

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF  
HEDWIG VILLAGE, TEXAS**

For the Year Ended  
December 31, 2020

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# CITY OF HEDWIG VILLAGE, TEXAS

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December 31, 2020

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## ***INDEPENDENT AUDITORS' REPORT***

To the Honorable Mayor and  
City Council Members of the  
City of Hedwig Village, Texas:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Hedwig Village, Texas (the "City"), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### **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. 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 City'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 City'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 and each major fund of the City as of December 31, 2020, and the respective changes in financial position 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, budgetary comparison information, the schedules of changes in net pension and total other postemployment liabilities and related ratios, and the schedule of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule is the responsibility of management and was derived from and relates 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 schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
May 28, 2021

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

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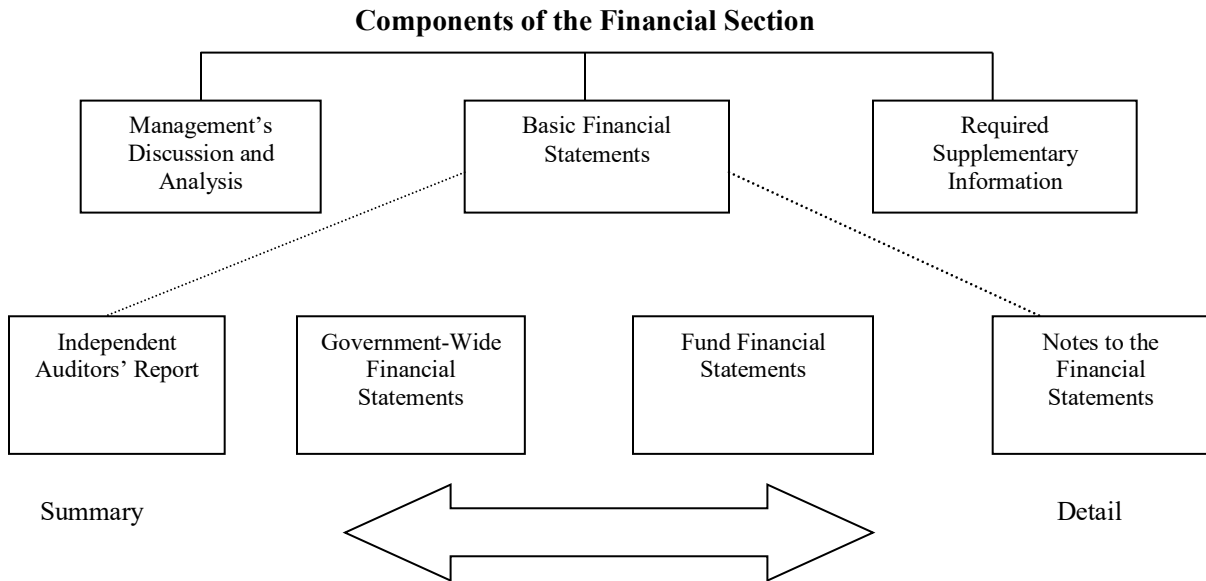
# CITY OF HEDWIG VILLAGE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2020

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Hedwig Village, Texas (the "City") for the year ended December 31, 2020. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

### THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

#### **Government-Wide Statements**

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, even if cash has not yet changed hands.

The Statement of Net Position presents information on all the City's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change

**CITY OF HEDWIG VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended December 31, 2020**

occurs, regardless of the timing of related cash flows – the accrual method rather than the modified accrual method that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities include one class of activity:

1. *Governmental Activities* – All of the City's basic services are reported here including public safety (police and fire), public works (streets and park maintenance), culture and recreation, and general government. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise fees, municipal court fines, and permit fees finance most of these activities.

The government-wide financial statements can be found after the MD&A.

## **FUND FINANCIAL STATEMENTS**

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The only category of City funds is governmental.

### **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 *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City maintains five 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 balances for the general fund, the debt service fund, the capital projects fund, and the traffic mitigation fund, which are considered to be major funds for reporting purposes. While the police seizure fund did not meet the technical criteria to be reported as a major fund, the City has elected to present it as such.

The City adopts an annual appropriated budget for its general fund, traffic mitigation fund, police seizure fund, and debt service fund. Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

### **Notes to Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

**CITY OF HEDWIG VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended December 31, 2020

**Other Information**

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes the budgetary comparison schedules for the general fund, the traffic mitigation fund, and the police seizure fund and schedules of changes in net pension and total other postemployment liabilities and related ratios and schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$17,963,677 as of year end. This compares with \$16,918,743 from the prior fiscal year. A large portion of the City's net position, \$15,152,805 or 84 percent, reflects its investments in capital assets (e.g., land, infrastructure, and buildings and improvements), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

**Statement of Net Position**

The following table reflects the condensed Statement of Net Position:

	<b>Governmental Activities</b>	
	<b>2020</b>	<b>2019</b>
<b><u>Assets</u></b>		
Current and other assets	\$ 10,793,545	\$ 7,401,208
Capital assets, net	18,341,199	18,571,275
<b>Total Assets</b>	<b>29,134,744</b>	<b>25,972,483</b>
Deferred outflows - pensions	164,926	443,758
Deferred outflows - OPEB	20,493	6,622
<b>Total Deferred Outflows of Resources</b>	<b>185,419</b>	<b>450,380</b>
<b><u>Liabilities</u></b>		
Long-term liabilities	6,553,606	5,827,139
Other liabilities	190,135	188,818
<b>Total Liabilities</b>	<b>6,743,741</b>	<b>6,015,957</b>
Deferred inflows - pensions	222,657	27,349
Deferred inflows - OPEB	8,455	5,870
Deferred inflows - property taxes	4,381,633	3,454,944
<b>Total Deferred Inflows of Resources</b>	<b>4,612,745</b>	<b>3,488,163</b>
<b><u>Net Position</u></b>		
Net investment in capital assets	15,152,805	14,756,251
Restricted	1,056,117	1,033,201
Unrestricted	1,754,755	1,129,291
<b>Total Net Position</b>	<b>\$ 17,963,677</b>	<b>\$ 16,918,743</b>

**CITY OF HEDWIG VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended December 31, 2020**

A portion of the City's net position, \$1,056,117 or 6 percent, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net position, \$1,754,755 or 10 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net position increased by \$1,044,934 during the current fiscal year.

