

CITY OF HEDWIG VILLAGE, TEXAS

ANNUAL FINANCIAL REPORT

For the year ended December 31, 2023

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CITY OF HEDWIG VILLAGE, TEXAS
ANNUAL FINANCIAL REPORT
For the year ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 schedule of contributions, on pages 4-10 and 41-46 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

(Continued)

Supplementary 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 budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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 budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Crowe LLP
Crowe LLP

Houston, Texas
September 11, 2024

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MANAGEMENT'S DISCUSSION AND ANALYSIS

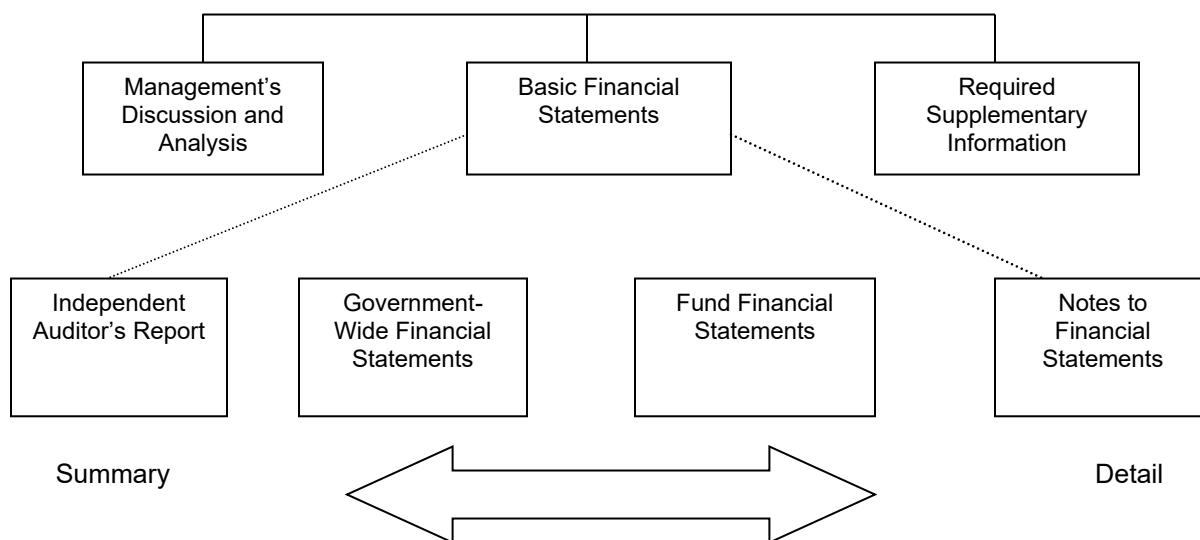
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CITY OF HEDWIG VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
For the year ended December 31, 2023

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, 2023. 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

Components of the Financial Section



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

Government-Wide Financial Statements

The government-wide financial 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.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
For the year ended December 31, 2023

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 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 seizures 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 seizures fund, and debt service fund. Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
For the year ended December 31, 2023

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.

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 seizures fund and schedules of changes in net pension and total other postemployment benefits 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 \$25,253,348 as of year end. This compares with \$21,455,781 from the prior fiscal year. A large portion of the City's net position, \$15,068,915 or 60 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.

CITY OF HEDWIG VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
For the year ended December 31, 2023

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 17,857,855	\$ 14,702,433
Capital assets, net	17,270,770	16,960,200
Total assets	<u>35,128,625</u>	<u>31,662,633</u>
Deferred outflows - pensions	621,704	203,826
Deferred outflows - OPEB	<u>24,557</u>	<u>28,400</u>
Total deferred outflows of resources	646,261	232,226
Current liabilities	603,558	920,578
Noncurrent liabilities	<u>4,942,303</u>	<u>4,727,091</u>
Total liabilities	5,545,861	5,647,669
Deferred inflows - pensions	74,151	463,584
Deferred inflows - OPEB	52,630	7,383
Deferred inflows - property taxes	<u>4,848,896</u>	<u>4,320,442</u>
Total deferred inflows of resources	<u>4,975,677</u>	<u>4,791,409</u>
Net position		
Net investment in capital assets	15,068,915	14,371,607
Restricted	1,924,253	1,511,713
Unrestricted	<u>8,260,180</u>	<u>5,572,461</u>
Total net position	<u>\$ 25,253,348</u>	<u>\$ 21,455,781</u>

A portion of the City's net position, \$1,924,253 or 8 percent, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net position, \$8,260,180 or 33 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net position increased by \$3,797,567 during the current fiscal year.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
For the year ended December 31, 2023

Statement of Activities

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

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
Revenues		
Program revenues:		
Charges for services	\$ 810,841	\$ 679,406
Capital grants and contributions	2,236,922	1,257,532
General revenues:		
Property taxes	4,197,951	4,029,138
Sales taxes	3,165,569	2,379,109
Franchise fees and other taxes	617,526	615,393
Investment income	457,173	33,070
Other revenue	34,008	67,889
Gain on sale of capital assets	(9,647)	55,873
Total revenues	<u>11,510,343</u>	<u>9,117,410</u>
Expenses		
General government	1,212,809	1,224,177
Public safety	5,466,858	5,206,690
Public works	854,947	904,880
Culture and recreation	73,867	61,825
Interest and fees on long-term debt	104,295	111,944
Total expenses	<u>7,712,776</u>	<u>7,509,516</u>
Change in net position	3,797,567	1,607,894
Beginning net position	<u>21,455,781</u>	<u>19,847,887</u>
Ending net position	<u>\$ 25,253,348</u>	<u>\$ 21,455,781</u>

Revenues from governmental activities totaled \$11,510,343, which is a net increase of \$2,392,933 from the 2022 fiscal year, primarily due to an increase in sales tax revenue of \$786,460 and an increase in capital grants and contributions of \$979,390. The increase in sales tax revenue, which is one of the City's largest sources of revenue, is due to an increase in commercial oil and gas business within the City. The increase in capital grants and contributions revenue, which is derived based on the revenue agreement detailed in Note 4, is also related to the increase in sales tax revenue.

