

CITY OF HACKBERRY, TEXAS

Financial Statements
(With Auditor's Report Thereon)

September 30, 2019

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Independent Auditor's Report

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, on pages 3 through 7 and 16 through 17, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund statements and schedules and other information such as the introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



K. Evans & Associates, CPA's
Frisco, Texas
February 24, 2020

CITY OF HACKBERRY, TEXAS
Management's Discussion and Analysis
September 30, 2019

As management of the City of Hackberry, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Hackberry for the fiscal year ended September 30, 2019. We encourage readers to consider the information presented here in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Hackberry exceeded its liabilities at the close of the most recent fiscal year by \$12,844,427 (net position).
- The City's total net position increased by \$2,345,195.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,975,262.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The *Statement of Net Position* presents information on all of the City's assets, liabilities, deferred inflows and deferred outflows, with the difference between the four 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.

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City's major and other governmental activities, that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government and public works. The business-type activities of the City include water and sewer operations.

The government-wide financial statements can be found on pages 9-11 of this report.

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

CITY OF HACKBERRY, TEXAS
Management's Discussion and Analysis
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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 *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than 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 statements 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 individual 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 and the debt service fund, both of which are considered to be major funds. The three other governmental funds are presented separately in the Other Governmental Funds Balance Sheet and in the Other Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 12-14 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. The *enterprise fund* is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its water and sewer operations.

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

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-33 of this report.

GOVERNMENT – WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$12,844,427 as of September 30, 2019.

A portion of the City's net position (-16.3%) reflects its investments in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service 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 capital assets themselves cannot be used to liquidate these liabilities.

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Management's Discussion and Analysis
September 30, 2019

City of Hackberry - Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current & Other Assets	\$ 6,673,976	\$ 4,278,212	\$ 8,994,026	\$ 9,888,615	\$ 15,668,002	\$ 14,166,827
Capital Assets	34,023,832	34,623,343	10,015,936	9,642,610	44,039,768	44,265,953
Total Assets	40,697,808	38,901,555	19,009,962	19,531,225	59,707,770	58,432,780
Deferred Outflows of Resources	1,277,792	1,346,236	-	-	1,277,792	1,346,236
Long Term Liabilities	46,134,768	46,241,652	-	836,000	46,134,768	47,077,652
Other Liabilities	864,915	1,147,366	1,141,452	1,054,766	2,006,367	2,202,132
Total Liabilities	46,999,683	47,389,018	1,141,452	1,890,766	48,141,135	49,279,784
Net Position:						
Net Invested in Capital Assets	(12,110,936)	(11,618,309)	10,015,936	8,806,610	(2,095,000)	(2,811,699)
Restricted	176,683	149,241	35,869	35,869	212,552	185,110
Unrestricted	6,910,170	4,327,841	7,816,705	8,797,980	14,726,875	13,125,821
Total Net Position	\$ (5,024,083)	\$ (7,141,227)	\$ 17,868,510	\$ 17,640,459	\$ 12,844,427	\$ 10,499,232

An additional portion of the City's net position, \$212,552, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$14,726,875, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in restricted and unrestricted net position for the government as a whole.

Analysis of the City's Operations. The following table provides a summary of the City's operations for the year ended September 30, 2019.

City of Hackberry - Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues:						
Charges for Services	\$ 4,129,644	\$ 3,597,593	\$ 4,045,857	\$ 3,968,165	\$ 8,175,501	\$ 7,565,758
Grants & Contributions	34,950	96,919	-	902,470	34,950	999,389
General Revenues:						
Property Tax	123,956	146,620	-	-	123,956	146,620
Other Tax	162,209	151,889	-	-	162,209	151,889
Miscellaneous	95,191	62,719	65,236	1,471,938	160,427	1,534,657
Total Revenues	4,545,950	4,055,740	4,111,093	6,342,573	8,657,043	10,398,313
Expenses						
General Government Activities	3,578,059	7,319,968	-	-	3,578,059	7,319,968
Business-Type Activities	-	-	2,733,789	3,467,587	2,733,789	3,467,587
Total Expenses	3,578,059	7,319,968	2,733,789	3,467,587	6,311,848	10,787,555
Increase/(Decrease) in Net Position Before Transfers	967,891	(3,264,228)	1,377,304	2,874,986	2,345,195	(389,242)
Transfers	1,149,253	(40,831)	(1,149,253)	40,831	-	-
Change in Net Position	2,117,144	(3,305,059)	228,051	2,915,817	2,345,195	(389,242)
Net Position - Beginning	(7,141,227)	(3,836,168)	17,640,459	14,724,642	10,499,232	10,888,474
Net Position - Ending	\$ (5,024,083)	\$ (7,141,227)	\$ 17,868,510	\$ 17,640,459	\$ 12,844,427	\$ 10,499,232

CITY OF HACKBERRY, TEXAS
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September 30, 2019

The following key elements influenced the changes in net position from the prior year:

Governmental Activities:

Governmental activities increased the City's net position by \$2,117,144. Operating results were \$5,422,203 more than the prior year. The increase is a result of increased charges for services, reduced spending activity in the public improvement districts, and transfers in from the water sewer fund.

Business-Type Activities:

Business-type activities increased the City's net position by \$228,051. Operating results were \$2,687,766 less than the prior year. The decrease is a result of one time contributions and bond agent fees that were recognized during fiscal year 2018, as well as transfers out to the general fund.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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 a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,975,262. Of the current combined ending fund balance, \$3,048,023 is unassigned and \$2,927,239 is restricted.

The general fund is the main operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,048,023. Total unassigned fund balance represents 454% of total general fund expenditures.

The fund balance of the City's general fund increased \$817,936 during the current fiscal year.

The debt service fund has a total fund balance of \$176,683. The net increase in fund balance during the current year in the debt service fund was \$27,442.

Proprietary Funds. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Enterprise Fund at the end of the year amounted to \$7,816,705. Net position increased in 2019 by \$228,051. The factors concerning the finances of this fund have already been addressed in the analysis of the City's operations.