**Statement of Activities**

The following table provides a summary of the City's changes in net position:

	<b>Governmental Activities</b>	
	<b>2020</b>	<b>2019</b>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 1,246,715	\$ 946,917
Operating grants and contributions	1,060,758	1,031,545
General revenues:		
Property taxes	3,463,029	3,131,322
Sales taxes	1,827,925	2,063,090
Franchise fees and other taxes	465,148	415,166
Investment income	13,826	59,229
Other revenue	53,996	86,124
Gain on sale of capital assets	15,900	14,200
<b>Total Revenues</b>	<b>8,147,297</b>	<b>7,747,593</b>
<b>Expenses</b>		
General government	1,009,385	1,020,606
Public safety	5,021,189	5,215,854
Public works	819,755	863,156
Culture and recreation	64,670	82,405
Interest and fees on long-term debt	187,364	138,853
<b>Total Expenses</b>	<b>7,102,363</b>	<b>7,320,874</b>
<b>Change in Net Position</b>	<b>1,044,934</b>	<b>426,719</b>
Beginning net position	16,918,743	16,492,024
<b>Ending Net Position</b>	<b>\$ 17,963,677</b>	<b>\$ 16,918,743</b>

Revenues from governmental activities totaled \$8,147,297, which is a net increase of \$399,704 from the 2019 fiscal year, primarily due to an increase in property taxes of \$331,707 and an increase in charges for services of \$299,798. The increase in property taxes is due to an increase in the property tax rate and an increase in assessed taxable property value. Charges for services increased largely due to an increase in licenses and permits revenue due to additional commercial construction permits. Sales taxes are one of the City's largest revenue sources and totaled \$1,827,925 for the year. This represents a decrease of \$235,165 compared to the previous year. The decrease is primarily associated with the global economic impact caused by the COVID-19 pandemic.

In total, governmental expenses for the year were \$7,102,363, a decrease of a \$218,511 or 3 percent, from the prior year.

**CITY OF HEDWIG VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended December 31, 2020**

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

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

The City's governmental funds reflect a combined fund balance of \$6,211,943. Of this, \$1,834,226 is restricted for capital improvement, \$117,886 is restricted for child safety, \$113,874 is restricted for debt service, \$806,453 is restricted for traffic mitigation, \$17,904 is restricted for public safety, \$442,234 is assigned for operations, \$306,990 is assigned for infrastructure, \$350,100 is assigned for equipment, and \$225,000 is assigned for emergencies.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$1,997,276, while total fund balance reached \$3,439,486. This represents an increase of \$1,009,063 from 2019. This increase is primarily due to an increase in licenses and permits and property tax revenue. The increase in property taxes is mainly due to an increase in the property tax rate and assessed values of properties. Licenses and permits increased largely due to additional commercial construction permits. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 32 percent of total general fund expenditures, while total fund balance represents 55 percent of that same amount.

There was an increase of \$14,273 in the debt service fund balance for a total of \$113,874 at year end. The increase is due to property tax collections exceeding debt service payments.

There was an increase of \$15,219 in the traffic mitigation fund balance for a total of \$806,453 at year end due to an excess of revenues after an interfund transfer to the general fund. There was a decrease in funds received from the Metropolitan Transit Authority of Harris County (METRO) as a result of a reduction in sales tax revenue in comparison to the prior year.

There was a slight increase of \$89 in the police seizure fund balance due to investment revenue received in the current year.

There was an increase in fund balance of \$1,493,867 in the capital projects fund due to the issuance of the Series 2020 Tax Notes.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual general fund revenues exceeded final budgeted revenues by \$745,901 during 2020. This net variance includes negative variances of \$101,760 for fines and forfeitures revenue and \$67,075 for sales taxes, and positive variances of \$722,375 for licenses and permits, and \$146,795 for intergovernmental.

Budgeted expenditures were more than actual amounts by \$471,662 for the fiscal year. The greatest positive variances were \$63,428 for general government, \$246,214 for public safety, and \$130,801 for public works due to lower expenditures than anticipated.

**CITY OF HEDWIG VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended December 31, 2020**

**CAPITAL ASSETS**

At the end of the year, the City's governmental activities had invested \$18,341,199 in capital assets (net of accumulated depreciation). This represents a net decrease of \$230,076 compared to the prior year.

Capital asset events during the year included the purchase of three vehicles and equipment for the police department for \$127,914, court room audio and video equipment for \$25,750, and construction in progress of \$423,766 for engineering fees that relate to a drainage improvement project.

More detailed information on the City's capital assets is presented in note III. C. to the financial statements.

**LONG-TERM DEBT**

At the end of the current year, the City had total long-term debt outstanding of \$5,825,000. Of this amount, \$260,000 represented general obligation refunding bonds, \$3,390,000 was certificates of obligation, and \$2,175,000 was tax notes.

More detailed information about the City's long-term liabilities is presented in note III. D. to the financial statements.

**COVID-19**

In March 2020, COVID-19 was recognized as a pandemic both worldwide and in the United States with local stay-at-home orders going into effect. The City navigated through this time by alternating the schedules of its employees due to the various City functions needed to continue to run through this time. The City followed the directions of the State in relations to Municipal Court. The Municipal Court was closed until the City came up with an acceptable plan to monitor social distancing, require masks, and provide hand sanitizers. Subsequent to the second wave of the COVID outbreak, the State is now requiring Municipal Court to be held via Zoom meetings. While the initial event occurred prior to year end, the City was, subsequent to year end, continuing to modify its operations to prevent the spread to customer, staff, and the community as a whole, while balancing the needs of the community. The City has made numerous changes to its operations, including provisions for customer and staff to wear masks, more frequent cleanings, and numerous other changes. While such changes cause a significant hardship and have increased expenses, such increases are nominal in comparison to the overall budget. The City is continuing to monitor exposure levels with customer, staff, and the community as a whole, but to date the overall exposure threat level has been sufficiently low to continue with open doors; however, the City is ready to modify its plans if necessary.

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

The City adopted a fiscal year 2021 expenditure budget for the general fund of \$6,765,500, which is an increase of approximately 7 percent from the prior year amended budget. The City budgeted for fiscal year 2021 revenues of \$5,641,100 net of transfers from other funds, which is an increase of approximately 7 percent from the prior year amended budget. The City adopted a 2020 tax rate of \$0.374927 per \$100 of valuation.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Kelly Johnson, City Administrator/City Secretary-Treasurer, City of Hedwig Village, 955 Piney Point Road, Hedwig Village, Texas 77024.