In total, governmental expenses for the year were \$7,712,76, a net increase of a \$203,260 or 3 percent, from the prior year. This increase is primarily due to an increase in public safety expenses.

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CITY OF HEDWIG VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
For the year ended December 31, 2023

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 \$12,377,208. Of this, \$1,823,187 is restricted for capital improvement, \$88,142 is restricted for child safety, \$12,136 for building security, \$133,249 is restricted for debt service, \$1,661,810 is restricted for traffic mitigation, \$5,216 is restricted for public safety, \$23,303 is restricted for truancy prevention, \$397 is restricted for jury, \$2,730,995 is assigned for operations, \$845,000 is assigned for equipment, and \$325,000 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 \$4,728,773, while total fund balance reached \$8,753,746. This represents an increase of \$2,607,656 from 2022. This increase is primarily due to an increase in sales tax and property tax revenue. The increase in property taxes is mainly due to an increase in assessed values of properties. 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 69 percent of total general fund expenditures, while total fund balance represents 128 percent of that same amount.

There was an increase of \$898 in the debt service fund fund balance for a total of \$133,249 at year end. The increase is due to property tax collections exceeding debt service payments.

There was an increase of \$406,265 in the traffic mitigation fund fund balance for a total of \$1,661,810 at year end due to an excess of revenues after an interfund transfer to the general fund. There was an increase in funds received from the Metropolitan Transit Authority of Harris County (METRO) as a result of an increase in sales tax revenue in comparison to the prior year.

There was a slight increase of \$246 in the police seizures fund balance due to investment income in the current year.

There was a decrease in fund balance of \$11,369 in the capital projects fund due to capital outlay.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues exceeded final budgeted revenues by \$2,582,876 during 2023. This net variance includes a negative variance of \$28,992 for other revenue and positive variances of \$1,105,569 for sales taxes and \$183,524 for licenses and permits.

Budgeted expenditures were less than actual amounts by \$538,028 for the fiscal year.

CITY OF HEDWIG VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
For the year ended December 31, 2023

CAPITAL ASSETS

At the end of the year, the City's governmental activities had invested \$17,270,770 in capital assets (net of accumulated depreciation). This represents a net increase of \$310,570 compared to the prior year.

Capital asset events during the year included the construction of the West Side ISD / Drainage Improvement Project and the Road Rehabilitation Project in the amount of \$1,053,668.

More detailed information on the City's capital assets is presented in Note 3 to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total long-term debt outstanding of \$3,830,000. Of this amount, \$2,770,000 represented certificates of obligation and \$1,060,000 represented tax notes.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City adopted a fiscal year 2024 expenditure budget for the general fund of \$8,327,980, which is an increase of approximately 7 percent from the prior year amended budget. The City budgeted for fiscal year 2024 revenues of \$8,327,980, net of transfers from other funds, which is an increase of approximately 7 percent from the prior year amended budget. The City adopted a 2023 tax rate of \$0.336334 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 Wendy Baimbridge, City Administrator, City of Hedwig Village, 955 Piney Point Road, Hedwig Village, Texas 77024.

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BASIC FINANCIAL STATEMENTS

CITY OF HEDWIG VILLAGE, TEXAS
STATEMENT OF NET POSITION
December 31, 2023

	Primary Government Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 13,033,256
Receivables, net	4,824,599
Total current assets	17,857,855
Noncurrent assets	
Nondepreciable capital assets	1,955,196
Net depreciable capital assets	15,315,574
Total noncurrent assets	17,270,770
Total assets	35,128,625
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pensions	621,704
Deferred outflows - OPEB	24,557
Total deferred outflows of resources	646,261
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	561,886
Accrued interest payable	36,372
Unearned revenue	5,300
Total current liabilities	603,558
Noncurrent liabilities	
Long-term liabilities due within one year	617,539
Long-term liabilities due in more than one year	4,324,764
Total noncurrent liabilities	4,942,303
Total liabilities	5,545,861
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pensions	74,151
Deferred inflows - OPEB	52,630
Deferred inflows - property taxes	4,848,896
Total deferred inflows of resources	4,975,677
NET POSITION	
Net investment in capital assets	15,068,915
Restricted for:	
Child safety	88,142
Building security	12,136
Debt service	133,249
Traffic mitigation	1,661,810
Public safety	5,216
Truancy prevention	23,303
Jury	397
Unrestricted	8,260,180
Total net position	\$ 25,253,348

See notes to financial statements.

CITY OF HEDWIG VILLAGE, TEXAS
STATEMENT OF ACTIVITIES
For the year ended December 31, 2023

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Position Primary Governmental Activities</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	
Primary Government				
Governmental Activities				
General government	\$ 1,212,809	\$ -	\$ -	\$ (1,212,809)
Public safety	5,466,858	259,817	653,958	(4,553,083)
Public works	854,947	551,024	1,582,964	1,279,041
Culture and recreation	73,867	-	-	(73,867)
Interest and fees on long-term debt	104,295	-	-	(104,295)
Total governmental activities	<u>\$ 7,712,776</u>	<u>\$ 810,841</u>	<u>\$ 2,236,922</u>	<u>(4,665,013)</u>
General Revenues				
Taxes				
Property taxes				4,197,951
Sales taxes				3,165,569
Franchise fees and other taxes				617,526
Investment income				457,173
Other revenue				34,008
Loss on sale of capital assets				(9,647)
Total general revenues				<u>8,462,580</u>
Change in net position				3,797,567
Beginning net position				<u>21,455,781</u>
Ending net position				<u>\$ 25,253,348</u>

See notes to financial statements.

