

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

September 30, 2018

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Hubbard, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Hubbard, Texas, as of September 30, 2018, 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.

Change in Accounting Principle

As discussed in Note 4 (E) to the financial statements, effective October 1, 2017, the City adopted new accounting guidance, *GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

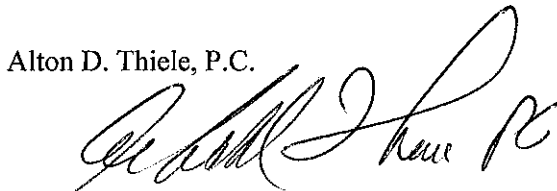
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 3–8, budgetary comparison information, on page 43, and employee retirement and post-employment benefit information, on pages 45-48, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2019, on our consideration of the City of Hubbard, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Alton D. Thiele, P.C.



Belton, Texas
July 8, 2019

CITY OF HUBBARD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Hubbard's (the City) financial performance provides an overview and analysis of the City's financial activities for the year ended September 30, 2018. Please read it in conjunction with the Independent Auditors' Report on pages 1-2, and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the year by \$3,198,148 (net position).
- During the year, the City had total expenses of \$1,780,386 compared to revenues of \$1,871,361, resulting in an increase in its net position by \$90,975.
- The City's investment in capital assets totaled \$5,956,735 net of accumulated depreciation of \$4,341,423.
- Total debt of \$3,689,005 was reduced by principal payments of \$231,388 during the year.

Overview of the Financial Statements

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

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

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

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

CITY OF HUBBARD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on spendable resources available at the end the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

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

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

CITY OF HUBBARD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position. The City's assets exceed liabilities by \$3,198,148 as of September 30, 2018. A large portion of the City's net position reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. (See Table I).

**Table I
NET POSITION**

	Governmental		Business-type		Total	
	Activities		Activities		Primary	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 467,038	\$ 446,809	\$ 670,965	\$ 630,802	\$ 1,138,003	\$ 1,077,611
Capital assets, net	1,097,695	1,178,788	4,859,040	4,995,611	5,956,735	6,174,399
Total assets	1,564,733	1,625,597	5,530,005	5,626,413	7,094,738	7,252,010
Deferred outflows of resources	1,641	10,181	490	3,342	2,131	13,523
Total deferred outflows of resources	1,641	10,181	490	3,342	2,131	13,523
Current liabilities	64,694	98,069	135,375	352,191	200,069	450,260
Noncurrent liabilities	75,163	77,388	3,616,239	3,614,294	3,691,402	3,691,682
Total liabilities	139,857	175,457	3,751,614	3,966,485	3,891,471	4,141,942
Deferred inflows of resources	5,744	-	1,506	-	7,250	-
Total deferred inflows of resources	5,744	-	1,506	-	7,250	-
Net position:						
Net investment in capital assets	1,020,300	1,084,408	1,247,430	1,367,209	2,267,730	2,451,617
Restricted for:						
Municipal court	143,618	161,639	-	-	143,618	161,639
Law enforcement	13,992	11,476	-	-	13,992	11,476
Debt service	-	-	34,157	61,168	34,157	61,168
Other	19,529	52,180	50,273	12,156	69,802	64,336
Unrestricted	223,334	150,618	445,515	222,737	668,849	373,355
Total net position	\$ 1,420,773	\$ 1,460,321	\$ 1,777,375	\$ 1,663,270	\$ 3,198,148	\$ 3,123,591

CITY OF HUBBARD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Changes in Net Position. Revenues totaled \$1,871,361 for the year, a decrease of \$48,626 from the prior year. A decrease in fines, franchise and other taxes is the primary cause of the reduction. Expenses totaled \$1,780,386 for the year, a decrease of \$39,668. This decrease was primarily the result of lower expenses in judicial, public safety and utility expense offset by increases in general government, parks and recreation and public works. (See Table II)

