
Net Change in TMRS expenditures, deferred resource outflows for the current year as required by GASB 75.	<u>(4,120)</u>
Changes in Net Position of Governmental Activities	<u>841,356</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Positive (Negative) Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Ad Valorem Taxes, Penalties and Interest	384,000	384,000	396,526	12,526
Sales Tax	733,500	733,500	880,559	147,059
Garbage Collection Fees	365,000	365,000	375,709	10,709
Utilities Franchise Taxes (Street Rentals)	93,000	93,000	109,160	16,160
Interest Income	3,000	3,000	6,861	3,861
Police Department Income	170,000	170,000	212,453	42,453
Grant Income	75,000	75,000	7,480	(67,520)
Building and Mobile Home Permits	112,845	112,845	181,036	68,191
Miscellaneous Fees and Revenues	13,550	13,550	88,315	74,765
Total Revenues	1,949,895	1,949,895	2,258,099	308,204
<u>EXPENDITURES:</u>				
General Government:				
Salaries, Payroll Taxes, Retirement, and Insurance	771,245	821,940	658,539	163,401
Repairs and Maintenance	147,700	89,855	66,273	23,582
Garbage Collection Cost	290,000	290,000	283,778	6,222
Utilities and Telephone	36,650	39,800	35,501	4,299
Miscellaneous Expenditures	2,000	2,000	1,835	165
City Hall and Election Expenditures	66,000	71,000	45,990	25,010
Office Expenditures	34,000	34,000	19,414	14,586
Insurance	23,400	23,400	22,063	1,337
Legal and Audit Fees	20,000	20,000	9,592	10,408
Travel and Seminars	21,000	21,000	14,000	7,000
Tax Appraisal and Collection	19,000	19,000	17,047	1,953
Public Safety - Police	228,900	228,900	136,433	92,467
Street Maintenance	300,000	300,000	72,898	227,102
Capital Outlay	150,000	150,000	99,965	50,035
Total Expenditures	2,109,895	2,110,895	1,483,328	627,567
Net Change in Fund Balance	(160,000)	(161,000)	774,771	935,771
Fund Balance, Beginning of Year	1,356,393	1,356,393	1,356,393	-
Fund Balance, End of Year	1,196,393	1,195,393	2,131,164	935,771

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

**PROPRIETARY FUND
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020**

**BUSINESS - TYPE ACTIVITIES
Enterprise Fund**

**Water &
Sewer
Fund**

ASSETS

Current Assets:

Cash on Hand and in Bank	411,663
Temporary Investments	916,633
Accounts Receivable (Net of Reserve for Uncollectible Accounts of \$13,904)	157,383
Due From Other Funds	<u>121,272</u>
Total Current Assets	<u>1,606,951</u>

Restricted Assets:

Cash on Hand and in Bank	223,462
Temporary Investments	1,302,197
Investments - Time Certificates of Deposit	<u>42,625</u>
Total Restricted Assets	<u>1,568,284</u>

Capital Assets:

Construction in Progress	102,800
Land	180,720
Water and Sewer System	12,021,133
Equipment	823,773
Less Accumulated Depreciation	<u>(6,075,795)</u>
Total Capital Assets	<u>7,052,631</u>
TOTAL ASSETS	<u>10,227,866</u>

LIABILITIES

Current Liabilities:

Accounts Payable	65,727
Accrued Interest Payable	21,587
Bonds Payable - Current	<u>196,300</u>
Total Current Liabilities	<u>283,614</u>

Liabilities Payable From Restricted Assets:

Customer Deposits	<u>145,108</u>
Total Liabilities Payable From Restricted Assets	<u>145,108</u>

Noncurrent Liabilities:

Bonds Payable	<u>4,817,000</u>
Total Noncurrent Liabilities	<u>4,817,000</u>
TOTAL LIABILITIES	<u>5,245,722</u>

NET POSITION

Invested in Capital Assets, Net of Related Debt	2,039,331
Unrestricted	<u>2,942,813</u>
TOTAL NET POSITION	<u>4,982,144</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

PROPRIETARY FUND

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>BUSINESS - TYPE ACTIVITIES</u>
	<u>Enterprise Fund</u>
	Water & Sewer Fund
<u>OPERATING REVENUES:</u>	
Water and Sewer Revenues, Including Penalties	1,596,473
Meter and Tap Fees	8,000
Connection Fees	7,013
Other Revenues	<u>24,027</u>
Total Operating Revenues	<u>1,635,513</u>
<u>OPERATING EXPENSES:</u>	
Salaries	399,759
Payroll Taxes	31,685
TMRS Retirement	12,745
Truck and Auto Allowance	25,443
Repairs and Maintenance	119,609
Insurance	109,788
Legal and Audit Fees	5,676
Office Expense	22,911
Miscellaneous Expense	17,249
Materials and Supplies	66,698
Water Purchased - City of Longview	548,398
Engineering and Contract Services	18,741
Permits and Fees	20,119
Utilities and Telephone	76,406
Depreciation	<u>338,162</u>
Total Operating Expenses	<u>1,813,389</u>
Operating Income (Loss)	<u>(177,876)</u>
<u>NON-OPERATING REVENUES (EXPENSES):</u>	
Interest Income	10,256
Interest Expense	<u>(175,872)</u>
Total Non-Operating Revenues (Expenses)	<u>(165,616)</u>
Income (Loss) before Transfers	(343,492)
Transfers In	<u>365,675</u>
Change in Net Position	<u>22,183</u>
Net Position at Beginning of Year	<u>4,959,961</u>
Net Position at End of Year	<u>4,982,144</u>

- See the accompanying notes to these financial statements -

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>BUSINESS - TYPE ACTIVITIES</u> <u>Enterprise Fund</u>
	<u>Water & Sewer Fund</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Cash Receipts From Customers	1,647,087
Cash Payments to Suppliers for Goods and Services	(1,030,515)
Cash Payments to Employees for Services and Benefits	<u>(444,189)</u>
Net Cash Provided by Operating Activities	<u>172,383</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>	
Acquisition and Construction of Capital Assets	(230,694)
Transfer in From Debt Service Fund	365,675
Interest Paid on Debt	(176,326)
Retirement of Debt	<u>(189,350)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(230,695)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Purchase of Investments	(42,625)
Proceeds From Sale and Maturities of Investments and Assets	42,138
Interest on Cash and Investments	<u>10,710</u>
Net Cash Provided By Investing Activities	<u>10,223</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(48,089)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,902,044</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>2,853,955</u>