General Fund Budgetary Highlights

During the fiscal year budgeted estimates exceeded actual revenues, while actual expenditures exceeded budgeted estimates. The budget estimated a decrease in fund balance (prior to transfers) of \$280,660, while the actual result was an decrease in fund balance (prior to transfers) of \$50,657.

Capital Assets & Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2019 amounts to \$44,039,768 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure. The change in capital assets during the year was a result of increased construction in progress of \$136,855, infrastructure of \$36,768. During the year, the City completed the sewer plan project and recorded depreciation expense of \$1,035,559.

CITY OF HACKBERRY, TEXAS
Management's Discussion and Analysis
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Additional information on the City's capital assets can be found on pages 29-30 of this report.

Long-Term Debt. At the end of the current fiscal year, the City had long-term debt outstanding of \$46,134,768.

The City's long-term debt decreased by \$942,884, as a result of principal payments on outstanding debt. There were no new issuances of debt during the 2019 fiscal year.

Additional information on the City's long-term debt can be found on pages 31-32 of this report.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Secretary, 119 Maxwell, B-7; Frisco, TX 75034.

BASIC FINANCIAL STATEMENTS

CITY OF HACKBERRY, TEXAS

Statement of Net Position

September 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash & Cash Equivalents	\$ 6,655,509	\$ 8,105,181	\$ 14,760,690
Investments	-	70,515	70,515
Receivables (Net of Allowance for Uncollectibles)	18,467	372,033	390,500
Bond Agent Fees Receivable	-	446,297	446,297
Capital Assets:			
Non-Depreciable	11,576,545	876,460	12,453,005
Depreciable (Net of Accumulated Depreciation)	22,447,287	9,139,476	31,586,763
Total Assets	<u>40,697,808</u>	<u>19,009,962</u>	<u>59,707,770</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge for Refunding	1,277,792	-	1,277,792
Total Deferred Outflows of Resources	<u>1,277,792</u>	<u>-</u>	<u>1,277,792</u>
 Total Assets & Deferred Outflows of Resources	 <u>\$ 41,975,600</u>	 <u>\$ 19,009,962</u>	 <u>\$ 60,985,562</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 22,020	\$ 312,046	\$ 334,066
Retainage Payable	-	35,242	35,242
Accrued Interest	175,162	-	175,162
Customer Deposits	-	758,295	758,295
Deposits	-	35,869	35,869
Bond Agent Fees Payable	446,298	-	446,298
Other Liabilities	221,435	-	221,435
Noncurrent Liabilities:			
Due Within One Year	954,826	-	954,826
Due in More than One Year	45,179,942	-	45,179,942
Total Liabilities	<u>46,999,683</u>	<u>1,141,452</u>	<u>48,141,135</u>
 Total Liabilities	 <u>\$ 46,999,683</u>	 <u>\$ 1,141,452</u>	 <u>\$ 48,141,135</u>
NET POSITION			
Net Investment in Capital Assets	\$ (12,110,936)	\$ 10,015,936	\$ (2,095,000)
Restricted for:			
Debt Service	176,683	-	176,683
Other	-	35,869	35,869
Public Improvement	-	-	-
Unrestricted	6,910,170	7,816,705	14,726,875
Total Net Position	<u>\$ (5,024,083)</u>	<u>\$ 17,868,510</u>	<u>\$ 12,844,427</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HACKBERRY, TEXAS
Statement of Activities
For the Year Ended September 30, 2019

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 360,828	\$ 8,795	\$ -	\$ 34,950
Public Improvements	795,012	4,120,849	-	-
Interest & Fiscal Charges	2,422,219	-	-	-
Total Governmental Activities	3,578,059	4,129,644	-	34,950
Business-Type Activities:				
Water & Sewer	2,733,789	4,045,857	-	-
Total Business-Type Activities	2,733,789	4,045,857	-	-
Total Primary Government	\$ 6,311,848	\$ 8,175,501	\$ -	\$ 34,950

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Investment Earnings
Miscellaneous
Transfers
Total General Revenues & Transfers

Change in Net Position

Net Position - Beginning

Net Position - Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense)/Revenue & Change in Net Position

Primary Government		
Governmental Activities	Business Activities	Total
\$ (317,083)	\$ -	\$ (317,083)
3,325,837	-	3,325,837
<u>(2,422,219)</u>	<u>-</u>	<u>(2,422,219)</u>
<u>586,535</u>	<u>-</u>	<u>586,535</u>
-	1,312,068	1,312,068
<u>-</u>	<u>1,312,068</u>	<u>1,312,068</u>
<u>586,535</u>	<u>1,312,068</u>	<u>1,898,603</u>
123,956	-	123,956
133,333	-	133,333
28,876	-	28,876
89,924	14,852	104,776
5,267	50,384	55,651
<u>1,149,253</u>	<u>(1,149,253)</u>	<u>-</u>
<u>1,530,609</u>	<u>(1,084,017)</u>	<u>446,592</u>
2,117,144	228,051	2,345,195
<u>(7,141,227)</u>	<u>17,640,459</u>	<u>10,499,232</u>
<u>\$ (5,024,083)</u>	<u>\$ 17,868,510</u>	<u>\$ 12,844,427</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HACKBERRY, TEXAS