CITY OF HEDWIG VILLAGE, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2023

	<u>General</u>	<u>Debt Service</u>	<u>Traffic Mitigation</u>	<u>Police Seizure</u>
ASSETS				
Cash and cash equivalents	\$ 9,383,232	\$ 264,279	\$ 1,644,179	\$ 535
Receivables	4,049,353	467,615	307,631	-
Due from other funds	290,600	-	-	4,681
Total assets	13,723,185	731,894	1,951,810	5,216
LIABILITIES				
Accounts payable and accrued liabilities	257,875	-	-	-
Due to other funds	390,848	600	290,000	-
Unearned revenue	5,300	-	-	-
Total liabilities	654,023	600	290,000	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	4,315,416	598,045	-	-
Total deferred inflows of resources	4,315,416	598,045	-	-
FUND BALANCES				
Restricted for:				
Capital improvement	-	-	-	-
Child safety	88,142	-	-	-
Building security	12,136	-	-	-
Debt service	-	133,249	-	-
Public safety	-	-	-	5,216
Traffic mitigation	-	-	1,661,810	-
Truancy prevention	23,303	-	-	-
Jury	397	-	-	-
Assigned for:				
Emergencies	325,000	-	-	-
Operations	2,730,995	-	-	-
Equipment	845,000	-	-	-
Unassigned:				
General fund	4,728,773	-	-	-
Total fund balances	8,753,746	133,249	1,661,810	5,216
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 13,723,185</u>	<u>\$ 731,894</u>	<u>\$ 1,951,810</u>	<u>\$ 5,216</u>

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2023

<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ 1,741,031	\$ 13,033,256
-	4,824,599
386,167	681,448
<u>2,127,198</u>	<u>18,539,303</u>
304,011	561,886
-	681,448
-	5,300
<u>304,011</u>	<u>1,248,634</u>
-	4,913,461
<u>-</u>	<u>4,913,461</u>
1,823,187	1,823,187
-	88,142
-	12,136
-	133,249
-	5,216
-	1,661,810
-	23,303
-	397
-	325,000
-	2,730,995
-	845,000
-	4,728,773
<u>1,823,187</u>	<u>12,377,208</u>
<u>\$ 2,127,198</u>	<u>\$ 18,539,303</u>

See notes to financial statements.

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CITY OF HEDWIG VILLAGE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2023

Total Fund Balance - Governmental Funds	\$ 12,377,208
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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, are not reported in the governmental funds.

Nondepreciable capital assets	1,955,196
Depreciable capital assets	29,570,836
Accumulated depreciation	(14,255,262)

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

Net pension liability	(739,319)
Total OPEB liability	(101,721)
Deferred outflows - pensions	621,704
Deferred outflows - OPEB	24,557
Deferred inflows - pensions	(74,151)
Deferred inflows - OPEB	(52,630)

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

Unavailable revenue related to property taxes	64,565
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Some liabilities, including bonds payable, are not reported as liabilities
in the governmental funds.

Accrued interest payable	(36,372)
Long-term liabilities due within one year	(617,539)
Long-term liabilities due in more than one year	(3,483,724)

Net Position of Governmental Activities	<u>\$ 25,253,348</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, 2023

	<u>General</u>	<u>Debt Service</u>	<u>Traffic Mitigation</u>	<u>Police Seizures</u>
Revenues				
Property taxes	\$ 3,620,611	\$ 565,291	\$ -	\$ -
Sales taxes	3,165,569	-	-	-
Franchise fees and local taxes	617,526	-	-	-
Licenses and permits	551,024	-	-	-
Fines and forfeitures	259,817	-	-	-
Intergovernmental	653,958	-	1,582,964	-
Investment income	383,638	22,814	48,301	246
Other revenue	34,008	-	-	-
Total revenues	<u>9,286,151</u>	<u>588,105</u>	<u>1,631,265</u>	<u>246</u>
Expenditures				
Current				
General government	1,136,722	-	-	-
Public safety	5,281,260	-	-	-
Public works	359,807	-	-	-
Culture and recreation	73,867	-	-	-
Capital outlay	12,500	-	-	-
Debt service				
Principal	-	470,000	-	-
Interest and fiscal charges	-	117,207	-	-
Total expenditures	<u>6,864,156</u>	<u>587,207</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,421,995</u>	<u>898</u>	<u>1,631,265</u>	<u>246</u>
Other financing sources (uses)				
Transfers in	1,225,000	-	-	-
Transfers (out)	(1,040,125)	-	(1,225,000)	-
Sale of capital assets	786	-	-	-
Total other financing sources (uses)	<u>185,661</u>	<u>-</u>	<u>(1,225,000)</u>	<u>-</u>
Net change in fund balances	2,607,656	898	406,265	246
Beginning fund balances	<u>6,146,090</u>	<u>132,351</u>	<u>1,255,545</u>	<u>4,970</u>
Ending fund balances	<u>\$ 8,753,746</u>	<u>\$ 133,249</u>	<u>\$ 1,661,810</u>	<u>\$ 5,216</u>

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended December 31, 2023

<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ -	\$ 4,185,902
-	3,165,569
-	617,526
-	551,024
-	259,817
-	2,236,922
2,174	457,173
-	34,008
<u>2,174</u>	<u>11,507,941</u>
-	1,136,722
-	5,281,260
-	359,807
-	73,867
1,053,668	1,066,168
-	470,000
-	117,207
<u>1,053,668</u>	<u>8,505,031</u>
<u>(1,051,494)</u>	<u>3,002,910</u>
1,040,125	2,265,125
-	(2,265,125)
-	786
<u>1,040,125</u>	<u>786</u>
(11,369)	3,003,696
<u>1,834,556</u>	<u>9,373,512</u>
<u>\$ 1,823,187</u>	<u>\$ 12,377,208</u>

See notes to financial statements.