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**BUSINESS - TYPE ACTIVITIES
Enterprise Fund**

**Water &
Sewer
Fund**

CONTINUED:

**RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating Income (Loss) From Operations	(177,876)
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided (Used) by Operating Activities:	
Depreciation	338,162
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivables	7,592
Increase (Decrease) in Accounts Payable and Accrued Liabilities	523
Increase (Decrease) in Deposits	<u>3,982</u>
Net Cash Provided by Operating Activities	<u>172,383</u>

RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:

Current Assets - Cash on Hand and in Bank	411,663
Temporary Investments	916,633
Restricted Cash on Hand and in Bank	223,462
Restricted Temporary Investments	<u>1,302,197</u>
Total Cash and Cash Equivalents	<u>2,853,955</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS ***SEPTEMBER 30, 2020***

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

The City of Hallsville is an incorporated municipality. The City operates under a City Administrator - Council form of government and provides the following services authorized by its charter: public safety, public improvements, highway and streets, and water and sewer.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting practices generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Pensions. The fiduciary net position of the Texas Municipal Retirement System (TMRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TMRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB). The fiduciary net position of the TMRS Supplemental Death and Disability Plan (SDD) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from the TMRS SDD Plan's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

Other more significant accounting and reporting policies and practices used by the City are described below.

Basis of Presentation:

The government-wide financial statements (the statement of net position and the statement of changes in net position) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: *(Continued)*

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

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental Funds:

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental fund:

General Fund:

The General Fund is the main 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 that 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 that are not paid through other funds are paid from this fund.

Additionally, the City reports the following governmental fund type:

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of financial resources for the payment of general long-term debt principal, interest, and related costs. The fund balance of the debt service fund is reserved to signify the amounts that are restricted exclusively for debt service.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: *(Continued)*

Proprietary Funds:

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. 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. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary fund:

Water and Sewer Fund:

Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations, and maintenance of the water and sewer system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

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.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual that are associated with the current fiscal year are property taxes, franchise fees, licenses, charges for service, interest income, and intergovernmental revenues. All other governmental fund revenues are recognized when received.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: *(Continued)*

Budgetary Control:

The City Administrator submits an annual budget to the City Council and the City Council adopts annual fiscal year budgets for City operating funds (General Fund) and for Proprietary Fund Operations (Water and Sewer Enterprise Fund). Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and expenditures. There were several amendments made to the budgets during the year. The City adopted the budgets on a September 30 fiscal year for the 19-20 year.

The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund presents a comparison of budgetary data to actual results for the year ended September 30, 2020. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

The Water and Sewer Fund - Schedule of Revenues, Expenses, and Changes in Net Position - Budget and Actual also presents a comparison of budgetary data to actual results for the year ended.

Interfund Receivables and Payables:

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Transactions Between Funds:

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Cash and Cash Equivalents:

For purposes of the Statement of Cash Flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Investments:

Investments are stated at cost or amortized cost, which is equivalent to market value.

Restricted Assets:

The assets consist of cash and short-term investments restricted for water and sewer construction and customer meter deposits.

Capital Assets:

Capital assets, which includes property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 Years
Water and Sewer Systems	50 Years
Machinery and Equipment	5-10 Years
Improvements	20 Years
Infrastructure	20-40 Years

Bond Issuance Costs:

Bond issuance costs in governmental funds and enterprise funds are expensed in the year that the bonds are issued.

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

Revenue Recognition - Property Taxes:

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent July 1 of the following year.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Delinquent taxes are recorded as unavailable revenue - property taxes.

Net Position:

Net Position represents the residual of assets plus deferred outflows less liabilities plus deferred inflows. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

CITY OF HALLSVILLE, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: *(Continued)*

In the governmental funds financial statements, fund balances are classified into various categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the General Fund.

The Council shall approve all commitments by formal action. The action to commit funds must occur prior to fiscal year-end in order to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year-end. A commitment can only be modified or removed by the same formal action.

When it is appropriate for fund balance to be assigned, the Council delegates the responsibility to assign funds to the City Administrator or his designee. Assignments may occur subsequent to fiscal year-end.

The Council will utilize the funds in the following order:

- o Restricted
- o Committed
- o Assigned
- o Unassigned

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2020

NOTE 2 - DEPOSITS AND INVESTMENTS:

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.

Policies Governing Deposits and Investments

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

1. **Custodial Credit Risk For Deposits** - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's policy regarding types of deposits allowed and collateral requirements is:

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. 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.

The City is exposed to custodial credit risk for its deposits as follows:

At September 30, 2020, the carrying amount of the City's deposits (cash, petty cash, interest-bearing checking accounts, non-interest bearing checking accounts, money market accounts, and certificates of deposit) was \$2,303,442 and the bank balances were \$2,435,301. The City's cash deposits at September 30, 2020, and during the year were entirely covered by FDIC insurance or by pledged collateral held by the pledging financial institution's agent in the City's name. The certificates of deposit total \$114,776 and are classified as current investments for report purposes. The certificates of deposit mature within a year.

At September 30, 2020, the City had \$449,492 of deposits, which were fully insured by the FDIC. The remaining deposit balances at the bank totaled \$1,985,809 and were collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF HALLSVILLE, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 2 - DEPOSITS AND INVESTMENTS: *(Continued)*

2. Custodial Credit Risk For Investments - This is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

At September 30, 2020, the City was not exposed to custodial credit risk. The City only had investments in certificates of deposit and a state investment pool of which both are carried in the City's name.

3. Interest Rate Risk - Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise.

According to City policy, investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flows of the City and conforming to all applicable state and City statutes governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. The City was not subject to interest rate risk during the year ended September 30, 2020. As mentioned previously, the City had investments in certificates of deposit and a state investment pool.