Balance Sheet

Governmental Funds

September 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash & Cash Equivalents	\$ 3,300,176	\$ 151,324	\$ 3,204,009	\$ 6,655,509
Receivables (Net of Allowance for Uncollectibles)	18,467	-	-	18,467
Due from General Fund	-	25,359	-	25,359
Total Assets	<u>\$ 3,318,643</u>	<u>\$ 176,683</u>	<u>\$ 3,204,009</u>	<u>\$ 6,699,335</u>
LIABILITIES				
Accounts Payable	\$ 14,865	\$ -	\$ 7,155	\$ 22,020
Bond Agent Fees Payable	-	-	446,298	446,298
Other Liabilities	221,435	-	-	221,435
Due to Debt Service	25,359	-	-	25,359
Total Liabilities	<u>261,659</u>	<u>-</u>	<u>453,453</u>	<u>715,112</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	8,961	-	-	8,961
Total Deferred Inflows of Resources	<u>8,961</u>	<u>-</u>	<u>-</u>	<u>8,961</u>
FUND BALANCES				
Restricted:				
Debt Service	-	176,683	-	176,683
Public Improvement	-	-	2,750,556	2,750,556
Unassigned	3,048,023	-	-	3,048,023
Total Fund Balances	<u>3,048,023</u>	<u>176,683</u>	<u>2,750,556</u>	<u>5,975,262</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 3,318,643</u>	<u>\$ 176,683</u>	<u>\$ 3,204,009</u>	<u>\$ 6,699,335</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HACKBERRY, TEXAS
 Reconciliation of Balance Sheet of Governmental Funds
 to the Statement of Net Position
 For the Year Ended September 30, 2019

Total Fund Balances - Governmental Funds	\$ 5,975,262
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$38,577,011 and the accumulated depreciation was \$(3,953,668). In addition, long-term liabilities of \$(44,315,866) are not due and payable in the current period, and therefore, are not reported liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to decrease net assets.	(9,692,523)
Current year capital outlays of \$95,963 and long-term debt principal payments of \$849,006 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements.	944,969
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The net effect of including accrued interest is to decrease net position.	(175,162)
Accreted interest on capital appreciation bonds has not been included on the fund financial statements, but is included on the government-wide financial statements. The effect of including the accreted interest is to decrease net position.	(96,484)
The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(695,474)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications is to increase net position.	<u>(1,284,671)</u>
Net Position of Governmental Activities	<u>\$ (5,024,083)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HACKBERRY, TEXAS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2019

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 125,410	\$ 26,940	\$ -	\$ 152,350
Sales	133,333	-	-	133,333
Franchise	28,876	-	-	28,876
Special Assessments	-	-	4,120,849	4,120,849
Licenses & Permits	8,795	-	-	8,795
Intergovernmental Revenue	34,950	-	-	34,950
Investment Earnings	3,724	-	86,200	89,924
Miscellaneous	4,765	502	-	5,267
Total Revenues	<u>339,853</u>	<u>27,442</u>	<u>4,207,049</u>	<u>4,574,344</u>
EXPENDITURES				
Current:				
General Government	300,616	-	-	300,616
Public Improvement	-	-	159,750	159,750
Capital Outlay	59,195	-	36,768	95,963
Debt Service:				
Principal Retirement	286,000	-	563,006	849,006
Interest & Fiscal Charges	25,359	-	2,418,743	2,444,102
Bond Issuance Cost	-	-	-	-
Total Expenditures	<u>671,170</u>	<u>-</u>	<u>3,178,267</u>	<u>3,849,437</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>(331,317)</u>	<u>27,442</u>	<u>1,028,782</u>	<u>724,907</u>
OTHER FINANCING SOURCES/(USES)				
Transfers In	1,149,253	-	-	1,149,253
Total Other Financing Sources/(Uses)	<u>1,149,253</u>	<u>-</u>	<u>-</u>	<u>1,149,253</u>
Net Change in Fund Balances	817,936	27,442	1,028,782	1,874,160
Fund Balance - Beginning, as Restated	<u>2,230,087</u>	<u>149,241</u>	<u>1,721,774</u>	<u>4,101,102</u>
Fund Balance - Ending	<u>\$ 3,048,023</u>	<u>\$ 176,683</u>	<u>\$ 2,750,556</u>	<u>\$ 5,975,262</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HACKBERRY, TEXAS

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2019

Total Net Change in Fund Balance - Governmental Funds	\$ 1,874,160
Current year capital outlays of \$95,963 and long-term debt principal payments of \$849,006 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements.	944,969
Interest is accrued on outstanding debt in the government-side financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The net effect of including accrued interest is to increase net position.	(3,551)
Accreted interest on capital appreciation bonds is not included on the fund financial statements, but is included on the government-wide financial statements. The net effect of including accreted interest is to decrease net position.	(36,283)
The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(695,474)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications is to increase net position.	<u>33,323</u>
Change in Net Position of Governmental Activities	<u><u>\$ 2,117,144</u></u>

CITY OF HACKBERRY, TEXAS
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – General Fund
For the Year Ended September 30, 2019

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 125,410	\$ 125,410	\$ 125,410	\$ -
Sales	133,333	133,333	133,333	-
Franchise	28,876	28,876	28,876	-
Licenses & Permits	8,345	8,345	8,795	450
Intergovernmental Revenue	34,950	34,950	34,950	-
Investment Earnings	3,724	3,724	3,724	-
Miscellaneous	5,467	5,467	4,765	(702)
Total Revenues	<u>340,105</u>	<u>340,105</u>	<u>339,853</u>	<u>(252)</u>
EXPENDITURES				
Professional Services	37,174	37,174	42,706	(5,532)
Contract Services	134,135	134,135	125,932	8,203
Insurance	9,381	9,381	9,381	-
Municipal Court	56,074	56,074	39,561	16,513
Office Supply	2,133	2,133	6,077	(3,944)
Repairs & Maintenance	32,554	32,554	39,369	(6,815)
Utilities	26,972	26,972	18,866	8,106
Miscellaneous	10,983	10,983	18,724	(7,741)
Capital Outlay	-	-	59,195	(59,195)
Debt Service	311,359	311,359	311,359	-
Total Expenditures	<u>620,765</u>	<u>620,765</u>	<u>671,170</u>	<u>(50,405)</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>(280,660)</u>	<u>(280,660)</u>	<u>(331,317)</u>	<u>(50,657)</u>
OTHER FINANCING SOURCES/(USES)				
Transfers In	200,000	200,000	1,149,253	949,253
Bond Agent Fees	221,435	221,435	-	(221,435)
Total Other Financing Sources/(Uses)	<u>421,435</u>	<u>421,435</u>	<u>1,149,253</u>	<u>727,818</u>
Net Change in Fund Balances	140,775	140,775	817,936	677,161
Fund Balance - Beginning, as Restated	<u>2,230,087</u>	<u>2,230,087</u>	<u>2,230,087</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 2,370,862</u>	<u>\$ 2,370,862</u>	<u>\$ 3,048,023</u>	<u>\$ 677,161</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HACKBERRY, TEXAS
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Debt Service Fund
For the Year Ended September 30, 2019