**Table II
CHANGES IN NET POSITION**

	Governmental		Business-type		Total	
	Activities		Activities		Primary	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues:						
Charges for services	\$ 214,329	\$ 311,232	\$ 922,262	\$ 915,842	\$ 1,136,591	\$ 1,227,074
Grant income	82,098	62,384	12,335	-	94,433	62,384
General Revenues:						
Property tax	360,427	339,904	64,043	64,316	424,470	404,220
Sales tax	104,626	98,203	-	-	104,626	98,203
Franchise and other taxes	71,803	74,540	-	-	71,803	74,540
Other income	38,027	29,468	1,411	24,098	39,438	53,566
Total revenues	871,310	915,731	1,000,051	1,004,256	1,871,361	1,919,987
Expenses:						
General government	200,386	179,473	-	-	200,386	179,473
Judicial	139,198	169,989	-	-	139,198	169,989
Public safety	335,827	350,963	-	-	335,827	350,963
Public works	146,188	143,876	-	-	146,188	143,876
Parks and recreation	72,638	65,109	-	-	72,638	65,109
Interest	3,961	4,317	125,714	132,413	129,675	136,730
Water and Sewer	-	-	756,474	773,914	756,474	773,914
Total Expenses	898,198	913,727	882,188	906,327	1,780,386	1,820,054
Change in position	(26,888)	2,004	117,863	97,929	90,975	99,933
Net position - beginning, as restated	1,447,661	1,458,317	1,659,512	1,565,341	3,107,173	3,023,658
Net position - ending	\$ 1,420,773	\$ 1,460,321	\$ 1,777,375	\$ 1,663,270	\$ 3,198,148	\$ 3,123,591

CITY OF HUBBARD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

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

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

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

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

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

As the City completed the year, its general fund (as presented in the balance sheet on page 11) reported a total fund balance of \$332,488 (an increase from prior year of \$15,505). This increase was largely due to increased property taxes and a decrease in expenses.

General Fund Budget Highlights. Actual revenues were \$168,088 lower than the budget. Actual expenditures were \$64,582 lower than the budget, reflecting a net unfavorable variance of \$103,506 in excess expenditures over revenue. A positive, \$100,173 variance in other financing sources helped to reduce the overall unfavorable variance to \$3,333. The budget is presented in the required supplemental information section on page 43.

CITY OF HUBBARD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2018, the City had invested \$5,956,735 in capital assets (net of accumulated depreciation of \$4,341,423), including equipment and land. Major additions were ongoing utility system improvements and police equipment.

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

Debt

At year-end, the City had \$3,689,005 in total debt. This decrease of \$231,388 was the result of principal payments made during the fiscal year. More detailed information about the City's long-term debt is presented in the Notes to the Financial Statements starting on page 29.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's officials considered many factors when setting the fiscal year 2018 budget and tax rates. Some of those factors include the economy and the anticipated needs of the City for operations and capital outlay in the next year.

The City adopted a \$959,564 general fund budget for fiscal year 2018-2019, reflecting a surplus balance of \$13,806. It will be funded primarily through property, sales and franchise taxes, and court fines.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF HUBBARD, TEXAS
STATEMENT OF NET POSITION
September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Hubbard Economic Development Corporation
ASSETS				
Cash	\$ 183,851	\$ 286,180	\$ 470,031	\$ 35,567
Investments	-	1,027	1,027	-
Accounts receivable, net	61,435	99,764	161,199	-
Capital assets not being depreciated:				
Land	8,817	3,573	12,390	125,000
Construction in progress	-	12,335	12,335	-
Capital assets being depreciated:				
Buildings and improvements	1,551,568	-	1,551,568	255,394
Machinery and equipment	786,824	334,602	1,121,426	10,530
Utility system	-	7,600,439	7,600,439	-
Less: accumulated depreciation	(1,249,514)	(3,091,909)	(4,341,423)	(40,742)
Net pension asset	44,613	12,203	56,816	-
Restricted assets:				
Cash and investments	177,139	84,430	261,569	-
Cash held in escrow - loan funds	-	187,361	187,361	-
Total assets	1,564,733	5,530,005	7,094,738	385,749
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to other post employment benefits	1,641	490	2,131	-
Total deferred outflows of resources	1,641	490	2,131	-
LIABILITIES				
Accounts payable	27,011	21,811	48,822	48
Accrued expenses	19,952	23,589	43,541	-
Customer deposits	-	89,975	89,975	-
Noncurrent liabilities				
Due within one year	17,731	212,503	230,234	13,194
Due in more than one year	75,163	3,403,736	3,478,899	226,257
Total liabilities	139,857	3,751,614	3,891,471	239,499
DEFERRED OUTFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	5,744	1,506	7,250	-
Total deferred inflows of resources	5,744	1,506	7,250	-
NET POSITION				
Net investment in capital assets	1,020,300	1,247,430	2,267,730	110,731
Restricted for:				
Debt service	-	34,157	34,157	-
Municipal court	143,618	-	143,618	-
Law enforcement	13,992	-	13,992	-
Other	19,529	50,273	69,802	-
Unrestricted	223,334	445,515	668,849	35,519
Total net position	\$ 1,420,773	\$ 1,777,375	\$ 3,198,148	\$ 146,250