4. Credit Risk and Concentration Risk - The City's main goal of their investment program is to ensure its safety and maximize financial returns within current market conditions in accordance with policy. The City's investment policy states that diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

U.S. Treasuries and securities with the U.S. Government's guarantee	100%
U.S. Government agencies and instrumentalities	not to exceed 50%
Fully insured or collateralized CD's	100%
Money Market Funds	
Operating Funds	not to exceed 50%
Bond Funds	80%
Local Government Investment Pools (Constant dollar)	100%

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officer may not invest more than 20% of the portfolio for a period greater than one (1) year. Unless matched to a specific requirement, the Investment Officer may not invest any portion of the portfolio for a period greater than one (1) year.

5. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end and during the year, the City was not exposed to foreign currency risk.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 2 - DEPOSITS AND INVESTMENTS: (Continued)

As of September 30, 2020, the City had the following investments:

<u>Investment Type</u>	<u>Rating</u>	<u>Concentration Of Credit Risk</u>	<u>Investment Maturities (Callable) (In Years)</u>		
			<u>Market Value</u>	<u>Less Than 1</u>	<u>1-5</u>
State Investment Pool:					
Texas Local Government Investment					
Pool (Tex Pool) (2a7-Like Pool)	AAAm (S&P)	<u>100%</u>	<u>2,820,263</u>	<u>2,820,263</u>	<u>-</u>

The City investment pool is 2a7-like pool. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (“SEC”) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940.

TexPool is a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund is rated AAAM by Standard and Poor’s and maintains a weighted average maturity of 60 days or less, with a maximum weighted average maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas PFIA for local government investment pools. TexPool uses amortized cost, which in most cases approximates the market value of securities to compute share prices. It also operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940.

Time certificates of deposit include restricted, assigned, and unrestricted investments. Time certificates of deposit of the various funds at September 30, 2020 in the amount of \$114,776 are detailed as follows:

<u>ISSUING BANK</u>	<u>CERTIFICATE NUMBER</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>AMOUNT</u>	
<u>Restricted Funds:</u>					
<u>Water and Sewer Fund -</u>					
Guaranty Bank & Trust Hallsville, TX	6306046	0.40%	10/1/20	<u>42,625</u>	42,625
<u>Assigned Funds:</u>					
<u>General Fund -</u>					
Guaranty Bank & Trust Hallsville, TX	6306045	0.40%	10/1/20	<u>72,151</u>	<u>72,151</u>
Total Certificates of Deposit					<u>114,776</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 3 - TAXES ASSESSED AND DELINQUENT TAXES:

Taxes assessed for the years 2016 through 2019 and delinquent taxes as of September 30, 2020, are detailed as follows:

COMPARISON OF ASSESSED VALUATIONS FOR THE YEARS 2016 - 2019

	<u>TAX ASSESSMENTS</u>			
	<u>YEAR 2016</u>	<u>YEAR 2017</u>	<u>YEAR 2018</u>	<u>YEAR 2019</u>
Total Assessed Valuation	210,228,200	218,274,001	238,097,594	240,105,496
Rate per \$100 Valuation	<u>.399737</u>	<u>.39189</u>	<u>.376008</u>	<u>.371767</u>
Total Taxes Assessed	<u>840,360</u>	<u>855,394</u>	<u>895,266</u>	<u>892,633</u>

DELINQUENT TAXES RECEIVABLE
AT SEPTEMBER 30, 2020

2018 and Prior Taxes Receivable	23,251
2019 Uncollected Taxes	<u>12,207</u>
Total Uncollected Taxes - September 30, 2020	35,458
Less: Reserve for Uncollectible Taxes	<u>(17,439)</u>
Net Delinquent Taxes Receivable	<u>18,019</u>

A reserve for uncollectible taxes in the amount of \$17,439 at September 30, 2020, represents 75% of delinquent taxes receivable at September 30, 2020.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 4 - CAPITAL ASSETS:

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

	<u>September 30,</u> <u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30,</u> <u>2020</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	76,892	-	-	76,892
Construction in Progress	<u>-</u>	<u>6,539</u>	-	<u>6,539</u>
Total Capital Assets Not Being Depreciated	<u>76,892</u>	<u>6,539</u>	-	<u>83,431</u>
Capital Assets Being Depreciated:				
Buildings	454,201	-	-	454,201
Equipment	999,955	67,076	-	1,067,031
Improvements	152,716	26,350	-	179,066
Infrastructure	<u>2,920,463</u>	-	-	<u>2,920,463</u>
Total Capital Assets, Being Depreciated	<u>4,527,335</u>	<u>93,426</u>	-	<u>4,620,761</u>
Less Accumulated Depreciation For:				
Buildings	159,509	11,057	-	170,566
Equipment	765,299	55,300	-	820,599
Improvements	131,410	13,094	-	144,504
Infrastructure	<u>452,704</u>	<u>93,647</u>	-	<u>546,351</u>
Total Accumulated Depreciation	<u>1,508,922</u>	<u>173,098</u>	-	<u>1,682,020</u>
Total Capital Assets, Being Depreciated, Net	<u>3,018,413</u>	<u>(79,672)</u>	-	<u>2,938,741</u>
Governmental Activities Capital Assets, Net	<u>3,095,305</u>	<u>(73,133)</u>	-	<u>3,022,172</u>
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	180,720	-	-	180,720
Construction in Progress	<u>31,800</u>	<u>71,000</u>	-	<u>102,800</u>
Total Capital Assets Not Being Depreciated	<u>212,520</u>	<u>71,000</u>	-	<u>283,520</u>
Capital Assets Being Depreciated:				
Water and Sewer System	11,869,539	151,594	-	12,021,133
Equipment	<u>815,673</u>	<u>8,100</u>	-	<u>823,773</u>
Total Capital Assets, Being Depreciated	<u>12,685,212</u>	<u>159,694</u>	-	<u>12,844,906</u>
Less Accumulated Depreciation For:				
Water and Sewer System	5,088,801	295,996	-	5,384,797
Equipment	<u>648,832</u>	<u>42,166</u>	-	<u>690,998</u>
Total Accumulated Depreciation	<u>5,737,633</u>	<u>338,162</u>	-	<u>6,075,795</u>
Total Capital Assets, Being Depreciated, Net	<u>6,947,579</u>	<u>(178,468)</u>	-	<u>6,769,111</u>
Business-Type Activities Capital Assets, Net	<u>7,160,099</u>	<u>(107,468)</u>	-	<u>7,052,631</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 4 - CAPITAL ASSETS: (Continued)