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 26,940	\$ 26,940	\$ 26,940	\$ -
Miscellaneous	-	-	502	502
Total Revenues	<u>26,940</u>	<u>26,940</u>	<u>27,442</u>	<u>502</u>
EXPENDITURES				
Debt Service	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>26,940</u>	<u>26,940</u>	<u>27,442</u>	<u>502</u>
Net Change in Fund Balances	26,940	26,940	27,442	502
Fund Balance - Beginning	<u>149,241</u>	<u>149,241</u>	<u>149,241</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 176,181</u>	<u>\$ 176,181</u>	<u>\$ 176,683</u>	<u>\$ 502</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HACKBERRY, TEXAS

Statement of Net Position

Proprietary Fund

September 30, 2019

	<u>Business-Type Activities</u>
ASSETS	
Current Assets:	
Cash & Cash Equivalents	\$ 8,105,181
Accounts Receivable (Net of Allowance for Uncollectibles)	<u>372,033</u>
Total Current Assets	<u>8,477,214</u>
Noncurrent Assets:	
Long-Term Investments	70,515
Bond Agent Fees Receivable	446,297
Capital Assets (Net of Accumulated Depreciation)	<u>10,015,936</u>
Total Noncurrent Assets	<u>10,532,748</u>
Total Assets	<u><u>\$ 19,009,962</u></u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 312,046
Retainage Payable	35,242
Customer Deposits	758,295
Deposit	<u>35,869</u>
Total Current Liabilities	<u>1,141,452</u>
Total Liabilities	<u><u>\$ 1,141,452</u></u>
NET POSITION	
Net Invested in Capital Assets	\$ 10,015,936
Restricted	35,869
Unrestricted	<u>7,816,705</u>
Total Net Position	<u><u>\$ 17,868,510</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HACKBERRY, TEXAS
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended September 30, 2019

	Business-Type Activities
OPERATING REVENUES	
Water Service	\$ 2,152,740
Sewer Service	1,355,818
Waste Service	454,591
Tap Fees	22,375
Penalties & Late Fees	60,333
Miscellaneous	50,384
Total Operating Revenues	4,096,241
OPERATING EXPENSES	
Personnel Services	203,849
Professional Services	12,577
Waste Management Services	566,191
Facility Operations	1,207,529
Administrative Operations	79,586
Insurance	35,087
Repairs & Maintenance	187,258
Miscellaneous	101,627
Depreciation	340,085
Total Operating Expenses	2,733,789
Operating Income/(Loss)	1,362,452
NONOPERATING REVENUES/(EXPENSES)	
Interest on Investments	14,852
Total Nonoperating Revenues/(Expenses)	14,852
Income/(Loss) Before Transfers	1,377,304
Transfers In/Out	(1,149,253)
Change in Net Position	228,051
Net Position - Beginning	17,640,459
Net Position - Ending	\$ 17,868,510

The notes to the financial statements are an integral part of this statement.

CITY OF HACKBERRY, TEXAS
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2019

	Business-Type Activities
Cash Flows from Operating Activities	
Receipts from Customers & Users	\$ 4,519,303
Payments to Suppliers	(2,189,454)
Payments to Employees	(203,849)
Net Cash Provided by/(Used in) Operating Activities	2,126,000
Cash Flows from Noncapital Financing Activities	
Transfers (to)/from Other Funds	(1,149,253)
Net Cash Provided by/(Used in) Noncapital Financing Activities	(1,149,253)
Cash Flows from Capital & Related Financing Activities	
Acquisition & Construction of Capital Assets	(713,411)
Debt Transferred to Debt Service Fund	(836,000)
Net Cash Provided by/(Used in) Capital & Related Financing Activities	(1,549,411)
Cash Flows from Investing Activities	
Interest on Investments	14,852
Net Cash Provided by/(Used in) Investing Activities	14,852
Net Increase/(Decrease) in Cash & Cash Equivalents	(557,812)
Cash & Cash Equivalents - Beginning	8,662,993
Cash & Cash Equivalents - Ending	\$ 8,105,181
Reconciliation of Operating Income/(Loss) to Net Cash Provided by/(Used in) Operating Activities	
Operating Income/(Loss)	\$ 1,362,452
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided by/(Used in) Operating Activities:	
Depreciation	340,085
(Increase)/Decrease in Accounts Receivable	50,777
(Increase)/Decrease in Grants Receivable	1,000
(Increase)/Decrease in Bond Agent Fees Receivable	285,000
Increase/(Decrease) in Accounts Payable	22,282
Increase/(Decrease) in Retainage Payable	(21,881)
Increase/(Decrease) in Customer Deposits	86,285
Total Adjustments	763,548
Net Cash Provided by/(Used in) Operating Activities	\$ 2,126,000

The notes to the financial statements are an integral part of this statement.

CITY OF HACKBERRY, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hackberry, Texas (the "City") was originally incorporated in 1983 as a Type B General Law municipality with the name of 'Town of Hackberry'. In 2001, Hackberry met all the requirements to become a Type A General Law municipality, upon which, the name was changed to 'City of Hackberry'. The City operates under the "Mayor-Council" form of government and provides such services as authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the City and its residents.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Financial Statement Presentation

The basic financial statements are prepared in conformity with GASB Statement 34, which requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities, business-type activities and activities of its discretely presented component units on the statement of net position and statement of activities. Significantly, the City's statement of net position includes both non-current assets and non-current liabilities of the City. The government-wide statement of activities reflects depreciation expense on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements. Governmental fund financial statements use the modified accrual basis of accounting and the current financial resources measurement focus. The proprietary fund type financial statements are prepared using the accrual basis of accounting. Statement No. 34 requires supplementary information in Management's Discussion and Analysis, which includes an analytical overview of the City's financial activities. Also, a budgetary comparison statement is presented that compares the adopted and revised budgets for the general fund and other major funds with actual results.