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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, 2023

Net change in fund balances – total governmental funds	\$ 3,003,696
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	1,066,168
Depreciation expense	(745,165)
Net effect of capital disposals	(10,433)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.	12,049
Net pension and total other postemployment benefits (OPEB) liabilities and deferred outflows and deferred inflows related to the City's pension and OPEB plans are not reported in the governmental funds.	
Change in net pension liability	(813,725)
Change in total OPEB liability	54,291
Change in deferred outflows - pensions	417,878
Change in deferred outflows - OPEB	(3,843)
Change in deferred inflows - pensions	389,433
Change in deferred inflows - OPEB	(45,247)
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 it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.	
Debt principal repayments	470,000
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 payable	2,649
Compensated absences	(10,447)
Change in Net Position of Governmental Activities	<u><u>\$ 3,797,567</u></u>

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Government-Wide Financial Statements: The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the 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.

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is used to account for the receipt and expenditure of funds received from the Metropolitan Transit Authority of Harris County, Texas (METRO), and is considered a major fund for reporting purposes. The police seizures 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.

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.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 finance 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.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance:

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.

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

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.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

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 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.

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).

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

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.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Expenditures/Expenses:

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.

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.

NOTE 2 - 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.

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

Deposits and Investments: The composition of cash and investments as of December 31, 2023 is as follows:

Cash in bank	\$ 12,313,832
Investments	<u>719,424</u>
Total cash and cash equivalents	<u><u>\$ 13,033,256</u></u>

At December 31, 2023, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	<u>\$ 719,424</u>	0.11

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.

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, 2023, the City's investments in TexPool were rated 'AAAm' by Standard & Poor's.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

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, 2023, 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.

Receivables: The following comprise receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Traffic Mitigation</u>	<u>Total</u>
Property taxes	\$ 3,373,693	\$ 467,615	\$ -	\$ 3,841,308
Sales tax	615,263	-	-	615,263
Franchise fees	34,503	-	-	34,503
Mixed beverage taxes	25,894	-	-	25,894
Other	-	-	307,631	307,631
	<u>\$ 4,049,353</u>	<u>\$ 467,615</u>	<u>\$ 307,631</u>	<u>\$ 4,824,599</u>

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

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:

	<u>Unavailable</u>	<u>Unearned</u>
Current property taxes receivable - general fund	\$ -	\$ 4,315,416
Delinquent property taxes receivable - general fund	56,705	-
Current property taxes receivable - debt service fund	-	598,045
Delinquent property taxes receivable - debt service fund	<u>7,860</u>	<u>-</u>
	<u>\$ 64,565</u>	<u>\$ 4,913,461</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital assets not being depreciated				
Land	\$ 477,762	\$ -	\$ -	\$ 477,762
Construction in progress	<u>423,766</u>	<u>1,053,668</u>	<u>-</u>	<u>1,477,434</u>
Total capital assets not being depreciated	901,528	1,053,668	-	1,955,196
Depreciable capital assets				
Vehicles and equipment	1,098,396	12,500	(35,674)	1,075,222
Buildings and improvements	6,762,852	-	(17,388)	6,745,464
Infrastructure	<u>21,750,150</u>	<u>-</u>	<u>-</u>	<u>21,750,150</u>
Total other capital assets	<u>29,611,398</u>	<u>12,500</u>	<u>(53,062)</u>	<u>29,570,836</u>
Less accumulated depreciation for				
Vehicles and equipment	(930,007)	(80,581)	35,674	(974,914)
Buildings and improvements	(1,704,281)	(169,957)	6,955	(1,867,283)
Infrastructure	<u>(10,918,438)</u>	<u>(494,627)</u>	<u>-</u>	<u>(11,413,065)</u>
Total accumulated depreciation	<u>(13,552,726)</u>	<u>(745,165)</u>	<u>42,629</u>	<u>(14,255,262)</u>
Depreciable capital assets, net	<u>16,058,672</u>	<u>(732,665)</u>	<u>(10,433)</u>	<u>15,315,574</u>
Governmental activities capital assets, net	<u>\$ 16,960,200</u>	<u>\$ 321,003</u>	<u>\$ (10,433)</u>	<u>17,270,770</u>
		Less associated debt		(3,942,886)
		Plus unspent bond proceeds		<u>1,741,031</u>
		Net investment in capital assets		<u>\$ 15,068,915</u>

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

Depreciation was charged to governmental activities functions as follows:

General government	\$ 74,870
Public safety	175,181
Public works	<u>495,114</u>
Total governmental activities	
depreciation expense	<u>\$ 745,165</u>

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>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental Activities</u>					
Certificates of obligation	\$ 2,980,000	\$ -	\$ (210,000)	\$ 2,770,000 *	\$ 215,000
Tax notes from direct borrowings/placements	1,320,000	-	(260,000)	1,060,000 *	260,000
Bond premium	123,149	-	(10,263)	112,886 *	-
Net pension liability	-	739,319	-	739,319	-
Total OPEB liability	156,012	-	(54,291)	101,721	-
Compensated absences	<u>147,930</u>	<u>139,498</u>	<u>(129,051)</u>	<u>158,377</u>	<u>142,539</u>
Total governmental activities	<u>\$ 4,727,091</u>	<u>\$ 878,817</u>	<u>\$ (663,605)</u>	<u>\$ 4,942,303</u>	<u>\$ 617,539</u>