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

<u>Governmental Activities:</u>	
General Government and Public Safety	<u>173,098</u>
Total Depreciation Expense - Governmental Activities	<u>173,098</u>
<u>Business-Type Activities:</u>	
Water and Sewer	<u>338,162</u>
Total Depreciation Expense - Business-Type Activities	<u>338,162</u>

NOTE 5 - BONDS PAYABLE - WATER & SEWER ENTERPRISE FUND:

On February 18, 2014, the City issued \$2,865,000 General Obligation Refunding Bonds, Series 2014, to refund a portion of the City of Hallsville, Texas, Tax and Waterworks and Sewer System Revenue Certificates of Obligations, Series 2008, and the City of Hallsville Waterworks and Sewer System Subordinate Lien Revenue Bonds, Series 1998. \$1,117,350 of the proceeds (39%) of issuance are to be used for the purpose of refunding the 2014 through 2019 maturities of the City's currently outstanding Waterworks and Sewer System Subordinate Lien Revenue Bonds, Series 1998. This portion of the proceeds is accounted for in the Water and Sewer Fund. The remaining \$1,747,650 (61%) of the Refunding Bonds is being used to refund the Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2008, that is accounted for in the governmental activities. (See Note 6) The General Obligation Bonds are secured by the City's limited ad valorem tax levy.

The proceeds from the refunded existing bond maturities and interest thereon were placed with an escrow agent. The escrowed funds, together with investment earnings thereon, will be sufficient to discharge the Refunded Bonds. Under the escrow agreement, the Escrow Fund is irrevocably pledged to the payment of principal and interest of the Refunding Bonds. Accordingly, pursuant to the terms of the ordinance authorizing the issuance of the refunded bonds and in accordance with Texas Law, the refunded bonds are deemed to be no longer outstanding obligations payable from the General Obligation Debt Service or for any other purpose except for the purpose of being paid from the funds held in such Escrow Fund. On September 30, 2020, \$845,000 of the bonds considered defeased are still outstanding.

The City also issued \$5,050,000 Combination Tax and Revenue Certificates of Obligation, Series 2014, to fund water and sewer infrastructure improvements. The Certificates of Obligation are secured by the same ad valorem tax levy in addition to surplus water and sewer revenue.

Schedule of Refunded Bonds

	<u>Dates of Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2008	August 1, 2014-2028	4.573%	<u>845,000</u>
	Total		<u>845,000</u>

CITY OF HALLSVILLE, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 5 - BONDS PAYABLE - WATER & SEWER ENTERPRISE FUND: (Continued)

A schedule of the bonded indebtedness of the City of Hallsville as of September 30, 2020, is as follows:

CITY OF HALLSVILLE, TEXAS GENERAL OBLIGATION

REFUNDING BONDS:

Series 2014, Dated January 21, 2014 - 1.25% - 3.00% Interest		
Rate Maturing Serially 2014 through 2021		
Total Bonds Issued (39%)	1,117,350	
Less: Bonds Retired	<u>(544,050)</u>	
Balance Outstanding, September 30, 2020		573,300

**CITY OF HALLSVILLE, TEXAS COMBINATION TAX AND
REVENUE CERTIFICATES OF OBLIGATION BONDS:**

Series 2014, Dated January 21, 2014 - 2.00% - 2.50% Interest		
Rate Maturing Serially 2016 through 2024		
Total Bonds Issued	5,050,000	
Less: Bonds Retired	<u>(610,000)</u>	
Balance Outstanding, September 30, 2020		<u>4,440,000</u>

Total Bonded Indebtedness		5,013,300
Less: Amount Classified Current Portion		<u>(196,300)</u>

Bonds Payable - Net of Current Portion 4,817,000

The annual requirements to retire City of Hallsville, Texas General Obligation Refunding Bonds, Series 2014, as of September 30, 2020, are as follows:

<u>FISCAL YEAR</u>	<u>RATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2021	2.000%	66,300	14,255	80,555
2022	2.000%	68,250	12,929	81,179
2023	2.250%	68,250	11,564	79,814
2024	2.500%	70,200	10,028	80,228
2025	2.500%	72,150	8,273	80,423
2026 - 2028	2.750% - 3.000%	<u>228,150</u>	<u>13,240</u>	<u>241,390</u>
Total		<u>573,300</u>	<u>70,289</u>	<u>643,589</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 5 - BONDS PAYABLE - WATER & SEWER ENTERPRISE FUND: (Continued)

The annual requirements to retire City of Hallsville, Texas Combination Tax and Revenue Certificates of Obligation, Series 2014, as of September 30, 2020, are as follows:

<u>FISCAL YEAR</u>	<u>RATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2021	2.000%	130,000	158,444	288,444
2022	2.250%	130,000	155,844	285,844
2023	2.500%	135,000	152,919	287,919
2024	2.500%	135,000	149,544	284,544
2025	3.000%	140,000	146,169	286,169
2026 - 2030	2.500% - 3.250%	1,185,000	655,750	1,840,750
2031 - 2035	3.250% - 4.000%	2,110,000	353,825	2,463,825
2036	4.000%	<u>475,000</u>	<u>19,000</u>	<u>494,000</u>
Total		<u>4,440,000</u>	<u>1,791,495</u>	<u>6,231,495</u>

NOTE 6 - BONDS AND LOANS PAYABLE - GOVERNMENTAL ACTIVITIES:

A schedule of bonded and loan indebtedness of the City of Hallsville as of September 30, 2020, is as follows:

City of Hallsville, Texas General Obligation Refunding Bonds:

Series 2014, Dated January 21, 2015 - 1.250% - 3.000% Interest Rate

Maturing Serially 2014 through 2021

Total Bonds Issued (61%) (See Note 5)

1,747,650

Less: Bonds Retired

(850,950)

Balance Outstanding, September 30, 2020

896,700

Less: Amount Classified Current Portion

(103,700)

Bonds Payable - Net of Current Portion

793,000

The schedule of annual requirements to retire City of Hallsville, Texas General Obligation Refunding Bonds, Series 2014, as of September 30, 2020, is as follows:

<u>FISCAL YEAR</u>	<u>RATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2021	2.000%	103,700	22,296	125,996
2022	2.000%	106,750	20,221	126,971
2023	2.250%	106,750	18,087	124,837
2024	2.500%	109,800	15,685	125,485
2025	2.500%	112,850	12,940	125,790
2026 - 2028	2.750% - 3.000%	<u>356,850</u>	<u>20,708</u>	<u>377,558</u>
Total		<u>896,700</u>	<u>109,937</u>	<u>1,006,637</u>

CITY OF HALLSVILLE, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 7 - COMMITMENTS UNDER OPERATING LEASE:

The City has entered into a non-cancelable operating lease. Commitments under this operating (noncapitalized) lease agreement for copiers provide for minimum future rental payments. The future rental payments as of September 30, 2020 are as follows:

<u>Year Ending September 30,</u>	
2021	9,444
2022	9,444
2023	<u>7,870</u>
 Total Minimum Payments Required	 <u>26,758</u>
 Rental Expenditures in Fiscal Year 2020	 <u>9,444</u>

NOTE 8 - CHANGES IN LONG-TERM LIABILITIES:

Long-term activity for the year ended September 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Interest Current Year</u>	<u>Due Within One Year</u>
Governmental Activities:						
General Obligation Refunding Bonds	<u>997,350</u>	-	(100,650)	<u>896,700</u>	<u>29,013</u>	<u>103,700</u>
Total Governmental Activities	<u>997,350</u>	-	(100,650)	<u>896,700</u>	<u>29,013</u>	<u>103,700</u>
Business-Type Activities:						
General Obligation Refunding Bonds	637,650	-	(64,350)	573,300	15,381	66,300
Combination Tax and Revenue Certificates of Obligation Bonds	<u>4,565,000</u>	-	(125,000)	<u>4,440,000</u>	<u>160,944</u>	<u>130,000</u>
Total Business-Type Activities	<u>5,202,650</u>	-	(189,350)	<u>5,013,300</u>	<u>176,325</u>	<u>196,300</u>
Total Government	<u>6,200,000</u>	-	(290,000)	<u>5,910,000</u>	<u>205,338</u>	<u>300,000</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 9 - INSURANCE IN FORCE AND BOND COVERAGE:

Insurance in force and bond coverage as of September 30, 2020, is detailed as follows:

<u>TYPE OF COVERAGE</u>	<u>AMOUNT OF COVERAGE</u>	<u>CURRENT POLICY PERIOD</u>
Fire, Lightning & Extended Coverage - Sewer Plants and Pump Stations	5,020,675 - Building 25,000 - Contents	
City Hall & City Park	706,009 - Building 78,000 - Contents	10/01/19-20
Police Station	287,089 - Building 100,000 - Contents	10/01/19-20
Surety - Fidelity Coverage Blanket Bond - City Secretary, Police Secretary, Clerks	100,000	05/01/20-21
Standard Workmen's Compensation & Employer's Liability Policy	Unlimited/Based Upon WC Laws of State of Texas	10/01/19-20
Automobile Policy	500,000 1,000 Deductible	10/01/19-20
Mobile Equipment	76,858 1,000 Deductible	10/01/19-20
Waterworks Pumphouse 201 Walnut Street	135,826 - Building	10/01/19-20
General Liability	1,000,000/2 MM -0- Deductible	10/01/19-20
Errors and Omissions	500,000/1 MM 2,500 Deductible	10/01/19-20
Law Enforcement Liability	500,000/1 MM 2,500 Deductible	10/01/19-20
Boiler & Machinery	100,000 Per Accident Limit 1,000 Deductible	10/01/19-20
Cyber Liability & Data Breach Response	25,000/1,000,000	10/01/19-20

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 10 - PENSION PLAN:

Texas Municipal Retirement System –

TMRS Plan Description:

The City of Hallsville participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.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 benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

	<u>Plan Year 2018</u>	<u>Plan Year 2019</u>
Employee deposit rate	5%	5%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	20 years at any age, 5 years at age 60 and above	20 years at any age, 5 years at age 60 and above
Updated service credit	0 Repeating, Transfers	0 Repeating, Transfers
Annuity increase (to retirees)	0 of CPI Repeating	0 of CPI Repeating

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 10 - PENSION PLAN: (Continued)

Employees Covered by Benefit Terms:

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

	<u>12/31/2018</u>	<u>12/31/2019</u>
Inactive employees or beneficiaries currently receiving benefits	4	4
Inactive employees entitled to but not yet receiving benefits	17	17
Active employees	<u>20</u>	<u>20</u>
	<u>41</u>	<u>41</u>

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 for the City of Hallsville were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Hallsville were 3.24% and 3.16% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$29,247, and satisfied the required contributions.

Net Pension Liability:

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

Actuarial assumptions:

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

- Inflation at 2.50% per year
- Overall payroll growth at 3.50% to 11.50%, including inflation
- Investment Rate of Return at 6.75%, net of pension plan investment expense, including inflation

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

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 10 - PENSION PLAN: (Continued)

Net Pension Liability: (Continued)

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, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</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%
	<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 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 HALLSVILLE, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 10 - PENSION PLAN: (Continued)

Changes in the Net Pension Liability:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset (Liability)
	<u>(a)</u>	<u>(b)</u>	<u>(b)-(a)</u>
Balance at December 31, 2018	698,037	511,904	(186,133)
Changes for the year:			
Service Cost	58,017	-	(58,017)
Interest	47,248	-	(47,248)
Difference between expected and actual experience	(7,927)	-	7,927
Changes of assumptions	(3,154)	-	3,154
Contributions - employer	-	25,804	25,804
Contributions - employee	-	42,723	42,723
Net investment income	-	79,226	79,226
Benefit payments, including refunds of employee Contributions	(54,160)	(54,160)	-
Administrative expense	-	(448)	(448)
Other changes	-	(13)	(13)
Net changes	<u>40,024</u>	<u>93,132</u>	<u>53,108</u>
Balance at December 31, 2019	<u>738,061</u>	<u>605,036</u>	<u>(133,025)</u>

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:

	<u>1% Decrease in Discount Rate (5.75%)</u>	<u>Discount Rate (6.75%)</u>	<u>1% Increase in Discount Rate (7.75%)</u>
City's Net Pension Liability	<u>226,797</u>	<u>133,025</u>	<u>55,507</u>

CITY OF HALLSVILLE, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 10 - PENSION PLAN: (Continued)

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

For the year ended September 30, 2020, the City recognized pension expense of \$29,282.