***BASIC FINANCIAL STATEMENTS***

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# CITY OF HEDWIG VILLAGE, TEXAS

## STATEMENT OF NET POSITION

December 31, 2020

	<b>Primary Government Governmental Activities</b>
<b><u>Assets</u></b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 6,973,830
Receivables	3,819,715
<b>Total Current Assets</b>	<b>10,793,545</b>
<b>Noncurrent Assets</b>	
Capital assets	
Nondepreciable	901,528
Net depreciable capital assets	17,439,671
<b>Total Noncurrent Assets</b>	<b>18,341,199</b>
<b>Total Assets</b>	<b>29,134,744</b>
<b><u>Deferred Outflows of Resources</u></b>	
Deferred outflows - pensions	164,926
Deferred outflows - OPEB	20,493
<b>Total Deferred Outflows of Resources</b>	<b>185,419</b>
<b><u>Liabilities</u></b>	
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	139,692
Accrued interest payable	50,443
<b>Total Current Liabilities</b>	<b>190,135</b>
<b>Noncurrent Liabilities</b>	
Long-term liabilities due within one year	1,058,298
Long-term liabilities due in more than one year	5,495,308
<b>Total Noncurrent Liabilities</b>	<b>6,553,606</b>
<b>Total Liabilities</b>	<b>6,743,741</b>
<b><u>Deferred Inflows of Resources</u></b>	
Deferred inflows - pensions	222,657
Deferred inflows - OPEB	8,455
Deferred inflows - property taxes	4,381,633
<b>Total Deferred Inflows of Resources</b>	<b>4,612,745</b>
<b><u>Net Position</u></b>	
Net investment in capital assets	15,152,805
Restricted for:	
Child safety	117,886
Debt service	113,874
Traffic mitigation	806,453
Public safety	17,904
Unrestricted	1,754,755
<b>Total Net Position</b>	<b>\$ 17,963,677</b>

See Notes to Financial Statements.

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# CITY OF HEDWIG VILLAGE, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
<b>Primary Government</b>				
<b>Governmental Activities</b>				
General government	\$ 1,009,385	\$ -	\$ -	\$ (1,009,385)
Public safety	5,021,189	174,340	146,795	(4,700,054)
Public works	819,755	1,072,375	913,963	1,166,583
Culture and recreation	64,670	-	-	(64,670)
Interest and fees on long-term debt	187,364	-	-	(187,364)
<b>Total Governmental Activities</b>	<b>\$ 7,102,363</b>	<b>\$ 1,246,715</b>	<b>\$ 1,060,758</b>	<b>(4,794,890)</b>
<b>General Revenues</b>				
Taxes:				
				3,463,029
				1,827,925
				465,148
				13,826
				53,996
				15,900
			<b>Total General Revenues</b>	<b>5,839,824</b>
			<b>Change in Net Position</b>	<b>1,044,934</b>
			Beginning net position	16,918,743
			<b>Ending Net Position</b>	<b>\$ 17,963,677</b>

See Notes to Financial Statements.

# CITY OF HEDWIG VILLAGE, TEXAS

## BALANCE SHEET GOVERNMENTAL FUNDS

December 31, 2020

	<u>General</u>	<u>Debt Service</u>	<u>Traffic Mitigation</u>	<u>Police Seizure</u>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 4,084,428	\$ 415,995	\$ 621,277	\$ 17,904
Receivables	2,832,041	802,498	185,176	-
Due from other funds	850	-	-	-
<b>Total Assets</b>	<b>\$ 6,917,319</b>	<b>\$ 1,218,493</b>	<b>\$ 806,453</b>	<b>\$ 17,904</b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 139,692	\$ -	\$ -	\$ -
Due to other funds	-	850	-	-
<b>Total Liabilities</b>	<b>139,692</b>	<b>850</b>	<b>-</b>	<b>-</b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue - property taxes	3,338,141	1,103,769	-	-
<b>Total Deferred Inflows of Resources</b>	<b>3,338,141</b>	<b>1,103,769</b>	<b>-</b>	<b>-</b>
<b><u>Fund Balances</u></b>				
Restricted for:				
Capital improvement	-	-	-	-
Child safety	117,886	-	-	-
Debt service	-	113,874	-	-
Public safety	-	-	-	17,904
Traffic mitigation	-	-	806,453	-
Assigned for:				
Emergencies	225,000	-	-	-
Operations	442,234	-	-	-
Infrastructure	306,990	-	-	-
Equipment	350,100	-	-	-
Unassigned:				
General fund	1,997,276	-	-	-
<b>Total Fund Balances</b>	<b>3,439,486</b>	<b>113,874</b>	<b>806,453</b>	<b>17,904</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 6,917,319</b>	<b>\$ 1,218,493</b>	<b>\$ 806,453</b>	<b>\$ 17,904</b>

See Notes to Financial Statements.

<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ 1,834,226	\$ 6,973,830
-	3,819,715
-	850
<u>\$ 1,834,226</u>	<u>\$ 10,794,395</u>
\$ -	\$ 139,692
-	850
<u>-</u>	<u>140,542</u>
-	4,441,910
<u>-</u>	<u>4,441,910</u>
1,834,226	1,834,226
-	117,886
-	113,874
-	17,904
-	806,453
-	225,000
-	442,234
-	306,990
-	350,100
-	1,997,276
<u>1,834,226</u>	<u>6,211,943</u>
<u>\$ 1,834,226</u>	<u>\$ 10,794,395</u>

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**December 31, 2020**

Total fund balances for the governmental funds \$ 6,211,943

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Nondepreciable capital assets	901,528
Depreciable capital assets	29,614,650
Accumulated depreciation	(12,174,979)

Long-term liabilities and deferred outflows and inflows related to the net pension and total other postemployment (OPEB) liability are not reported in the governmental funds.

Net pension liability	(328,614)
Total OPEB liability	(119,319)
Deferred outflows - pensions	164,926
Deferred outflows - OPEB	20,493
Deferred inflows - pensions	(222,657)
Deferred inflows - OPEB	(8,455)

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

Unavailable revenue related to property taxes	60,277
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Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Accrued interest payable	(50,443)
Long-term liabilities due within one year	(1,058,298)
Long-term liabilities due in more than one year	(5,047,375)

<b>Net Position of Governmental Activities</b>	<u><u>\$ 17,963,677</u></u>
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See Notes to Financial Statements.

# CITY OF HEDWIG VILLAGE, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended December 31, 2020

	General	Debt Service	Traffic Mitigation	Police Seizure
<b>Revenues</b>				
Property taxes	\$ 2,637,809	\$ 819,973	\$ -	\$ -
Sales taxes	1,827,925	-	-	-
Franchise fees and other taxes	465,148	-	-	-
Licenses and permits	1,072,375	-	-	-
Fines and forfeitures	174,340	-	-	-
Intergovernmental	146,795	-	913,963	-
Investment income	8,613	3,226	1,256	89
Other revenue	53,996	-	-	-
<b>Total Revenues</b>	<b>6,387,001</b>	<b>823,199</b>	<b>915,219</b>	<b>89</b>
<b>Expenditures</b>				
<b>Current:</b>				
General government	928,672	-	-	-
Public safety	4,396,786	-	-	-
Public works	305,899	-	-	-
Culture and recreation	64,670	-	-	-
<b>Capital outlay</b>	597,811	-	-	-
<b>Debt service:</b>				
Principal	-	670,000	-	-
Interest and fiscal charges	-	138,926	-	-
Debt issuance costs	-	-	-	-
<b>Total Expenditures</b>	<b>6,293,838</b>	<b>808,926</b>	<b>-</b>	<b>-</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>93,163</b>	<b>14,273</b>	<b>915,219</b>	<b>89</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	900,000	-	-	-
Transfers (out)	-	-	(900,000)	-
Debt issued	-	-	-	-
Sale of capital assets	15,900	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>915,900</b>	<b>-</b>	<b>(900,000)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>1,009,063</b>	<b>14,273</b>	<b>15,219</b>	<b>89</b>
Beginning fund balances	2,430,423	99,601	791,234	17,815
<b>Ending Fund Balances</b>	<b>\$ 3,439,486</b>	<b>\$ 113,874</b>	<b>\$ 806,453</b>	<b>\$ 17,904</b>

See Notes to Financial Statements.