Reporting Entity

The accompanying financial statements present the City and its component units (traditionally separate reporting entities), for which the City is considered to be financially accountable. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units.

Governmental accounting standards require reasonable separation between the Primary Government (including its blended component units) and its discretely presented component units, both in the financial statements and in the related notes and required supplementary information. Because the discretely presented component units, although legally separate, have been and are operated as if each is part of the primary government, there are limited instances where special note reference or separation will be required. If no separate note reference or categorization is made, the user should assume that information presented is equally applicable.

The City does not maintain any component units.

CITY OF HACKBERRY, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government-Wide & Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The other governmental funds are combined in a separate column in the applicable fund financial statements.

Measurement Focus, Basis of Accounting & Financial Statement Presentation

The government-wide financial statements and the proprietary fund 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.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the obligation has matured and is due and payable shortly after year end.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Funds received in advance for which all eligibility requirements have not been met are considered *unavailable revenue*. Funds received for which amounts are not considered measurable and available are considered *deferred inflows of resources*. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF HACKBERRY, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement Focus, Basis of Accounting & Financial Statement Presentation *(continued)*

Proprietary fund statements of revenues, expenses, and changes in fund net position present increases (e.g., revenues) and decreases (e.g., expenses) in net position. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Water and Sewer fund is charges to customers for sales and services. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City of Hackberry does not utilize internal service funds, which traditionally provide service primarily to other funds of the government. Nor does the City of Hackberry have fiduciary funds.

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

The following funds are used by the City of Hackberry:

Governmental Funds - The focus of Governmental Fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the major Governmental Funds of the City:

- General Fund accounts for the City's ordinary services and is the primary operating fund unit of the City.
- Debt Service Fund accounts for the accumulation of resources and payment of general obligation and certificate of obligation bond principal and interest from governmental resources. The revenue source is principally ad valorem taxes levied by the City.
- Other Governmental Funds is a summarization of all of the other governmental funds. Included in the other governmental funds are five Public Improvement Districts (PID) for which the City is financially accountable: Rivendale by the Lake PID#3, Rivendale Pointe PID#4, Hackberry PID #3 (Hackberry PID), Hackberry Hidden Cove PID #2 (Hidden Cove), and Rivendale by the Lake PID #1 (Rivendale). The PIDs are special purpose governmental entities designed to provide capital improvements to a specified region within the City. These Capital improvements are financed by an assessment on the property that benefits from such improvements. The PIDs will dissolve when all related debt has been fully paid.

Proprietary Funds - The focus of Proprietary Fund measurement is upon determination of operating income, changes in net position, and cash flows, which is similar to private-sector businesses. The following is a description of the major Proprietary Funds of the City:

- Water and Sewer Fund accounts for the operation of the City's water and sewer utility. Activities of the Fund include administration, operation and maintenance of the water and sewer system, and billing and collection activities. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

CITY OF HACKBERRY, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting & Financial Statement Presentation (continued)

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 and other charges between the city's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Deposits & Investments

For purposes of the statement of cash flows the City's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Short-Term Interfund Receivables & Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period.

Property, plant, equipment and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-30
Improvements	10-50
Machinery & Equipment	5-15
Infrastructure	20-30

CITY OF HACKBERRY, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employee sick time is reset on January 1 or the employee's anniversary. Furthermore, there is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-Term Obligations

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

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.

Deferred Inflow & Deferred Outflow of Resources

Deferred inflows of resources are an acquisition of net position by the City that is applicable to a future reporting period. Deferred inflows have a negative effect on net position, similar to liabilities. The City of Hackberry reports deferred inflows of resources as the offset account to assets received, but not yet available or earned. Outflows of resources are defined as a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets. For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt that results in a refunding loss, is reported as a deferred outflow of resources. The deferred outflows of resources are recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the government-wide financial statements. Net position is classified in the following categories:

- *Net Investment in Capital Assets* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- *Restricted Net Position* – This amount is restricted by creditors, grantors, contributors or law and regulations of other governments.
- *Unrestricted Net Position* – This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

CITY OF HACKBERRY, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fund Equity

The governmental fund financial statements present fund balance classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- *Non-Spendable* - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- *Restricted* - This classification includes amount for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* - This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- *Assigned* - This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by an official to which the City Council delegates this authority.
- *Unassigned* - This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources - committed, assigned, and unassigned, in order as needed.

As of September 30, 2019, fund balances are composed of the following:

	General Fund	Debt Service	Other Governmental	Total
Restricted:				
Debt Service	\$ -	\$ 176,683	\$ -	\$ 176,683
Public Improvement	-	-	2,750,556	2,750,556
Unassigned	3,048,023	-	-	3,048,023
Total Fund Balances	<u>\$3,048,023</u>	<u>\$ 176,683.00</u>	<u>\$ 2,750,556</u>	<u>\$ 5,975,262</u>

CITY OF HACKBERRY, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2019

RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet & the Government-Wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting." The details of this (\$1,284,671) adjustment are as follows:

Long Term Debt	
Premium and Discount Costs on Bonds	\$ (2,571,424)
Deferred Charge on Refunding Bonds	1,277,792
	<u>(1,293,632)</u>
Unavailable Revenue	8,961
Net Adjustment	<u>\$ (1,284,671)</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances & the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in *fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "various other reclassifications are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting." The details of this (\$33,323) adjustment are as follows:

Long Term Debt	
Premium and Discount Costs on Bonds	\$ 130,161
Deferred Charge on Refunding Bonds	<u>(68,444)</u>
	61,717
Taxes	
To move the uncollected Tax Levy	<u>(28,394)</u>
Net Adjustment	<u>\$ 33,323</u>

STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY

Budgetary Information

Annual budgets for the general, debt, and water and sewer funds are adopted on the budgetary basis of accounting. All annual appropriations lapse at fiscal yearend. The legal level of budgetary control is the fund level.