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

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual economic experience	361	16,508
Contributions paid to TMRS subsequent to the measurement date	21,168	-
Differences between projected and actual investment earnings	-	18,101
Changes in assumptions	-	<u>2,396</u>
Total	<u>21,529</u>	<u>37,005</u>

\$21,168 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020.

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

	<u>Net Deferred Outflows (Inflows) of Resources</u>
2020	(12,953)
2021	(12,484)
2022	(1,846)
2023	(9,361)
Thereafter	-
Total	<u>(36,644)</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 11 – POST-EMPLOYMENT BENEFITS (OPEB) - TMRS SUPPLEMENTAL DEATH BENEFITS FUND:

Plan Description:

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

TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

Benefits Provided:

Payments from this fund are similar to group term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. 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. The obligations of this plan are payable only from the SDBF and are not an obligation of, or claim against, the TMRS Pension Trust Fund.

Employees Covered by Benefit Terms:

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

	<u>12/31/19</u>
Inactive employees currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>19</u>
	<u>26</u>

Contributions:

The member cities contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. 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 life insurance during employees' entire careers.

As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

CITY OF HALLSVILLE, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 11 – POST-EMPLOYMENT BENEFITS (OPEB) - TMRS SUPPLEMENTAL DEATH BENEFITS FUND:
(Continued)

For the calendar years 2020 and 2019, the total SDB contributions rate for the City was 0.23% and 0.22%, respectively, while the retiree portion of the SDB contribution was 0.02%. The City's contributions for the years ended September 30, 2020 and 2019, were \$234 and \$339, respectively, for the retiree portion, and \$1,857 and \$1,888, respectively, for the total SDB rate. Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Total OPEB Liability:

The City's total OPEB liability was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Overall	3.50% to 11.50% including inflation
Discount rate *	2.75%
Retiree's share of benefit-related costs	-
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates - service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a three year set-forward for both males and females. The rates are projected on a full generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

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

CITY OF HALLSVILLE, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 11 – POST-EMPLOYMENT BENEFITS (OPEB) - TMRS SUPPLEMENTAL DEATH BENEFITS FUND:
(Continued)

Total OPEB Liability: *(Continued)*

The actuarial cost method being used is known as the Entry Age Normal Method. This method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation through their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The normal cost is calculated using an entry age based on benefit service with the City. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated.

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four period from December 31, 2010 to December 31, 2014. The post-retirement mortality assumption for health annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2010 and dated December 31, 2013.

Changes in the Total OPEB Liability:

	Total OPEB <u>Liability</u>
Balance at December 31, 2018	29,178
Changes for the year	
Service cost	3,930
Interest	1,149
Change of benefit terms	-
Difference between expected and actual experience	(3,566)
Changes of assumptions or other inputs	9,218
Benefit payments	(342)
Net changes	<u>10,389</u>
Balance at December 31, 2019	<u>39,567</u>

CITY OF HALLSVILLE, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 11 – POST-EMPLOYMENT BENEFITS (OPEB) - TMRS SUPPLEMENTAL DEATH BENEFITS FUND:
(Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate:

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75%, would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

	<u>1% Decrease in Discount Rate (1.75%)</u>	<u>Discount Rate (2.75%)</u>	<u>1% Increase In Discount Rate (3.75%)</u>
Total OPEB Liability	<u>49,579</u>	<u>39,567</u>	<u>32,190</u>

OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB:

For the year ended September 30, 2020, the City recognized OPEB expense of \$4,782.

Components of OPEB Expense

Service Cost	3,930
Interest on total OPEB liability	1,149
Changes in benefit terms	-
Employer administrative costs	-
Recognition of deferred outflows/inflows of resources:	
Differences between expected and actual experience	(1,834)
Changes in assumptions or other inputs	<u>1,537</u>
Total OPEB expense	<u>4,782</u>

Deferred Outflows of Resources and Deferred Inflows of Resources to be Recognized in OPEB Expense in Future Years:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	-	8,469
Changes in actuarial assumptions	7,616	-
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	<u>1,409</u>	-
Total	<u>9,025</u>	<u>8,469</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 11 – POST-EMPLOYMENT BENEFITS (OPEB) - TMRS SUPPLEMENTAL DEATH BENEFITS FUND:

(Continued)

The City had \$1,409 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2020. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Deferred (Inflow) Outflow of Resources
2020	(297)
2021	(297)
2022	(297)
2023	(618)
2024	380
Thereafter	<u>276</u>
Total	<u>(853)</u>

NOTE 12 - CONTINGENT LIABILITIES:

The City participates in Federally assisted grant programs. These programs are subject to audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although such amounts, if any, are expected to be immaterial.

NOTE 13 - LITIGATION:

The City is party to various legal proceedings which normally occur in governmental operations. In the opinion of City Management, none of these would have a material or adverse impact on the Financial Statements.

NOTE 14 - COMMITMENTS:

The City has entered into various contracts for improvements and extensions to the sewer system, water supply and treatment facilities. Funds for these contracts will be provided by the bond issue.

NOTE 15 - UNCERTAINTY:

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and it currently is affecting many parts of the world, including the United States and Texas. The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition.

NOTE 16 - SUBSEQUENT EVENTS:

The City has evaluated subsequent events through August 24, 2021, the date which the financial statements were available for issue.