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

CITY OF HUBBARD, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Hubbard Economic Development Corporation
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total	
				Governmental Activities	Business-type Activities		
Primary Government:							
Governmental activities:							
General government	\$ 200,386	\$ 4,461	\$ 81,048	\$ (114,877)	\$ -	\$ (114,877)	\$ -
Judicial	139,198	209,868	-	70,670	-	70,670	-
Public safety	335,827	-	-	(335,827)	-	(335,827)	-
Public works	146,188	-	-	(146,188)	-	(146,188)	-
Parks and recreation	72,638	-	1,050	(71,588)	-	(71,588)	-
Interest expense	3,961	-	-	(3,961)	-	(3,961)	12,314
Total governmental activities	898,198	214,329	82,098	(601,771)	-	(601,771)	12,314
Business-type activities:							
Water and sewer fund	882,188	922,262	12,335	-	52,409	52,409	-
Total business-type activities	882,188	922,262	12,335	-	52,409	52,409	-
Total primary government	<u>\$ 1,780,386</u>	<u>\$ 1,136,591</u>	<u>\$ 94,433</u>	<u>(601,771)</u>	<u>52,409</u>	<u>(549,362)</u>	<u>12,314</u>
Component units:							
Hubbard Economic Development Corporation							
	\$ 30,249	\$ 6,025	\$ 10,000	-	-	-	(14,224)
Total component units	<u>\$ 30,249</u>	<u>\$ 6,025</u>	<u>\$ 10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,538)</u>
General revenues:							
Property taxes				360,427	64,043	424,470	-
Sales tax				104,626	-	104,626	51,532
Franchise and other taxes				71,803	-	71,803	-
Penalties and interest				15,305	-	15,305	-
Interest earned				891	1,411	2,302	-
Gain on sale of assets				19,584	-	19,584	-
Other income				2,247	-	2,247	7,199
Total general revenues				<u>574,883</u>	<u>65,454</u>	<u>640,337</u>	<u>58,731</u>
Changes in position				(26,888)	117,863	90,975	32,193
Net position - beginning of year, as restated				<u>1,447,661</u>	<u>1,659,512</u>	<u>3,107,173</u>	<u>114,057</u>
Net position - end of year				<u>\$ 1,420,773</u>	<u>\$ 1,777,375</u>	<u>\$ 3,198,148</u>	<u>\$ 146,250</u>

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

**CITY OF HUBBARD, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2018**

	General	Total Governmental Funds
ASSETS		
Cash	\$ 183,851	\$ 183,851
Accounts receivable, net	61,435	61,435
Restricted assets:		
Cash	174,059	174,059
Investments	3,080	3,080
Total assets	\$ 422,425	\$ 422,425
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 27,011	\$ 27,011
Payroll liabilities	-	-
Accrued expenses	5,708	5,708
Total liabilities	32,719	32,719
DEFERRED INFLOW OF RESOURCES		
Unavailable revenue:		
Property taxes	57,218	57,218
Total deferred inflow of resources	57,218	57,218
FUND BALANCE		
Restricted	177,139	177,139
Unassigned	155,349	155,349
Total fund balance	332,488	332,488
Total liabilities, deferred inflow of resources and fund balance	\$ 422,425	\$ 422,425

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

CITY OF HUBBARD, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
September 30, 2018

Total fund balance – governmental funds (page 11) \$ 332,488

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

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

Land	\$ 8,817	
Buildings and improvements	1,551,568	
Machinery and equipment	786,824	
Accumulated depreciation	<u>(1,249,514)</u>	
Net Capital Assets		1,097,695