CITY OF HACKBERRY, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2019

DEPOSITS & INVESTMENTS

The City may invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposits, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by the Public Funds Investment Act of 1987 (Article 842a-2 Vernon's Civil Statutes).

At September 30, 2019, the City's combined carrying amount of deposits was \$14,831,203 and the bank balance of the City's deposits was \$14,942,988. Of the bank balance, \$500,000 was covered by federal depository insurance and an additional \$11,750,000 was covered by collateral held by the pledging financial institutions trust department or agent in the City's name. The remaining \$2,692,988 was uninsured.

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

Credit Risk is the risk that a security issuer may default on an interest or principal payment. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. It is the government's policy to limit its investments to those investments rated at least AAAM.

Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution or counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover its deposits, value of its investments, or collateral securities that are in the possession of an outside party. The PFIA, the government's investment policy, and Government Code Chapter 2257 "Collateral for Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments. The government's funds are deposited and invested under terms of a depository contract with amounts greater than the FDIC insurance coverage protected by approved pledged securities held on behalf of the government. The government's policy manages custodial credit risk by requiring securities purchased by a broker-dealer for the government to be held in a Safekeeping account in the government's name. The policy also requires that security transactions be conducted on a delivery-versus-payment basis.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments issued by the U. S. Government and investments in investment pools are excluded from the 5 percent disclosure requirement.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the government's investment in external investment pools is less than 60 days.

Foreign Currency Risk is the potential for loss due to fluctuations in exchange rates. The government's policy does not allow for any direct foreign investments, and therefore the government is not exposed to foreign currency risk.

At September 30, 2019, the City's investment balances were as follows:

<u>Description</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Certificates of Deposit	<u>\$ 70,515</u>	<u>\$ 70,950</u>

CITY OF HACKBERRY, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2019

RECEIVABLES

Receivables at September 30, 2019, for the City's individual major funds and other governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are all considered to be collected within one year and consist of the following:

	<u>General</u>	<u>Water/Sewer</u>	<u>Total</u>
Property Taxes	\$ 9,653	\$ -	\$ 9,653
Sales Taxes	9,506	-	9,506
Utility Bills	-	372,033	372,033
Gross Receivables	19,159	372,033	391,192
Less: Allowance for Uncollectibles	(692)	-	(692)
Net Total Receivables	<u>\$ 18,467</u>	<u>\$ 372,033</u>	<u>\$ 390,500</u>

The Proprietary Fund accounts receivable includes unbilled charges for services rendered at September 30, 2019.

Property taxes are levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property. Appraised values are established by the Denton County Appraisal District as market value and assessed at 100% of appraised value. Property taxes attach as an enforceable lien on property as of January 1. The Denton County Tax Assessor/Collector bills and collects the City's property taxes, which are due October 1. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Over time substantially all property taxes are collected.

CAPITAL ASSETS

The following is a summary of the changes in capital assets of the governmental activities for the fiscal year ended September 30, 2019:

General Fund Activities	<u>09/30/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>09/30/19</u>
<i>Capital Assets Not Being Depreciated:</i>				
Construction in Progress	\$ -	\$ 59,195	\$ -	\$ 59,195
Total Capital Assets Not Being Depreciated	-	59,195	-	59,195
<i>Capital Assets Being Depreciated:</i>				
Buildings & Facilities	665,080	-	-	665,080
Furniture, Fixtures, & Equipment	102,391	-	-	102,391
Roads	887,787	-	-	887,787
Total Capital Assets Being Depreciated	1,655,258	-	-	1,655,258
<i>Accumulated Depreciation</i>	(467,914)	(60,212)	-	(528,126)
Total Capital Assets, Being Depreciated, Net	1,187,344	(60,212)	-	1,127,132
General Fund Capital Assets, Net	<u>\$ 1,187,344</u>	<u>\$ (1,017)</u>	<u>\$ -</u>	<u>\$ 1,186,327</u>

CITY OF HACKBERRY, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2019

CAPITAL ASSETS (continued)

	09/30/18	Additions	Retirements	09/30/19
Public Improvement Activities				
<i>Capital Assets Not Being Depreciated:</i>				
Construction in Progress (Hackberry PID)	\$ 3,627,818	\$ -	\$ -	\$ 3,627,818
Construction in Progress (Rivendale)	7,889,532	-	-	7,889,532
Total Capital Assets Not Being Depreciated	<u>11,517,350</u>	<u>-</u>	<u>-</u>	<u>11,517,350</u>
<i>Capital Assets Being Depreciated:</i>				
Infrastructure (Hackberry PID)	3,597,663	-	-	3,597,663
Infrastructure (Hidden Cove)	13,634,052	-	-	13,634,052
Infrastructure (Rivendale)	8,172,688	36,768	-	8,209,456
Total Capital Assets Being Depreciated	<u>25,404,403</u>	<u>36,768</u>	<u>-</u>	<u>25,441,171</u>
<i>Accumulated Depreciation:</i>				
Accumulated Depreciation (Hackberry PID)	(179,884)	(89,941)	-	(269,825)
Accumulated Depreciation (Hidden Cove)	(2,897,236)	(340,851)	-	(3,238,087)
Accumulated Depreciation (Rivendale)	(408,634)	(204,470)	-	(613,104)
Total Accumulated Depreciation	<u>(3,485,754)</u>	<u>(635,262)</u>	<u>-</u>	<u>(4,121,016)</u>
Total Capital Assets, Being Depreciated, Net	<u>21,918,649</u>	<u>(598,494)</u>	<u>-</u>	<u>21,320,155</u>
Public Improvement Capital Assets, Net	<u>\$ 33,435,999</u>	<u>\$ (598,494)</u>	<u>\$ -</u>	<u>\$ 32,837,505</u>
Total Governmental Capital Assets, Net	<u>\$ 34,623,343</u>	<u>\$ (599,511)</u>	<u>\$ -</u>	<u>\$ 34,023,832</u>