<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ -	\$ 3,457,782
-	1,827,925
-	465,148
-	1,072,375
-	174,340
-	1,060,758
642	13,826
-	53,996
642	8,126,150
-	928,672
-	4,396,786
-	305,899
-	64,670
277,500	875,311
-	670,000
-	138,926
54,275	54,275
331,775	7,434,539
(331,133)	691,611
-	900,000
-	(900,000)
1,825,000	1,825,000
-	15,900
1,825,000	1,840,900
1,493,867	2,532,511
340,359	3,679,432
\$ 1,834,226	\$ 6,211,943

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**CITY OF HEDWIG VILLAGE, 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 December 31, 2020**

Net changes in fund balances - total governmental funds \$ 2,532,511

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	510,582
Depreciation expense, net of disposals	(740,658)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (63,754)

Net pension and total other postemployment (OPEB) liability and deferred outflows and inflows related to the net pension and total OPEB liability are not reported in the governmental funds.

Change in net pension liability	471,282
Change in total OPEB liability	(22,572)
Change in deferred outflows - pensions	(278,832)
Change in deferred outflows - OPEB	13,871
Change in deferred inflows - pensions	(195,308)
Change in deferred inflows - OPEB	(2,585)

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) 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. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Debt principal repayments	670,000
Debt issued	(1,825,000)
Amortization of premiums on debt	10,263

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Accrued interest expense	(4,426)
Compensated absences	(30,440)

<b>Change in Net Position of Governmental Activities</b>	<b>\$ 1,044,934</b>
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See Notes to Financial Statements.

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# **CITY OF HEDWIG VILLAGE, TEXAS**

## ***NOTES TO FINANCIAL STATEMENTS***

**For the Year Ended December 31, 2020**

### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

The City of Hedwig Village, Texas (the “City”) was incorporated under the laws of the State of Texas (the “State”) in 1954 to provide municipal services such as police protection, fire protection, public works, and general government services for its residents. The City operates under general laws of the State, which provides for a “Mayor-Council” form of government.

The City is an independent political subdivision of the State governed by an elected five-member council and mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. No other entities, organizations, or functions have been included in the City’s financial reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

#### **B. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement Activities) report information on all of the activities of the primary government. Governmental activities are normally supported by taxes and intergovernmental revenues and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City has no business-type activities.

#### **C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

### D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category, governmental, are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The City reports the following governmental funds:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales taxes, franchise fees, licenses and permits, and fines and forfeitures. Expenditures include general government, public safety, public works, and culture and recreation. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The traffic mitigation fund, used to account for the receipt and expenditure of funds received from the Metropolitan Transit Authority of Harris County, Texas (METRO), is considered a major fund for reporting purposes. The police seizure fund did not meet the technical requirements for reporting as a major fund; however, it is considered to be significant in presenting the overall operations of the City and, as such, has been presented as a major fund.

The *capital projects fund* is used to account for the expenditures of resources accumulated from the sale of long-term debt and related interest earnings for capital improvement projects. The capital projects fund is considered a major fund for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in preparation of the governmental-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

### E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources or economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise fees, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

### **F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

#### **1. Cash and Cash Equivalents**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, balances in statewide investment pools, and short-term investments with original maturities of three months or less from the date of acquisition.

#### **2. Investments**

Investments, except for certain investment pools, are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations and is reported at amortized cost.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

Direct obligations of the U.S. government

Fully collateralized certificates of deposit and money market accounts

Statewide investment pools

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

### 3. Capital Assets

Capital assets, which include land, vehicles and equipment, buildings and improvements, and infrastructure assets (e.g., roads and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of three years for personal property and \$25,000 or more for buildings and infrastructure. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles and equipment	3 to 15 years
Infrastructure	25 to 45 years
Buildings and improvements	5 to 40 years

### 4. 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(s) 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. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.
- Deferred resources for property taxes represent revenues that were collected for use in the subsequent period.

At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report



# **CITY OF HEDWIG VILLAGE, TEXAS**

## ***NOTES TO FINANCIAL STATEMENTS (Continued)***

**For the Year Ended December 31, 2020**

unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

### **5. Compensated Employee Absences**

The City maintains formal programs for vacation and sick leave. The City's vacation policy provides vacations of ten days after one year of service, up to 15 days with 5 years of service, and up to 20 days with 15 years of service. No vacation can be carried over to the ensuing calendar year. The City provides sick leave of ten days per year, which accumulates up to a maximum of 180 days. Payment may be made for up to 30 days of unused sick leave. In addition, employees are allowed to accrue up to 60 hours of compensatory time, which is paid upon termination. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

### **6. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

### **7. Net Position Flow Assumption**

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

### **8. Fund Balance Flow Assumptions**

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

# **CITY OF HEDWIG VILLAGE, TEXAS**

## ***NOTES TO FINANCIAL STATEMENTS (Continued)***

**For the Year Ended December 31, 2020**

to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

### **9. Fund Balance Policies**

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

### **10. Estimates**

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

### **11. Pensions**

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

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

### 12. Other Postemployment Benefits

The City participates in a single-employer, unfunded, defined benefit group-term life insurance plan operated by 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 funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the City's total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TMRS from reports prepared by their consulting actuary.

### G. Revenues and Expenditures/Expenses

#### 1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

#### 2. Property Taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

### II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except the capital projects fund, which adopts a project length budget. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is at the department level as stated in the approved budget. Appropriations lapse at the end of the year, excluding the capital projects fund budget. Supplemental budget appropriations were made during the year. Encumbrance accounting is not utilized.