CITY OF HALLSVILLE, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FISCAL YEAR ENDED SEPTEMBER 30, 2020**

	<u>2017</u>	<u>2018</u>	<u>2019</u>
<u>Total Pension Liability</u>			
Service Cost	45,578	54,107	58,017
Interest (on the Total Pension Liability)	41,979	45,260	47,248
Changes in benefit terms	-	-	-
Difference between expected and actual results	1,186	(19,433)	(7,927)
Change of assumptions	-	-	(3,154)
Benefit payments, including refunds of employee contributions	<u>(38,090)</u>	<u>(50,713)</u>	<u>(54,160)</u>
Net Change in Total Pension Liability	50,653	29,221	40,024
Total Pension Liability - Beginning	<u>618,163</u>	<u>668,816</u>	<u>698,037</u>
Total Pension Liability - Ending (a)	<u>668,816</u>	<u>698,037</u>	<u>738,061</u>
<u>Plan Fiduciary Net Position</u>			
Contributions - Employer	22,010	24,669	25,804
Contributions - Employee	35,386	41,115	42,723
Net Investment Income	60,087	(15,362)	79,226
Benefit payments, including refunds of employee contributions	(38,090)	(50,713)	(54,160)
Administrative Expense	(311)	(297)	(448)
Other	<u>(16)</u>	<u>(16)</u>	<u>(13)</u>
Net Change in Plan Fiduciary Net Position	79,066	(604)	93,132
Plan Fiduciary Net Position - Beginning	<u>433,442</u>	<u>512,508</u>	<u>511,904</u>
Plan Fiduciary Net Position - Ending (b)	<u>512,508</u>	<u>511,904</u>	<u>605,036</u>
Net Pension Liability (Asset) - Ending (a)-(b)	<u>156,308</u>	<u>186,133</u>	<u>133,025</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	76.63%	73.33%	81.98%
Covered Employee Payroll	707,728	822,296	854,452
Net Pension Liability as a Percentage of Covered Employee Payroll	22.09%	22.64%	15.57%

CITY OF HALLSVILLE, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FISCAL YEAR ENDED SEPTEMBER 30, 2020**

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially Determined Contribution	25,299	27,425	29,247
Contribution in relation to the actuarially determined contributions	<u>25,299</u>	<u>27,425</u>	<u>29,247</u>
Contribution deficiency	<u>—</u>	<u>—</u>	<u>—</u>
Covered employee payroll	707,728	847,198	920,133
Contributions as a percentage of covered employee payroll	3.57%	3.24%	3.18%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: Actuarially determined contribution rates 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	24 years
Asset Valuation Method	10 Year smoothed marked; 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	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information:	There were no benefit changes during the year.

CITY OF HALLSVILLE, TEXAS

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
SUPPLEMENTAL DEATH BENEFITS PLAN
FISCAL YEAR ENDED SEPTEMBER 30, 2020**

	<u>Measurement Year 2017</u>	<u>Measurement Year 2018</u>	<u>Measurement Year 2019</u>
Total OPEB Liability			
Service Cost	2,760	3,536	3,930
Interest	1,131	1,219	1,149
Changes of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	-	(8,006)	(3,566)
Changes of Assumptions	2,948	(2,470)	9,218
Benefit Payments	<u>(283)</u>	<u>(329)</u>	<u>(342)</u>
Net Change in Total OPEB Liability	6,556	(6,050)	10,389
Total OPEB liability - Beginning	<u>28,672</u>	<u>35,228</u>	<u>29,178</u>
Total OPEB liability - Ending	<u>35,228</u>	<u>29,178</u>	<u>39,567</u>
Covered employee payroll	707,728	847,198	920,133
Total OPEB liability as a percentage of covered employee payroll	4.98%	3.44%	4.30%

NOTES TO SCHEDULE

Total OPEB liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 75.

Until a full 10-year trend is completed, we will present information for those years for which information is available.

No assets are accumulated in a trust for the supplemental death benefits plan to pay related benefits that meet the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Summary of Actuarial Assumptions:

Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Discount rate	2.75% (Based on Fidelity Index's 20-year Municipal GO AA Index)
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a full generational basis with scale UMP.
Mortality rates - disables retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

CITY OF HALLSVILLE, TEXAS

***WATER AND SEWER FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2020***

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Positive (Negative) Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>BUDGETED OPERATING REVENUES:</u>				
Water and Sewer Revenues, Including Penalties	1,396,000	1,396,000	1,596,473	200,473
Meter and Tap Fees	6,000	6,000	8,000	2,000
Connection Fees	4,000	4,000	7,013	3,013
Other Revenues	6,200	6,200	24,027	17,827
Total Budgeted Operating Revenues	1,412,200	1,412,200	1,635,513	223,313
<u>BUDGETED OPERATING EXPENSES:</u>				
Salaries	365,000	365,000	399,759	(34,759)
Payroll Taxes	30,800	30,800	31,685	(885)
TMRS Retirement	15,600	15,600	12,745	2,855
Truck and Auto Allowance	19,000	19,000	25,443	(6,443)
Repairs and Maintenance	287,200	287,200	119,609	167,591
Insurance	99,000	99,000	109,788	(10,788)
Legal and Audit Fees	8,000	8,000	5,676	2,324
Office Expense	28,200	28,200	22,911	5,289
Miscellaneous Expense	16,300	16,300	17,249	(949)
Materials and Supplies	83,600	83,600	66,698	16,902
Water Purchased - City of Longview	330,000	330,000	548,398	(218,398)
Engineering and Contract Services	21,000	21,000	18,741	2,259
Permits and Fees	30,500	30,500	20,119	10,381
Utilities and Telephone	103,000	103,000	76,406	26,594
Depreciation	-	-	338,162	(338,162)
Total Budgeted Operating Expenses	1,437,200	1,437,200	1,813,389	(376,189)
Budgeted Operating Income (Loss)	(25,000)	(25,000)	(177,876)	(152,876)
<u>BUDGETED NON-OPERATING REVENUES (EXPENSES):</u>				
Interest Income	5,000	5,000	10,256	5,256
Interest Expense	-	-	(175,872)	(175,872)
Transfers In	-	-	365,675	365,675
Total Budgeted Non-Operating Revenues (Expenses)	5,000	5,000	200,059	195,059
Budgeted Excess of Revenues Over (Under) Expenses	(20,000)	(20,000)	22,183	42,183
<u>ADDITIONAL BUDGETED (EXPENSE) AMOUNTS:</u>				
Capital Outlay	(1,245,000)	(1,245,000)	(230,694)	1,014,306
Debt Principal	-	-	(189,350)	(189,350)
Additional Budgeted (Expense) Amounts	(1,245,000)	(1,245,000)	(420,044)	824,956
GRAND TOTAL BUDGETED NET INCOME (LOSS)	(1,265,000)	(1,265,000)	(397,861)	867,139