Long-term liabilities due in more than one year \$ 4,324,764

*Debt associated with governmental activities in capital assets \$ 3,942,886

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.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

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

<u>Descriptions</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Balance</u>
Governmental Activities			
Certificates of obligation			
Series 2014	2.0 - 4.0%	\$ 4,175,000	\$ 2,770,000
Tax Notes			
Series 2020	0.8 - 1.5 %	1,825,000	<u>1,060,000</u>
 Total governmental activities long-term debt			 <u><u>\$ 3,830,000</u></u>

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

<u>Year Ended Decemeber 31</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 215,000	\$ 95,488	\$ 310,488
2025	220,000	90,113	310,113
2026	230,000	83,513	313,513
2027	235,000	76,613	311,613
2028	240,000	69,563	309,563
2029-2033	1,330,000	219,088	1,549,088
2034	<u>300,000</u>	<u>12,000</u>	<u>312,000</u>
	<u><u>\$ 2,770,000</u></u>	<u><u>\$ 646,378</u></u>	<u><u>\$ 3,416,378</u></u>

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

<u>Year Ended Decemeber 31</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 260,000	\$ 13,930	\$ 273,930
2025	265,000	10,940	275,940
2026	265,000	7,628	272,628
2027	<u>270,000</u>	<u>2,025</u>	<u>272,025</u>
	<u><u>\$ 1,060,000</u></u>	<u><u>\$ 34,523</u></u>	<u><u>\$ 1,094,523</u></u>

Certificates of obligation and tax notes are direct obligations of the City for which its full faith and credit are pledged. Repayment of 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.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

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.

Interfund Transactions: Transfers between governmental funds during the year were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital project fund	General fund	\$ 1,040,125
General fund	Traffic mitigation fund	1,225,000
Total		<u>\$ 2,265,125</u>

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Debt service fund	\$ 600
General fund	Traffic mitigation fund	290,000
Capital projects fund	General fund	386,167
Police seizures fund	General fund	4,681
		<u>\$ 681,448</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.

NOTE 4 - OTHER INFORMATION

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 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.

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.

(Continued)

NOTE 4 - OTHER INFORMATION (Continued)

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.

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, \$43,336 was contributed to the Plan.

Pension Plan:

Texas Municipal Retirement System

Plan Description: The City participates in the defined benefit cash-balance plan administered by TMRS. TMRS is a statewide retirement plan 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 of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees (the "Board"); however, TMRS does not receive any funding from the State. TMRS issues a publicly available annual comprehensive financial report that can be obtained at www.tmr.com.

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

Benefits Provided: TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their 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
For the year ended December 31, 2023

NOTE 4 - OTHER INFORMATION (Continued)

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

	<u>2023</u>	<u>2022</u>
Employee deposit rate	7.00%	7.00%
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, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	22
Inactive employees entitled to, but not yet receiving, benefits	25
Active employees	28
Total	<u>75</u>

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 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 seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 8.40 percent and 7.94 percent in calendar years 2022 and 2023, respectively. The City's contributions to TMRS for the fiscal year ended December 31, 2023 were \$199,862, which were equal to the required contributions.

Net Pension Liability/(Asset): The City's Net Pension Liability/(Asset) (NPL/(A)) was measured as of December 31, 2022 and the Total Pension Liability (TPL) used to calculate the NPL/(A) was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The TPL in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.65% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 4 - OTHER INFORMATION (Continued)

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, 2021 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 public equity	35.0 %	7.70 %
Core fixed income	6.0 %	4.90 %
Non-core fixed income	20.0 %	8.70 %
Other public and private markets	12.0 %	8.10 %
Real estate	12.0 %	5.80 %
Hedge funds	5.0 %	6.90 %
Private equity	10.0 %	11.80 %
	<u>100.0 %</u>	

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.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 4 - OTHER INFORMATION (Continued)

Changes in the Net Pension Liability/(Assets):

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability/(Asset) (A) - (B)
<u>Changes for the year</u>			
Service cost	\$ 314,769	\$ -	\$ 314,769
Interest	451,019	-	451,019
Difference between expected and actual experience	(73,998)	-	(73,998)
Changes in assumptions	-	-	-
Contributions - employer	-	203,077	(203,077)
Contributions - employee	-	169,230	(169,230)
Net investment income	-	(495,070)	495,070
Benefit payments, including refunds of employee contributions	(368,293)	(368,293)	-
Administrative expense	-	(4,285)	4,285
Other changes	-	5,113	(5,113)
Net change	323,497	(490,228)	813,725
Balance at December 31, 2021	6,708,528	6,782,934	(74,406)
Balance at December 31, 2022	<u>\$ 7,032,025</u>	<u>\$ 6,292,706</u>	<u>\$ 739,319</u>

Sensitivity of the NPL/(A) to Changes in the Discount Rate: The following presents the NPL/(A) of the City, calculated using the discount rate of 6.75 percent, as well as what the City's NPL/(A) 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%)
County's net pension liability/ (asset)	<u>\$ 1,576,779</u>	<u>\$ 739,319</u>	<u>\$ 39,085</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows/Deferred Inflows of Resources Related to Pensions: For the fiscal year ended December 31, 2023, the City recognized pension expense of \$206,511.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 4 - OTHER INFORMATION (Continued)

At December 31, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 74,151
Difference between projected and actual investment earnings	421,842	-
Contributions subsequent to the measurement date	199,862	-
Total	<u>\$ 621,704</u>	<u>\$ 74,151</u>

An amount of \$199,862 was reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability/(asset) for the fiscal year ending December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense</u>
2024	\$ (22,403)
2025	76,197
2026	103,315
2027	190,582
	<u>\$ 347,691</u>

Other Postemployment Benefits:

TMRS – Supplemental Death Benefits

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.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 4 - OTHER INFORMATION (Continued)

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.