### III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

#### A. Deposits and Investments

At December 31, 2020, the City had the following investments:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 665,136	0.00

*Interest rate risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

*Credit risk.* The City's policy requires that investment pools must be rated no lower than 'AAA' or 'AAA-m'. Bankers' acceptances must be issued in the United States and carry a rating of 'A1'/'P1' as provided by two of the top nationally recognized rating agencies. As of December 31, 2020, the City's investments in TexPool were rated 'AAAm' by Standard & Poor's.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of December 31, 2020, market values of pledged securities and FDIC insurance exceeded bank balances.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that all securities bought be held in safekeeping by either the City, the City's designated depository, a City account in an independent third-party financial institution, or with the Federal Reserve Bank. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

### TexPool

TexPool was established as a trust company with the Treasurer of the State as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool 'AAAm'. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

### B. Receivables

The following comprise receivable balances at year end:

	<b>General</b>	<b>Debt Service</b>	<b>Traffic Mitigation</b>	<b>Total</b>
Property taxes	\$ 2,426,381	\$ 802,498	\$ -	\$ 3,228,879
Sales tax	370,352	-	-	370,352
Franchise fees	11,712	-	-	11,712
Mixed beverage taxes	23,596	-	-	23,596
Other	-	-	185,176	185,176
	\$ 2,832,041	\$ 802,498	\$ 185,176	\$ 3,819,715

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the governmental funds were as follows:

	<b>Unavailable</b>	<b>Unearned</b>
Current property taxes receivable - general fund	\$ -	\$ 3,293,313
Delinquent property taxes receivable - general fund	44,828	-
Current property taxes receivable - debt service fund	-	1,088,320
Delinquent property taxes receivable - debt service fund	15,449	-
	\$ 60,277	\$ 4,381,633

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

### C. Capital Assets

A summary of changes in capital assets at year end is as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>(Decreases)</b>	<b>Ending Balance</b>
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 477,762	\$ -	\$ -	\$ 477,762
Construction in progress - engineering fees	15,000	438,766	(30,000)	423,766
Total capital assets not being depreciated	492,762	438,766	(30,000)	901,528
Other capital assets:				
Vehicles and equipment	1,026,516	168,664	(66,848)	1,128,332
Buildings and improvements	6,736,168	-	-	6,736,168
Infrastructure	21,750,150	-	-	21,750,150
Total other capital assets	29,512,834	168,664	(66,848)	29,614,650
Less accumulated depreciation for:				
Vehicles and equipment	(811,378)	(143,852)	66,848	(888,382)
Buildings and improvements	(1,188,386)	(169,027)	-	(1,357,413)
Infrastructure	(9,434,557)	(494,627)	-	(9,929,184)
Total accumulated depreciation	(11,434,321)	(807,506)	66,848	(12,174,979)
Other capital assets, net	18,078,513	(638,842)	-	17,439,671
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 18,571,275</b>	<b>\$ (200,076)</b>	<b>\$ (30,000)</b>	<b>18,341,199</b>
			Less associated debt	(5,022,620)
			Plus unspent bond proceeds	1,834,226
			<b>Net Investment in Capital Assets</b>	<b>\$ 15,152,805</b>

Depreciation was charged to governmental activities functions as follows:

General government	\$ 74,670
Public safety	237,434
Public works	495,402
<b>Total Governmental Activities Depreciation Expense</b>	<b>\$ 807,506</b>

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

### D. Long-Term Debt

The following is a summary of changes in the City's total governmental activities long-term liabilities for the year. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities</b>					
General obligation bonds	\$ 390,000	\$ -	\$ (130,000)	\$ 260,000	* \$ 130,000
Certificates of obligation	3,590,000	-	(200,000)	3,390,000	*
Tax notes from direct borrowings/ placements	690,000	1,825,000	(340,000)	2,175,000	* 600,000
Bond premium	153,938	-	(10,263)	143,675	*
Net pension liability	799,896	-	(471,282)	328,614	-
Total OPEB liability	96,747	22,572	-	119,319	-
Compensated absences	106,558	138,989	(108,549)	136,998	123,298
<b>Total Governmental Activities</b>	<b><u>\$ 5,827,139</u></b>	<b><u>\$ 1,986,561</u></b>	<b><u>\$ (1,260,094)</u></b>	<b><u>\$ 6,553,606</u></b>	<b><u>\$ 1,058,298</u></b>
				<b><u>Long-Term Debt Due In More Than One Year</u></b>	<b><u>\$ 5,495,308</u></b>
				*Debt associated with governmental activities capital assets	5,968,675
				Less contributions to Villiage Fire Department	946,055
				<b>Total Debt Associated With Governmental Activities Capital Assets</b>	<b><u>\$ 5,022,620</u></b>

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

During the fiscal year, the City issued Tax Notes, Series 2020 (the "Notes"). Proceeds from the Notes will be used for improvements to Interstate 10; designing, constructing, and improving transportation; street and storm drainage improvements; constructing, installing and equipping park improvements; the purchase of City equipment; the purchase of police vehicles; and issuance costs. The Notes will mature on March 1, 2027 and have an interest rate that ranges from 0.8% to 1.5%.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

Long-term debt was comprised of the following debt issues:

Description	Interest Rates	Balance
<b><u>Governmental Activities</u></b>		
<b>General Obligation Refunding Bonds</b>		
Series 2012	1.00-1.75%	\$ 260,000
<b>Certificates of Obligation</b>		
Series 2014	2.00-4.00%	3,390,000
<b>Tax Notes</b>		
Series 2018	2.97%	350,000
Series 2020	0.80-1.50%	1,825,000
	<b>Total Tax Notes</b>	<b>2,175,000</b>
<b>Total Governmental Activities Long-Term Debt</b>		<b>\$ 5,825,000</b>

The annual requirements to amortize general obligation bonds and certificates of obligation outstanding at year end were as follows:

Year Ending <u>Dec 31</u>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 335,000	\$ 111,826	\$ 446,826
2022	335,000	105,451	440,451
2023	210,000	100,213	310,213
2024	215,000	95,488	310,488
2025	220,000	90,113	310,113
2026-2030	1,210,000	345,975	1,555,975
2031-2034	1,125,000	114,800	1,239,800
<b>Total</b>	<b>\$ 3,650,000</b>	<b>\$ 963,864</b>	<b>\$ 4,613,864</b>

The annual debt service requirements for direct borrowings/placements are as follows:

Year Ending <u>Dec 31</u>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 600,000	\$ 33,823	\$ 633,823
2022	255,000	18,825	273,825
2023	260,000	16,530	276,530
2024	260,000	13,930	273,930
2025	265,000	10,940	275,940
2026-2027	535,000	9,653	544,653
<b>Total</b>	<b>\$ 2,175,000</b>	<b>\$ 103,701</b>	<b>\$ 2,278,701</b>

General obligation bonds, certificates of obligation, and tax notes are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds, certificates of obligation, and tax notes are from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.



# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

### Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, they could result in a substantial liability to the City. Although the City does not anticipate that it will have any arbitrage liability, it periodically engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

### E. Interfund Transactions

Transfers between governmental funds during the year were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
Traffic Mitigation Fund	General Fund	<u>\$ 900,000</u>
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Debt Service Fund	<u>\$ 850</u>

The traffic mitigation fund transferred revenues to the general fund to pay for eligible METRO activities during the year. Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

## IV. OTHER INFORMATION

### A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's (TML) General Liability Fund. In addition, the City participates in the TML's Workers' Compensation Fund to insure the City for workers' compensation. The City has no additional risk or responsibility to the funds outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three years.

### B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures that may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

The continued spread of the COVID-19 pandemic has given a rise in uncertainties that may have a significant negative impact on the operating activities and results of the City. The occurrence and extent of such impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are uncertain.

### C. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the “Plan”) created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Plan’s trust arrangements are established to protect deferred compensation amounts of employees under the Plan from any other use than intended under the Plan (eventual payment to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under Plan provisions are disbursed monthly by the City to a third-party administrator. The third-party administrator handles all funds in the Plan and makes investments decisions and disburses funds to employees in accordance with Plan provisions. During the fiscal year, \$38,330 was contributed to the Plan.

### D. Pension Plan

#### Texas Municipal Retirement System

##### Plan Description

The City participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State 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. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the “Board”). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State. 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 that can be obtained at [www.tmr.com](http://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 retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member’s deposits and interest.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

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:

	2020	2019
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

### Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled to, but not yet receiving, benefits	23
Active employees	28
<b>Total</b>	<b>68</b>

### Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City-matching percentages are either 100 percent, 150 percent, or 200 percent, 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 were required to contribute five percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.22 percent and 7.33 percent in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the fiscal year ended December 31, 2020 were \$160,304, which were equal to 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 NPL was determined by an actuarial valuation as of that date.

### Actuarial Assumptions

The TPL in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates 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, the actuary 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 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 (Arithmetic)</u>
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
<b>Total</b>	<b>100.00%</b>	

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

### Discount Rate

The discount rate used to measure the TPL was 6.75 percent. 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 TPL.

### Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 213,198	\$ -	\$ 213,198
Interest	390,399	-	390,399
Difference between expected and actual experience	(46,421)	-	(46,421)
Changes in assumptions	5,200	-	5,200
Contributions - employer	-	154,084	(154,084)
Contributions - employee	-	106,706	(106,706)
Net investment income	-	777,391	(777,391)
Benefit payments, including refunds of employee contributions	(297,338)	(297,338)	-
Administrative expense	-	(4,390)	4,390
Other changes	-	(133)	133
<b>Net Changes</b>	265,038	736,320	(471,282)
Balance at December 31, 2018	5,825,765	5,025,869	799,896
<b>Balance at December 31, 2019</b>	<b>\$ 6,090,803</b>	<b>\$ 5,762,189</b>	<b>\$ 328,614</b>

### Sensitivity of the NPL to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability /(Asset)	\$ 1,078,146	\$ 328,614	\$ (294,761)

### Pension Plan Fiduciary Net Position

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

### Pension Expense and Deferred Outflows/Deferred Inflows of Resources Related to Pensions

For the fiscal year ended December 31, 2020, the City recognized pension expense of \$163,132.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ 827	\$ 47,332
Changes in actuarial assumptions	3,795	-
Difference between projected and actual investment earnings	-	175,325
Contributions subsequent to the measurement date	160,304	-
<b>Total</b>	<b>\$ 164,926</b>	<b>\$ 222,657</b>

\$160,304 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 NPL for the fiscal year ending December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended December 31</b>	<b>Pension Expense</b>
2021	\$ (70,109)
2022	(66,327)
2023	6,030
2024	(87,629)
<b>Total</b>	<b>\$ (218,035)</b>

### E. Other Postemployment Benefits

#### TMRS – Supplemental Death Benefit

##### Plan Description

The City participates in a defined benefit OPEB plan administered by TMRS. TMRS administers the defined benefit group term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers 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.

The member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (GASB 75). As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TMRS Act requires the PTF to allocate a five percent interest credit from investment income to the SDBF on an annual basis each December 31 based on the mean balance in the SDBF during the year.

### Benefits

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 OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2019 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	15
Inactive employees entitled to, but not yet receiving, benefits	7
Active employees	28
Total	<u>50</u>

### Total OPEB Liability

The City's total OPEB liability of \$119,319 was measured as of December 31, 2019 and was determined by an actuarial valuation as of that date.

### Actuarial Assumptions and Other Inputs

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

Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Discount rate	2.75%*
Retirees' share of benefit-related costs	Zero
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB 68.
Mortality rates-service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates-disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

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

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

### Changes in the Total OPEB Liability

	<b>Total OPEB Liability</b>
Changes for the year:	
Service cost	\$ 4,908
Interest	3,668
Difference between expected and actual experience	(4,976)
Changes of assumptions	19,612
Benefit payments*	(640)
<b>Net Changes</b>	<b>22,572</b>
Beginning balance	96,747
<b>Ending Balance</b>	<b>\$ 119,319</b>

\* Benefit payments are treated as being equal to the employer's yearly contributions for retirees due to the SDBF being considered an unfunded OPEB plan under GASB 75.

The discount rate decreased from 3.71 percent to 2.75 percent as of December 31, 2019. There were no other change of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

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

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

	<b>1% Decrease in Discount Rate (1.75%)</b>	<b>Discount Rate (2.75%)</b>	<b>1% Increase in Discount Rate (3.75%)</b>
City's Total OPEB Liability	\$ 144,884	\$ 119,319	\$ 99,677

### OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended December 31, 2020, the City recognized OPEB expense of \$11,940. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in actuarial assumptions	\$ 18,914	\$ 4,499
Difference between expected and actual experience	923	3,956
Contributions subsequent to the measurement date	656	-
<b>Total</b>	<b>\$ 20,493</b>	<b>\$ 8,455</b>



# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2020

\$656 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 fiscal year ending December 31, 2021.

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31	OPEB Expense
2021	\$ 3,364
2022	3,364
2023	2,318
2024	2,336
<b>Total</b>	<b>\$ 11,382</b>

### F. Related Organizations and Joint Ventures

On December 20, 1978, the City entered into an interlocal cooperation agreement (the "Agreement") with the cities of Bunker Hill Village, Hilshire Village, Hunters Creek Village, Piney Point Village, and Spring Valley Village, Texas creating the Village Fire Department (VFD). The Agreement ran for a period of 12 years beginning January 1, 1979 and ended December 31, 1990. Effective January 1, 1991, the Agreement automatically renewed for a period of five years and will continue to renew on each expiration date unless terminated by at least one of the contracting cities. Under the terms of the Agreement, the City is liable for 18.5 percent of VFD's approved budget.