The following is a summary of the changes in capital assets of the business-type activities for the fiscal year ended September 30, 2019:

	09/30/18	Additions	Retirements	09/30/19
Business-Type Activities				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 27,250	\$ -	\$ -	\$ 27,250
Construction in Progress	1,306,657	635,751	(1,187,358)	755,050
Water Rights and CCN	94,160	-	-	94,160
Total Capital Assets Not Being Depreciated	<u>1,428,067</u>	<u>635,751</u>	<u>(1,187,358)</u>	<u>876,460</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings & Facilities	79,187	-	-	79,187
Furniture, Fixtures, & Equipment	544,503	-	-	544,503
Water Plant & Distribution Lines	3,624,060	-	-	3,624,060
Sewer Plant	6,118,621	1,265,018	-	7,383,639
Total Capital Assets Being Depreciated	<u>10,366,371</u>	<u>1,265,018</u>	<u>-</u>	<u>11,631,389</u>
Accumulated Depreciation	<u>(2,151,828)</u>	<u>(340,085)</u>	<u>-</u>	<u>(2,491,913)</u>
Total Capital Assets, Being Depreciated, Net	<u>8,214,543</u>	<u>924,933</u>	<u>-</u>	<u>9,139,476</u>
Business-Type Activities Capital Assets, Net	<u>\$ 9,642,610</u>	<u>\$ 1,560,684</u>	<u>\$ (1,187,358)</u>	<u>\$ 10,015,936</u>

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

Governmental Activities	
General Government	\$ 60,212
Public Improvements	635,262
Total Depreciation Expense - Governmental Activities	<u>\$ 695,474</u>
Business-Type Activities	
Water & Sewer	\$ 340,085
Total Depreciation Expense - Business-Type Activities	<u>\$ 340,085</u>

CITY OF HACKBERRY, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2019

LONG-TERM DEBT

The following is a summary of the changes in long-term liabilities for the fiscal year ended September 30, 2019:

	<u>09/30/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>09/30/19</u>	<u>Due Within One Year</u>
Governmental Activities					
Tax Note, Series 2018	\$ 836,000	\$ -	\$ (286,000)	\$ 550,000	\$ 297,000
Combination Bonds (Hackberry PID)	8,422,319	-	(70,797)	8,351,522	61,000
Combination Bonds (Hidden Cove)	16,543,691	-	(367,329)	16,176,362	271,710
Combination Bonds (Rivendale)	18,513,856	-	(124,880)	18,388,976	133,022
Subtotal	44,315,866	-	(849,006)	43,466,860	762,732
Bond Premiums	2,701,585	-	(130,161)	2,571,424	130,161
Accreted Interest	60,201	81,543	(45,260)	96,484	61,933
Total	<u>\$ 47,077,652</u>	<u>\$ 81,543</u>	<u>\$ (1,024,427)</u>	<u>\$ 46,134,768</u>	<u>\$ 954,826</u>

Changes in debt-related deferred outflows of resources for the year ended September 30, 2019, were:

	<u>09/30/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>09/30/19</u>
Governmental Activities				
Deferred Loss on Refunding	\$ 1,346,236	\$ -	\$ (68,444)	\$ 1,277,792
Total	<u>\$ 1,346,236</u>	<u>\$ -</u>	<u>\$ (68,444)</u>	<u>\$ 1,277,792</u>

Interest expense on Governmental Activities for the year ended September 30, 2019 was \$2,444,102. During the year ended September 30, 2019, the City did not issue any new debt.

Capital Appreciation Bonds

A capital appreciation bond (CAB) is a bond bearing no interest that is sold at a significant discount but matures at a stated value. Accreted interest is the obligation associated with CABs and reflects period increases in the obligation to reflect the bond at stated value at maturity. CAB premiums represent premium received on the issuance of these bonds which must also be paid back at maturity. Current year accreted interest expense recognized in the government-wide financial statements was \$81,543, and \$45,260 of outstanding accreted interest was paid off during the year. Total accreted interest on CABs at September 30, 2019 is \$96,484, which is reported as long-term liabilities in the government-wide financial statements.

Defeasance of Debt

In the current year, as well as prior years, the City defeased previously issued and outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On September 30, 2019, there are no outstanding bonds that are considered legally defeased.

CITY OF HACKBERRY, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2019

LONG-TERM DEBT *(continued)*

Bonds payable at September 30, 2019 are comprised of the following issues for the governmental funds:

<u>Debt Service</u>		
2018 Tax Note. Interest payable March 1 and September 1 at a 2.67% interest rate.	\$	550,000
Subtotal	\$	550,000
<u>Hackberry PID</u>		
2017 Special Assessment Revenue Bonds. Interest payable March 1st and September 1st at a 4.40% interest rate.	\$	8,351,522
Subtotal	\$	8,351,522
<u>Hidden Cove</u>		
2017 Special Assessment and Contract Revenue Refunding Bonds. Interest payable March 1st and September 1st at a 4.34% interest rate.	\$	6,630,994
2017 Special Assessment and Contract Revenue Refunding Bonds. Interest payable March 1st and September 1st at a 4.34% interest rate.		9,545,368
Subtotal	\$	16,176,362
<u>Rivendale</u>		
2015 Special Assessment Revenue Bonds. Interest payable March 1st and September 1st at a 6.00% interest rate.	\$	3,073,976
2016 Special Assessment Revenue Bonds. Interest payable March 15 and September 15 at a 5.75% interest rate.		6,115,000
2017 Special Assessment Revenue Bonds. Interest payable March 15 and September 15 at a 4.59% interest rate.		9,200,000
Subtotal	\$	18,388,976
Total	\$	43,466,860