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The SDBF's funding policy assures that adequate resources are available to meet all death benefit payments for the upcoming year. The SDBF is a pay-as-you-go fund, and any excess contributions are available for future SDBF benefits.

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, 2022 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled to, but not yet receiving, benefits	7
Active employees	<u>28</u>
Total	<u><u>51</u></u>

Total OPEB Liability: The City's total OPEB liability of \$101,721 was measured as of December 31, 2022 and was determined by an actuarial valuation as of that date.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 4 - OTHER INFORMATION (Continued)

Actuarial Assumptions and Other Inputs: The total OPEB liability in the December 31, 2022 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	4.05%
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 75.
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, 2022

The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018. Due to higher mortality rates associated with the global pandemic, the TMRS Board adopted changes to the assumptions and methodology used for calculating the 2023 rates as determined in the December 31, 2022 actuarial valuation.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 4 - OTHER INFORMATION (Continued)

Changes in the Total OPEB Liability:

	<u>Total OPEB Liability</u>
<u>Changes for the year</u>	
Service cost	\$ 7,253
Interest	2,915
Difference between expected and actual experience	(12,045)
Changes in assumptions or other inputs	(49,996)
Benefit payments*	(2,418)
Net changes	<u>(54,291)</u>
Beginning balance	<u>156,012</u>
Ending balance	<u><u>\$ 101,721</u></u>

* 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.

There were no changes 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:

	1% Decrease in Discount Rate <u>(3.05%)</u>	Discount Rate <u>(4.05%)</u>	1% Increase in Discount Rate <u>(5.05%)</u>
City's total OPEB liability	<u>\$ 120,838</u>	<u>\$ 101,721</u>	<u>\$ 86,742</u>

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 4 - OTHER INFORMATION (Continued)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB: For the year ended December 31, 2023, the City recognized OPEB expense of \$3,186. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Changes in actuarial assumptions	\$ 12,934	\$ 39,877
Difference between expected and actual experience	2,561	12,753
Contributions subsequent to the measurement date	<u>9,062</u>	<u>-</u>
Total	<u>\$ 24,557</u>	<u>\$ 52,630</u>

An amount of \$9,062 was reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB liability for the fiscal year ending December 31, 2024.

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

<u>Year Ended Decemeber 31</u>	<u>OPEB Expense</u>
2024	\$ (6,282)
2025	(9,346)
2026	(11,603)
2027	<u>(9,904)</u>
	<u>\$ (37,135)</u>

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.

(Continued)

CITY OF HEDWIG VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2023

NOTE 4 - OTHER INFORMATION (Continued)

Consolidated financial information of VFD extracted from the audited financial statements for the year ended December 31, 2022, on which VFD's auditors expressed an unmodified opinion, are as follows:

	Fire Department		City's Portion (18.5%)	
	<u>Net Position</u>	<u>Balance Sheet</u>	<u>Net Position</u>	<u>Balance Sheet</u>
Total assets and deferred outflows	\$ 10,345,057	\$ 947,071	\$ 1,913,836	\$ 175,208
Total liabilities deferred inflows	2,812,354	544,177	520,285	100,673
Total participants' equity	<u>\$ 7,532,703</u>	<u>\$ 402,894</u>	<u>\$ 1,393,550</u>	<u>\$ 74,535</u>
	<u>Change in Net Position</u>	<u>Revenues and Expenditures</u>	<u>Change in Net Position</u>	<u>Revenues and Expenditures</u>
Total revenues/other financing sources	\$ 9,821,028	\$ 9,845,438	\$ 1,816,890	\$ 1,821,406
Total expenditures/expenses	9,813,740	9,786,904	1,815,542	1,810,577
Revenues over (under) expenditures/expenses	7,288	58,534	1,348	10,829
Beginning participants' equity	7,525,415	344,360	1,392,202	63,707
Ending participants' equity	<u>\$ 7,532,703</u>	<u>\$ 402,894</u>	<u>\$ 1,393,550</u>	<u>\$ 74,535</u>
Net pension liability				
at 12/31/22 with TMRS	\$ 1,333,756		\$ 246,745	
Total OPEB liability - SDBF				
at 12/31/22 with TMRS	\$ 147,281		\$ 27,247	

Revenue Allocation Agreement:

Revenue Agreement with METRO

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.

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 is 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.