Some revenues in the governmental fund are recorded as deferred inflow of resources because they are not collected within the prescribed time period (60 days) after yearend, and are therefore unavailable resources. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected. 57,218

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

Deferred amounts on other post employment benefits 1,641

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

Long-term debt	(77,395)	
Compensated absences	(14,244)	
Other post employment benefits	(15,499)	
Net pension asset	<u>44,613</u>	
Total		(62,525)

Deferred inflow of resources represent the acquisition of net position that applies to future periods and will not be recognized as revenue until then

Deferred amounts on pension plan (5,744)

Net position of governmental activities (page 9) \$ 1,420,773

The accompanying notes are an integral part of the financial statements

CITY OF HUBBARD, TEXAS
STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended
September 30, 2018

	<u>General</u>	<u>Total Governmental Funds</u>
REVENUE		
Property tax	\$ 336,966	\$ 336,966
Sales taxes	104,626	104,626
Franchise and other taxes	71,803	71,803
Fines	209,868	209,868
Penalties and interest	15,305	15,305
Charges for services	4,461	4,461
Other income	2,247	2,247
Total revenue	<u>745,276</u>	<u>745,276</u>
EXPENDITURES		
General government	193,342	193,342
Judicial	138,935	138,935
Public safety	316,212	316,212
Public works	123,995	123,995
Parks and recreation	38,949	38,949
Debt service:		
Principal	16,950	16,950
Interest	3,961	3,961
Total expenditures	<u>832,344</u>	<u>832,344</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(87,068)</u>	<u>(87,068)</u>
OTHER FINANCING SOURCES (USES)		
Gain on sale of assets	19,584	19,584
Interest income	891	891
Contributions and grants	82,098	82,098
Total Other Financing Sources (Uses)	<u>102,573</u>	<u>102,573</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	15,505	15,505
FUND BALANCE, BEGINNING OF YEAR	<u>316,983</u>	<u>316,983</u>
FUND BALANCE, END OF YEAR	<u>\$ 332,488</u>	<u>\$ 332,488</u>

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

CITY OF HUBBARD, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

Net change in fund balances – total governmental funds (page 13)	\$ 15,505
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>The issuance of long-term debt provides current financial resources in the general fund, but issuing debt increases long-term liabilities in the statement of net position.</p>	-
<p>Long-term debt principal payments are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the statement of net position.</p>	16,950
<p>Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflow of resources in the governmental fund. This is the net change from the previous period.</p>	23,461
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>	(81,094)
<p>Pension-related expenses do not require the use of current resources, and therefore are not reported in the fund statements. This is the amount by which pension related expenses exceeded current year contributions.</p>	(2,759)
<p>Compensated absences are not a current requirement of resources and therefore are not accrued in the general fund. This is the net change in compensated absences from the previous period.</p>	<u>1,049</u>
Change in net position of governmental activities (page 10)	<u><u>\$ (26,888)</u></u>

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

CITY OF HUBBARD, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
Year Ended September 30, 2018

	Business-type Activities
	Water and Sewer
ASSETS	
Current assets:	
Cash	\$ 286,180
Investments	1,027
Accounts receivable, net	99,764
Restricted assets:	
Cash and investments	84,430
Cash held in escrow - loan funds	187,361
Total current assets	658,762
Noncurrent assets:	
Net pension asset	12,203
Capital assets, net	4,859,040
Total noncurrent assets	4,871,243
Total assets	5,530,005
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	-
Deferred outflows of resources related other post employment benefits (OPEB)	490
Total deferred outflows of resources	490
LIABILITIES	
Current liabilities:	
Accounts payable	21,811
Accrued expenses	23,589
Customer deposits	89,975
Current portion of bonds payable	212,503
Total current liabilities	347,878
Noncurrent liabilities	
Bonds payable, net of current portion	3,399,107
OPEB liability	4,629
Total noncurrent liabilities	3,403,736
Total liabilities	3,751,614
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	1506
Total deferred inflows of resources	1506
NET POSITION	
Net investment in capital assets	1,247,430
Restricted for:	
Debt service	34,157
Special purposes	50,273
Unrestricted	445,515
Total net position	\$ 1,777,375