Consolidated financial information of VFD extracted from the audited financial statements for the year ended December 31, 2020, on which VFD's auditors expressed an unmodified opinion, are as follows:

	VFD Total		City's Portion (18.5%)	
	Net Position	Balance Sheet	Net Position	Balance Sheet
Total assets	\$ 8,098,025	\$ 4,505,112	\$ 1,498,135	\$ 833,446
Total deferred outflows of resources	483,891	-	89,520	-
Total liabilities	942,339	645,679	174,333	119,451
Total deferred inflows of resources	820,411	-	151,776	-
<b>Total Participants' Equity</b>	<b>\$ 6,819,166</b>	<b>\$ 3,859,433</b>	<b>\$ 1,261,546</b>	<b>\$ 713,995</b>
	<b>Change in Net Position</b>	<b>Revenues and Expenditures</b>	<b>Change in Net Position</b>	<b>Revenues and Expenditures</b>
Total revenues/other financing sources	\$ 8,671,058	\$ 8,817,858	\$ 1,604,146	\$ 1,631,304
Total expenditures/expenses	6,158,092	8,879,749	1,139,247	1,642,754
Revenues over (under) expenditures/expenses	2,512,966	(61,891)	464,899	(11,450)
Beginning participants' equity	4,306,200	3,921,324	796,647	725,445
<b>Ending Participants' Equity</b>	<b>\$ 6,819,166</b>	<b>\$ 3,859,433</b>	<b>\$ 1,261,546</b>	<b>\$ 713,995</b>
Net pension liability (asset) at 12/31/20 with TMRS	\$ (117,325)		\$ (21,705)	
Total OPEB Liability - SDBF at 12/31/20 with TMRS	\$ 168,209		\$ 31,119	

# **CITY OF HEDWIG VILLAGE, TEXAS**

## ***NOTES TO FINANCIAL STATEMENTS (Continued)***

**For the Year Ended December 31, 2020**

### **G. Revenue Agreement with METRO**

#### Revenue Allocation Agreement

Effective October 1, 2014, the City entered into an amended Congestion Mitigation/Traffic Management Agreement (the “Agreement”) with METRO, which continues through September 30, 2040, unless terminated earlier per the provisions of the Agreement. Under the terms of the Agreement, the City will receive periodic payments in amounts equal to one-half of all available sales and use tax revenues collected by or for METRO within the corporate limits of the City. The City may utilize the funds for traffic-related projects and costs. The funds are accounted for in the traffic mitigation fund.

### **H. Health Insurance**

In September 2007, the City entered into an agreement by and between the Memorial Villages Water Authority, the cities of Hunters Creek Village and Spring Valley Village, and VFD to provide employee health insurance (the “Insurance Agreement”) for the participants. The Insurance Agreement expired on December 31, 2013 and shall be automatically renewed for successive one-year terms on January 1 of each succeeding year. Under the terms of the Insurance Agreement, each party is responsible for the monthly premiums covering that entity’s employees and no entity is liable for any losses or damages caused by another participant.

***REQUIRED SUPPLEMENTARY INFORMATION***

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended December 31, 2020

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Property taxes	\$ 2,603,000	\$ 2,603,000	\$ 2,637,809	\$ 34,809
Sales taxes	1,895,000	1,895,000	1,827,925	(67,075)
Franchise fees and other taxes	470,000	470,000	465,148	(4,852)
Licenses and permits	350,000	350,000	1,072,375	722,375
Fines and forfeitures	276,100	276,100	174,340	(101,760)
Intergovernmental	-	-	146,795	146,795
Investment income	32,000	32,000	8,613	(23,387)
Other revenue	15,000	15,000	53,996	38,996
<b>Total Revenues</b>	<b>5,641,100</b>	<b>5,641,100</b>	<b>6,387,001</b>	<b>745,901</b>
<b>Expenditures</b>				
General government	962,100	992,100	928,672	63,428
Public safety	4,690,000	4,643,000	4,396,786	246,214
Public works	436,700	436,700	305,899	130,801
Culture and recreation	94,700	94,700	64,670	30,030
Capital outlay	343,000	599,000	597,811	1,189
<b>Total Expenditures</b>	<b>6,526,500</b>	<b>6,765,500</b>	<b>6,293,838</b>	<b>471,662</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(885,400)</b>	<b>(1,124,400)</b>	<b>93,163</b>	<b>1,217,563</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	947,500	947,500	900,000	(47,500)
Sale of capital assets	18,000	18,000	15,900	(2,100)
<b>Total Other Financing Sources</b>	<b>965,500</b>	<b>965,500</b>	<b>915,900</b>	<b>(49,600)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 80,100</b>	<b>\$ (158,900)</b>	<b>1,009,063</b>	<b>\$ 1,167,963</b>
Beginning fund balance			<b>2,430,423</b>	
<b>Ending Fund Balance</b>			<b>\$ 3,439,486</b>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**TRAFFIC MITIGATION FUND**  
**For the Year Ended December 31, 2020**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>				
Intergovernmental	\$ 947,500	\$ 947,500	\$ 913,963	\$ (33,537)
Investment income	5,000	5,000	1,256	(3,744)
<b>Total Revenues</b>	952,500	952,500	915,219	(37,281)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>				
	952,500	952,500	915,219	(37,281)
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers (out)	(952,500)	(952,500)	(900,000)	52,500
<b>Total Other Financing (Uses)</b>	(952,500)	(952,500)	(900,000)	52,500
<b>Net Change in Fund Balance</b>	\$ -	\$ -	15,219	\$ 15,219
Beginning fund balance			791,234	
<b>Ending Fund Balance</b>			\$ 806,453	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**POLICE SEIZURE FUND**  
**For the Year Ended December 31, 2020**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Fines and forfeitures	\$ 3,000	\$ 3,000	\$ -	\$ (3,000)
Investment income	-	-	89	89
<b>Total Revenues</b>	3,000	3,000	89	(2,911)
<b>Expenditures</b>				
Capital outlay	3,000	3,000	-	3,000
<b>Total Expenditures</b>	3,000	3,000	-	3,000
<b>Net Change in Fund Balance</b>	\$ -	\$ -	89	\$ 89
Beginning fund balance			17,815	
<b>Ending Fund Balance</b>			\$ 17,904	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**CITY OF HEDWIG VILLAGE, TEXAS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**December 31, 2020**