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REQUIRED SUPPLEMENTARY INFORMATION (unaudited)

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CITY OF HEDWIG VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL - GENERAL FUND (unaudited)
For the year ended December 31, 2023

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
Revenues				
Property taxes	\$ 3,570,275	\$ 3,570,275	\$ 3,620,611	\$ 50,336
Sales taxes	2,060,000	2,060,000	3,165,569	1,105,569
Franchise fees and local taxes	475,000	475,000	617,526	142,526
Licenses and permits	367,500	367,500	551,024	183,524
Fines and forfeitures	166,800	166,800	259,817	93,017
Intergovernmental	-	-	653,958	653,958
Investment income	700	700	383,638	382,938
Other revenue	63,000	63,000	34,008	(28,992)
Total revenues	<u>6,703,275</u>	<u>6,703,275</u>	<u>9,286,151</u>	<u>2,582,876</u>
Expenditures				
General government	1,171,225	1,244,885	1,136,722	108,163
Public safety	5,568,989	5,523,797	5,281,260	242,537
Public works	421,470	392,502	359,807	32,695
Culture and recreation	87,500	88,000	73,867	14,133
Capital outlay	153,000	153,000	12,500	140,500
Total expenditures	<u>7,402,184</u>	<u>7,402,184</u>	<u>6,864,156</u>	<u>538,028</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(698,909)</u>	<u>(698,909)</u>	<u>2,421,995</u>	<u>3,120,904</u>
Other financing sources (uses)				
Transfers in	1,030,000	1,030,000	1,225,000	(195,000)
Transfers (out)	(386,167)	(386,167)	(1,040,125)	(653,958)
Sale of capital assets	55,000	55,000	786	54,214
Total other financing (uses)	<u>55,000</u>	<u>55,000</u>	<u>185,661</u>	<u>130,661</u>
Net change in fund balance	<u>\$ (643,909)</u>	<u>\$ (643,909)</u>	<u>2,607,656</u>	<u>\$ 3,251,565</u>
Beginning fund balance			<u>6,146,090</u>	
Ending fund balance			<u>\$ 8,753,746</u>	

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 REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL - TRAFFIC MITIGATION FUND (unaudited)
For the year ended December 31, 2023

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
Revenues				
Intergovernmental	\$ 1,030,000	\$ 1,030,000	\$ 1,582,964	\$ 552,964
Investment income	<u>100</u>	<u>100</u>	<u>48,301</u>	<u>48,201</u>
Total revenues	1,030,100	1,030,100	1,631,265	601,165
Excess (deficiency) of revenues over (under) expenditures	<u>1,030,100</u>	<u>1,030,100</u>	<u>1,631,265</u>	<u>601,165</u>
Other financing sources (uses)				
Transfers in (out)	<u>1,066,871</u>	<u>1,066,871</u>	<u>(1,225,000)</u>	<u>(2,291,871)</u>
Total other financing (uses)	<u>1,066,871</u>	<u>1,066,871</u>	<u>(1,225,000)</u>	<u>(2,291,871)</u>
Net change in fund balance	<u>\$ 2,096,971</u>	<u>\$ 2,096,971</u>	406,265	<u>\$ (1,690,706)</u>
Beginning fund balance			<u>1,255,545</u>	
Ending fund balance			<u>\$ 1,661,810</u>	

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 REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL - POLICE SEIZURES FUND (unaudited)
For the year ended December 31, 2023

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
Revenues				
Investment income	\$ 36	\$ 36	\$ 246	\$ 210
Total revenues	36	36	246	210
Expenditures				
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balance	<u>\$ 36</u>	<u>\$ 36</u>	246	<u>\$ 210</u>
Beginning fund balance			<u>4,970</u>	
Ending fund balance			<u>\$ 5,216</u>	

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 (unaudited)
For the year ended December 31, 2023

	Measurement Year*								
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total pension liability									
Service cost	\$ 149,597	\$ 163,607	\$ 183,668	\$ 195,787	\$ 205,994	\$ 213,198	\$ 208,637	\$ 307,367	\$ 314,769
Interest (on the total pension liability)	290,630	312,064	329,582	351,875	370,444	390,399	408,586	432,314	451,019
Changes in benefit terms	-	-	-	-	-	-	-	78,320	-
Difference between expected and actual experience	(2,997)	(42,855)	3,665	(39,843)	783	(46,421)	(16,845)	(47,577)	(73,998)
Changes in assumptions	-	155,154	-	-	-	5,200	-	-	-
Benefit payments, including refunds of employee contributions	(112,090)	(163,969)	(182,772)	(202,621)	(273,041)	(297,338)	(283,984)	(469,093)	(368,293)
Net change in total pension liability	325,140	424,001	334,143	305,198	304,180	265,038	316,394	301,331	323,497
Beginning total pension liability	4,133,103	4,458,243	4,882,244	5,216,387	5,521,585	5,825,765	6,090,803	6,407,197	6,708,528
Ending total pension liability	<u>\$ 4,458,243</u>	<u>\$ 4,882,244</u>	<u>\$ 5,216,387</u>	<u>\$ 5,521,585</u>	<u>\$ 5,825,765</u>	<u>\$ 6,090,803</u>	<u>\$ 6,407,197</u>	<u>\$ 6,708,528</u>	<u>\$ 7,032,025</u>
Plan fiduciary net position									
Contributions - employer	\$ 105,034	\$ 112,906	\$ 116,240	\$ 144,717	\$ 150,208	\$ 154,084	\$ 160,304	\$ 151,960	\$ 203,077
Contributions - employee	86,662	89,894	94,968	100,817	103,307	106,706	109,348	114,947	169,230
Net investment income	222,250	6,175	285,649	628,918	(155,975)	777,391	437,554	806,352	(495,070)
Benefit payments, including refunds of employee contributions	(112,090)	(163,969)	(182,772)	(202,621)	(273,041)	(297,338)	(283,984)	(469,093)	(368,293)
Administrative expense	(2,320)	(3,761)	(3,225)	(3,258)	(3,013)	(4,390)	(2,830)	(3,729)	(4,285)
Other	(191)	(186)	(174)	(166)	(157)	(133)	(109)	25	5,113
Net change in plan fiduciary net position	299,345	41,059	310,686	668,407	(178,671)	736,320	420,283	600,462	(490,228)
Beginning plan fiduciary net position	3,885,043	4,184,388	4,225,447	4,536,133	5,204,540	5,025,869	5,762,189	6,182,472	6,782,934
Ending plan fiduciary net position	<u>\$ 4,184,388</u>	<u>\$ 4,225,447</u>	<u>\$ 4,536,133</u>	<u>\$ 5,204,540</u>	<u>\$ 5,025,869</u>	<u>\$ 5,762,189</u>	<u>\$ 6,182,472</u>	<u>\$ 6,782,934</u>	<u>\$ 6,292,706</u>
Net pension liability/(asset)	<u>\$ 273,855</u>	<u>\$ 656,797</u>	<u>\$ 680,254</u>	<u>\$ 317,045</u>	<u>\$ 799,896</u>	<u>\$ 328,614</u>	<u>\$ 224,725</u>	<u>\$ (74,406)</u>	<u>\$ 739,319</u>
Plan fiduciary net position as a percentage of total pension liability/(asset)	93.86%	86.55%	86.96%	94.26%	86.27%	94.60%	96.49%	101.11%	89.49%
Covered payroll	\$ 1,733,239	\$ 1,797,883	\$ 1,899,357	\$ 2,016,344	\$ 2,066,140	\$ 2,134,117	\$ 2,186,969	\$ 2,298,933	\$ 2,417,577
Net pension liability as a percentage of Covered Payroll	15.80%	36.53%	35.81%	15.72%	38.71%	15.40%	10.28%	-3.24%	30.58%