CITY OF HALLSVILLE, TEXAS

**SCHEDULE OF STATISTICAL RECAP FOR THE LAST TEN YEARS
OF SELECTED FINANCIAL DATA - GENERAL FUND
SEPTEMBER 30, 2020**

	Ten Year Fiscal Comparison									
	General Fund									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Budgeted Revenue	1,949,895	1,491,450	1,270,200	1,216,900	991,200	864,400	1,052,800	1,021,858	968,047	729,803
Actual Revenue	2,258,099	2,201,756	1,646,252	1,623,242	1,205,014	1,128,341	1,146,931	1,211,205	1,012,090	1,096,486
Budgeted Expenditures	2,110,895	1,577,355	1,290,200	1,291,900	991,200	867,400	1,058,685	1,189,284	971,279	864,457
Actual Expenditures	1,483,328	2,021,350	1,495,863	1,722,672	1,504,457	1,082,292	1,160,555	1,424,213	919,637	888,814
Capital Assets Value - Gross	4,704,192	4,604,227	4,136,824	3,919,003	3,511,675	3,159,824	3,084,326	2,934,183	2,542,504	2,534,344
Capital Outlay	99,965	467,403	217,821	407,328	351,851	75,498	170,261	391,679	29,753	67,967
Bonds Payable	896,700	997,350	1,098,000	1,198,650	1,296,250	1,393,850	1,555,500	1,800,000	1,915,000	2,025,000
Total Fund Balance	2,131,164	1,356,393	1,175,987	876,085	975,515	1,025,022	978,973	992,597	892,464	760,631

CITY OF HALLSVILLE, TEXAS

**SCHEDULE OF STATISTICAL RECAP FOR THE LAST TEN YEARS
OF SELECTED FINANCIAL DATA - PROPRIETARY FUND
SEPTEMBER 30, 2020**

	Ten Year Fiscal Comparison									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Budgeted Revenue	1,412,200	1,430,700	1,421,400	1,405,025	1,338,000	1,302,300	1,193,200	1,266,400	1,268,800	1,211,518
Actual Revenue	1,635,513	1,461,543	1,610,750	1,495,271	1,476,024	1,439,031	1,362,741	1,382,363	1,443,324	1,474,692
Budgeted Expenditures	1,437,200	1,385,800	1,409,400	1,360,317	1,305,100	1,145,329	1,028,150	1,127,600	1,359,507	1,249,872
Actual Expenditures	1,813,389	1,506,192	1,706,404	1,449,073	1,499,065	1,438,395	1,382,994	1,180,136	1,030,312	1,251,781
Capital Assets Value - Gross	13,128,426	12,897,732	12,736,750	12,411,355	11,783,285	10,772,706	8,988,853	8,716,220	8,556,012	8,376,273
Capital Outlay	230,694	160,982	325,395	628,070	1,010,579	1,783,853	272,633	160,208	179,739	488,029
Bonds Payable	5,013,300	5,202,650	5,392,000	5,581,350	5,763,750	5,941,150	6,044,500	1,140,000	1,457,000	1,621,000
Net Asset Position	4,982,144	4,959,961	4,804,667	4,709,883	4,480,579	4,600,253	4,554,082	4,891,584	4,872,786	4,589,305

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Private Companies Practice Section

SUPPLEMENTAL MANAGEMENT LETTER

City Council
City of Hallsville, Texas

We have audited the financial statements of the City of Hallsville for the year ended September 30, 2020, and have issued our report thereon dated August 24, 2021. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, time, and extent of the auditing procedures necessary for expressing an opinion on the City's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The Governing Body of the City of Hallsville is responsible for establishing and maintaining a system of internal accounting control. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our suggestions and comments regarding those matters.

Account Coding for Revenues and Expenditures - During our current year audit, it was necessary to make several reclassifications of revenues and expenditures to the proper accounts. The City staff needs to take additional care to ensure that all revenues and expenditures are posted to the proper accounts.

Segregation of Duties - Our study and evaluation revealed that the normal controls afforded by segregation of duties among employees is lacking due to the number of employees; however, based upon our review, we found no material weaknesses and concluded that the controls in effect appear to provide reasonable assurance as to the safeguarding of assets and reliability of financial statements. Due to the limited segregation of duties, more substantive work was performed than compliance work.

Deposits - All cash deposits are in institutions whose accounts are insured by an agency of the federal government.

Compliance with Debt Agreements - Our review indicated that the City of Hallsville complied with substantially all covenants of the applicable debt agreements.

Accounting Records - Our review indicated that the financial statements are in complete agreement with the accounting records of the City of Hallsville with the exception that the City maintains its records on the cash receipts and disbursements method of accounting. Therefore, adjustments were recorded to convert the records to the modified accrual or accrual basis as needed to be in conformity with generally accepted accounting principles.

Income Tax Status - The City of Hallsville is exempt from Federal Income Taxes since it is a local governmental entity and, accordingly, it is not necessary to obtain a formal exemption from the Internal Revenue Service under current rules and regulations.

Water Information - The total gallons of water sold and pumped for the years ended September 30, 2020 and September 30, 2019, are detailed as follows:

	<u>9-30-20</u>	<u>9-30-19</u>
Gallons of Water Sold	140,750,300	121,751,000
Gallons of Water Pumped	132,926,710	122,620,467
Active Water Customers	1,694	1,635

This letter supplements the information included in the financial statements and notes. It is intended solely for the use of City Management and Bond Holders and should not be used for any other purpose.

Respectfully submitted,

KNUCKOLS, DUVALL, HALLUM & CO.

Knuckols, Duvall, Hallum & Co.
Certified Public Accountants

Marshall, Texas

August 24, 2021

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

City Council
City of Hallsville, Texas

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of City of Hallsville, Texas for the year ended September 30, 2020, and have issued our report thereon dated August 24, 2021. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards:

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of City of Hallsville, Texas. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City of Hallsville, Texas' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit:

We performed the audit according to the planned scope and timing previously communicated to you about planning matters.

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 City of Hallsville, Texas, are described in the notes to the financial statements. We noted no transactions entered into by City of Hallsville, Texas, 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. During our audit we did not encounter any estimates that were particularly sensitive.

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.

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 auditors' 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 responses were not a condition to our retention.

This information is intended solely for the use of management and is not intended to be and should not be used by anyone other than this specified party.

Respectfully submitted,

KNUCKOLS, DUVAL, HALLUM & CO.



Certified Public Accountants

Marshall, Texas

August 24, 2021