The annual requirements to amortize the debt outstanding for the public improvement districts as of September 30, 2019 are as follows:

	Principal	Interest	Total
2020	\$ 762,732	\$ 2,529,928	\$ 3,292,660
2021	699,182	2,588,511	3,287,693
2022	664,727	2,624,206	3,288,933
2023	1,224,456	2,067,238	3,291,694
2024	1,352,947	1,946,238	3,299,185
2025-2029	7,637,333	8,799,398	16,436,731
2030-2034	9,708,251	6,845,527	16,553,778
2035-2039	11,036,938	4,299,265	15,336,203
2040-2044	8,065,294	1,945,360	10,010,654
2045-2047	2,315,000	205,825	2,520,825
	\$ 43,466,860	\$ 33,851,495	\$ 77,318,356

CITY OF HACKBERRY, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2019

INTERFUND TRANSACTIONS

The composition of inter-fund balances as of September 30, 2019, is as follows:

	Transfers In		
	General Fund	Water/Sewer	Total
Transfers Out:			
Water and Sewer	\$ 1,149,253	\$ -	\$ 1,149,253
Total	<u>\$ 1,149,253</u>	<u>\$ -</u>	<u>\$ 1,149,253</u>

RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

RETIREMENT PLAN

The City has adopted a retirement plan whereby employees electing to participate may make salary deferral contributions to their individual accounts and the City will match those contributions to a maximum of 3% of eligible salary. During 2019, the City contributed \$4,840 to the retirement plan for participating employees.

TAX ABATEMENTS

In compliance with GASB Statement #77, the City did not have any outstanding tax abatements for the year ended September 30, 2019.

PRIOR PERIOD ADJUSTMENT

During 2018, the City issued a 2018 Tax Note for \$836,000, which was recorded to a proprietary fund. Prior to making any payments, the debt was reclassified to the General Fund. The issuance of the note is recognized as a restatement of beginning fund balance, as follows:

Fund Balance Restatement	General Fund
Fund Balance, as Originally Reported	\$ 1,394,087
Increase in Long-Term Debt	836,000
Fund Balance, as Restated	<u>\$ 2,230,087</u>

EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through February 24, 2020, the date which the financial statements were available to be issued.

COMBINING FUND STATEMENTS

CITY OF HACKBERRY, TEXAS

Combining Balance Sheet

Other Governmental Funds

September 30, 2019

	Rivendale by the Lake PID#3	Rivendale Pointe PID#4	Hackberry PID#3	Hidden Cove PID#2	Rivendale PID#1	Other Governmental Funds
ASSETS						
Cash & Cash Equivalents	\$ 31	\$ 346,823	\$ 334,188	\$ 637,515	\$ 1,885,452	\$ 3,204,009
Total Assets	<u>31</u>	<u>346,823</u>	<u>334,188</u>	<u>637,515</u>	<u>1,885,452</u>	<u>3,204,009</u>
LIABILITIES						
Accounts Payable	7,155	-	-	-	-	7,155
Bond Agent Fees Payable	-	-	152,782	-	293,516	446,298
Total Liabilities	<u>7,155</u>	<u>-</u>	<u>152,782</u>	<u>-</u>	<u>293,516</u>	<u>453,453</u>
FUND BALANCES						
Restricted:						
Public Improvement	(7,124)	346,823	181,406	637,515	1,591,936	2,750,556
Total Fund Balances	<u>(7,124)</u>	<u>346,823</u>	<u>181,406</u>	<u>637,515</u>	<u>1,591,936</u>	<u>2,750,556</u>
Total Liabilities & Fund Balance	<u>\$ 31</u>	<u>\$ 346,823</u>	<u>\$ 334,188</u>	<u>\$ 637,515</u>	<u>\$ 1,885,452</u>	<u>\$ 3,204,009</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HACKBERRY, TEXAS
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
For the Year Ended September 30, 2019

	Rivendale by the Lake PID#3	Rivendale Pointe PID#4	Hackberry PID#3	Hidden Cove PID#2	Rivendale PID#1	Other Governmental Funds
REVENUES						
Special Assessments	\$ 7,469	\$ 346,667	\$ 698,317	\$ 1,528,902	\$ 1,539,494	\$ 4,120,849
Investment Earnings	101	4,721	13,289	21,235	46,854	86,200
Total Revenues	<u>7,570</u>	<u>351,388</u>	<u>711,606</u>	<u>1,550,137</u>	<u>1,586,348</u>	<u>4,207,049</u>
EXPENDITURES						
Current:						
Public Improvement	14,694	4,565	42,662	40,477	57,352	159,750
Capital Outlay	-	-	-	-	36,768	36,768
Debt Service:						
Principal Retirement	-	-	70,797	367,329	124,880	563,006
Interest & Fiscal Charges	-	-	439,791	998,896	980,056	2,418,743
Total Expenditures	<u>14,694</u>	<u>4,565</u>	<u>553,250</u>	<u>1,406,702</u>	<u>1,199,056</u>	<u>3,178,267</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>(7,124)</u>	<u>346,823</u>	<u>158,356</u>	<u>143,435</u>	<u>387,292</u>	<u>1,028,782</u>
Net Change in Fund Balances	(7,124)	346,823	158,356	143,435	387,292	1,028,782
Fund Balance - Beginning	-	-	23,050	494,080	1,204,644	1,721,774
Fund Balance - Ending	<u>\$ (7,124)</u>	<u>\$ 346,823</u>	<u>\$ 181,406</u>	<u>\$ 637,515</u>	<u>\$ 1,591,936</u>	<u>\$ 2,750,556</u>

The notes to the financial statements are an integral part of this statement.

COMPLIANCE & INTERNAL CONTROLS SECTION



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND ON OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
City of Hackberry
Hackberry, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hackberry as of September 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Hackberry's, basic financial statements, and have issued our report thereon dated February 24, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance & Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "K. Evans & Associates".

K. Evans & Associates, CPA's
Frisco, TX
February 24, 2020