	Measurement Year*			
	2014	2015	2016	2017
<b>Total Pension Liability</b>				
Service cost	\$ 149,597	\$ 163,607	\$ 183,668	\$ 195,787
Interest (on the total pension liability)	290,630	312,064	329,582	351,875
Changes in benefit terms	-	-	-	-
Difference between expected and actual experience	(2,997)	(42,855)	3,665	(39,843)
Change in assumptions	-	155,154	-	-
Benefit payments, including refunds of employee contributions	(112,090)	(163,969)	(182,772)	(202,621)
<b>Net Change in Total Pension Liability</b>	<u>325,140</u>	<u>424,001</u>	<u>334,143</u>	<u>305,198</u>
Beginning total pension liability	<u>4,133,103</u>	<u>4,458,243</u>	<u>4,882,244</u>	<u>5,216,387</u>
<b>Ending Total Pension Liability</b>	<u><u>\$ 4,458,243</u></u>	<u><u>\$ 4,882,244</u></u>	<u><u>\$ 5,216,387</u></u>	<u><u>\$ 5,521,585</u></u>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	\$ 105,034	\$ 112,906	\$ 116,240	\$ 144,717
Contributions - employee	86,662	89,894	94,968	100,817
Net investment income	222,250	6,175	285,649	628,918
Benefit payments, including refunds of employee contributions	(112,090)	(163,969)	(182,772)	(202,621)
Administrative expense	(2,320)	(3,761)	(3,225)	(3,258)
Other	(191)	(186)	(174)	(166)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>299,345</u>	<u>41,059</u>	<u>310,686</u>	<u>668,407</u>
Beginning plan fiduciary net position	<u>3,885,043</u>	<u>4,184,388</u>	<u>4,225,447</u>	<u>4,536,133</u>
<b>Ending Plan Fiduciary Net Position</b>	<u><u>\$ 4,184,388</u></u>	<u><u>\$ 4,225,447</u></u>	<u><u>\$ 4,536,133</u></u>	<u><u>\$ 5,204,540</u></u>
<b>Net Pension Liability</b>	<u><u>\$ 273,855</u></u>	<u><u>\$ 656,797</u></u>	<u><u>\$ 680,254</u></u>	<u><u>\$ 317,045</u></u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	93.86%	86.55%	86.96%	94.26%
<b>Covered Payroll</b>	\$ 1,733,239	\$ 1,797,883	\$ 1,899,357	\$ 2,016,344
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	15.80%	36.53%	35.81%	15.72%

\*Only six years of information is currently available. The City will build this schedule over the next four-year period.

**Measurement Year\***

	<b>2018</b>		<b>2019</b>
\$	205,994	\$	213,198
	370,444		390,399
	-		-
	783		(46,421)
	-		5,200
	(273,041)		(297,338)
	304,180		265,038
	5,521,585		5,825,765
\$	5,825,765	\$	6,090,803
\$	150,208	\$	154,084
	103,307		106,706
	(155,975)		777,391
	(273,041)		(297,338)
	(3,013)		(4,390)
	(157)		(133)
	(178,671)		736,320
	5,204,540		5,025,869
\$	5,025,869	\$	5,762,189
\$	799,896	\$	328,614
	86.27%		94.60%
\$	2,066,140	\$	2,134,117
	38.71%		15.40%

# CITY OF HEDWIG VILLAGE, TEXAS

## SCHEDULE OF CONTRIBUTIONS

### TEXAS MUNICIPAL RETIREMENT SYSTEM

December 31, 2020

	Fiscal Year*			
	2014	2015	2016	2017
Actuarially determined contribution	\$ 105,034	\$ 112,907	\$ 116,240	\$ 144,773
Contributions in relation to the actuarially determined contribution	105,034	112,907	116,240	144,773
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
 Covered payroll	 \$ 1,733,239	 \$ 1,797,877	 \$ 1,899,345	 \$ 2,016,341
 Contributions as a percentage of covered payroll	 6.06%	 6.28%	 6.12%	 7.18%

\*Only seven years of information is currently available. The City will build this schedule over the next three-year period.

#### Notes to Required Supplementary Information:

1. Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years
Asset valuation method	10 year smoothed market; 12% soft corridor
Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	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.

3. Other Information:

There were no benefit changes during the year.

<b>Fiscal Year*</b>		
<b>2018</b>	<b>2019</b>	<b>2020</b>
\$ 150,208	\$ 154,113	\$ 160,304
<u>150,208</u>	<u>154,113</u>	<u>160,304</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,066,133	\$ 2,134,119	\$ 2,186,961
7.27%	7.22%	7.33%

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**

December 31, 2020

	Measurement Year*		
	2017	2018	2019
<b>Total OPEB Liability</b>			
Service cost	\$ 4,033	\$ 4,752	\$ 4,908
Interest (on the total OPEB liability)	3,120	3,218	3,668
Difference between expected and actual experience	-	1,485	(4,976)
Changes of assumptions	7,690	(7,242)	19,612
Benefit payments**	(403)	(620)	(640)
<b>Net Change in Total OPEB Liability</b>	<u>14,440</u>	<u>1,593</u>	<u>22,572</u>
Beginning total OPEB liability	<u>80,714</u>	<u>95,154</u>	<u>96,747</u>
<b>Ending Total OPEB Liability</b>	<u>\$ 95,154</u>	<u>\$ 96,747</u>	<u>\$ 119,319</u>
<b>Covered Payroll</b>	<u>\$ 2,016,344</u>	<u>\$ 2,066,140</u>	<u>\$ 2,134,119</u>

**Total OPEB liability as a Percentage of Covered Payroll**

	4.72%	4.68%	5.59%
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\*Only three years of information is currently available. The City will build this schedule over the next seven-year period.

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

**Notes to Required Supplementary Information:**

1. Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Inflation	2.5%
Salary increases	3.5% to 11.5% including inflation
Amortization method	Level percentage of payroll, closed
Discount rate	2.75%
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB 68.
Mortality - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality - disabled retirees	2019 Municipal Retirees of Texas Mortality Table with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate 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 with Scale UMP to account for future mortality improvements subject to the floor.

3. Other Information:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019. Changes in assumption include the annual change in the municipal bond index rate. There were no benefit changes during the year.

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***SUPPLEMENTARY INFORMATION***

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**

For the Year Ended December 31, 2020

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Property taxes	\$ 806,000	\$ 806,000	\$ 819,973	\$ 13,973
Investment income	10,000	10,000	3,226	(6,774)
<b>Total Revenues</b>	816,000	816,000	823,199	7,199
<b>Expenditures</b>				
Debt service:				
Principal	670,000	670,000	670,000	-
Interest and fiscal charges	140,500	140,500	138,926	1,574
<b>Total Expenditures</b>	810,500	810,500	808,926	1,574
<b>Net Change in Fund Balance</b>	\$ 5,500	\$ 5,500	14,273	\$ 8,773
Beginning fund balance			99,601	
<b>Ending Fund Balance</b>			\$ 113,874	

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