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

CITY OF HEDWIG VILLAGE, TEXAS
SCHEDULE OF CONTRIBUTIONS - TEXAS MUNICIPAL RETIREMENT SYSTEM (unaudited)
For the year ended December 31, 2023

	Fiscal Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actuarially determined contribution	\$ 105,034	\$ 112,907	\$ 116,240	\$ 144,773	\$ 150,208	\$ 154,113	\$ 160,304	\$ 151,960	\$ 202,842	\$ 199,862
Contributions in relation to the actuarially determined contribution	105,034	112,907	116,240	144,773	150,208	154,113	160,304	151,960	202,842	199,862
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,733,239	\$ 1,797,833	\$ 1,899,357	\$ 2,016,344	\$ 2,066,140	\$ 2,134,117	\$ 2,186,969	\$ 2,298,933	\$ 2,417,577	\$ 2,517,158
Contributions as a percentage of covered payroll	6.06%	6.28%	6.12%	7.18%	7.27%	7.22%	7.33%	6.61%	8.40%	7.94%

Notes to Schedule:

1. Valuation Date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.

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 22 years

Asset valuation method 10-year smoothed market; 12% soft corridor

Inflation 2.5%

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 plans of benefits. Last updated December 31 for the 2019 valuation pursuant to an experience study of the period December 31, 2014-December 31, 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.

CITY OF HEDWIG VILLAGE, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS (unaudited)
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the year ended December 31, 2023

	Measurement Year*					
	2017	2018	2019	2020	2021	2022
Total OPEB liability						
Service cost	\$ 4,033	\$ 4,752	\$ 4,908	\$ 5,249	\$ 7,127	\$ 7,253
Interest (on the total OPEB liability)	3,120	3,218	3,668	3,344	2,831	2,915
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	-	1,485	(4,976)	(6,448)	4,287	(12,045)
Change in assumptions	7,690	(7,242)	19,612	18,227	4,801	(49,996)
Benefit payments**	(403)	(620)	(640)	(656)	(2,069)	(2,418)
Net change in total OPEB liability	14,440	1,593	22,572	19,716	16,977	(54,291)
Beginning total OPEB liability	80,714	95,154	96,747	119,319	139,035	156,012
Ending total OPEB liability	<u>\$ 95,154</u>	<u>\$ 96,747</u>	<u>\$ 119,319</u>	<u>\$ 139,035</u>	<u>\$ 156,012</u>	<u>\$ 101,721</u>
Covered payroll	<u>\$ 2,016,344</u>	<u>\$ 2,066,140</u>	<u>\$ 2,134,119</u>	<u>\$ 2,186,969</u>	<u>\$ 2,298,933</u>	<u>\$ 2,417,577</u>
Total OPEB liability as a percentage of covered payroll	4.72%	4.68%	5.59%	6.36%	6.79%	4.21%

Notes to Schedule:

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	2.50%
Salary increases	3.50% to 11.50%, including inflation
Amortization method	Level percentage of payroll, closed
Discount rate	4.05%
Administrative expenses	All administrative expenses are paid through the PTF and account for under reporting requirement under GASB 75.
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 Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2022.

There was no benefit changes during the year.

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

SUPPLEMENTARY INFORMATION (unaudited)

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CITY OF HEDWIG VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL - DEBT SERVICE FUND (unaudited)
For the year ended December 31, 2023

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
Revenues				
Property taxes	\$ 590,737	\$ 590,737	\$ 565,291	\$ (25,446)
Investment income	<u>1,000</u>	<u>1,000</u>	<u>22,814</u>	<u>21,814</u>
Total revenues	<u>591,737</u>	<u>591,737</u>	<u>588,105</u>	<u>(3,632)</u>
Expenditures				
Debt service:				
Principal	470,000	470,000	470,000	-
Interest and fiscal charges	<u>117,742</u>	<u>117,742</u>	<u>117,207</u>	<u>535</u>
Total expenditures	<u>587,742</u>	<u>587,742</u>	<u>587,207</u>	<u>535</u>
Net change in fund balance	<u>\$ 3,995</u>	<u>\$ 3,995</u>	898	<u>\$ (3,097)</u>
Beginning fund balance			<u>132,351</u>	
Ending fund balance			<u>\$ 133,249</u>	