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

CITY OF HUBBARD, TEXAS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION - PROPRIETARY FUND
Year Ended September 30, 2018

	Business-type
	Activities
	Water and Sewer
OPERATING REVENUE	
Charges for services:	
Water	\$ 511,471
Sewer	199,797
Sanitation	189,564
Reconnect and late fees	20,960
Property taxes	64,043
Other	470
Total Operating Revenue	986,305
OPERATING EXPENSES	
Salary and wages	95,318
Employee benefits	18,079
Sanitation expense	159,286
Water purchased	58,861
Repairs and maintenance	116,960
Utilities	58,697
Professional and technical expense	23,654
Supplies	8,126
Depreciation	198,159
Other	19,334
Total Operating Expenses	756,474
OPERATING GAIN (LOSS)	229,831
NON-OPERATING REVENUE (EXPENSES)	
Interest income	1,411
Grant proceeds	12,335
Interest expense	(125,714)
Total Non-operating Revenue (Expense)	(111,968)
CHANGE IN NET POSITION	117,863
Net Position - beginning of year, as restated	1,659,512
Net Position - end of year	\$ 1,777,375

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

CITY OF HUBBARD, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended September 30, 2018

	Business-type Activities
	Water and Sewer
Cash Flows from Operating Activities	
Cash received from customers	\$ 922,394
Cash received from property taxes	64,043
Cash payments to suppliers	(453,807)
Cash payments to employees	(113,397)
Net Cash Provided by Operating Activities	419,233
Cash Flows from Non-Capital Financing Activities	
Transfers from general fund	-
Net Cash (Used) by Non-Capital Financing Activities	-
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(61,588)
Proceeds from loan escrow account	10,900
Proceeds from issuance of long-term debt	-
Increase in restricted cash	(14,378)
Payments on long-term debt	(215,097)
Interest expense	(125,714)
Grant proceeds	12,335
Net Cash Provided (Used) by Capital and Related Financing Activities	(393,542)
Cash Flows from Investing Activities	
Interest received	1,411
Net Cash Provided by Investing Activities	1,411
Net Increase in Cash and Cash Equivalents	27,102
Cash and cash equivalents - beginning of year	259,078
Cash and cash equivalents - end of year	\$ 286,180
Reconciliation of operating income/(loss) to net cash provided by operating activities:	
Operating gain (loss)	\$ 229,831
Adjustments to reconcile operating income /(loss) to net cash provided by operating activities:	
Depreciation expense	198,159
(Increase) decrease in accounts receivable	(4,526)
(Increase) decrease in net pension assets	(4,362)
(Increase) decrease in pension deferrals	4,848
(Increase) decrease in OPEB deferrals	(490)
Increase (decrease) in accounts payable and accrued liabilities	(10,762)
Increase (decrease) in OPEB liability	871
Increase (decrease) in customer deposits	5,664
Total adjustments	189,402
Net Cash Provided by Operating Activities	\$ 419,233

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

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

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

Hubbard Volunteer Fire Department (HVFD) has in the past been considered a discretely component unit of the City, but after recent analysis it was determined that the HVFD did not meet the criteria for inclusion as a component unit going forward.

B. BASIS OF PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report information on all of the non-fiduciary activities of the City. As a general rule, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Continued)

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

Fund Financial Statements

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

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

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

Proprietary funds distinguish *operating revenues* and expenses from *non-operating* items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING

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

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING (Continued)

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

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

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

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

a. Cash and Cash Equivalents

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

b. Accounts Receivables

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

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

c. Capital Assets

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

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

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

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

d. Restricted Assets

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

e. Compensated Absences

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

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

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

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

f. Long- Term Debt

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

g. Deferred Outflows/Inflows of Resources

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

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

h. Estimates

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

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

i. Pensions and OPEB

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

j. Equity Classifications

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

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

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

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

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

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

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

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

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

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

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

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

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

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

3. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2018, the carrying amount of the City's and HEDC's cash deposits were \$866,687 and \$35,567 respectively, the bank balances were \$889,927 and \$36,075, respectively.

**CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018**

3. DETAILED NOTES ON ALL FUNDS (Continued)

DEPOSITS AND INVESTMENTS (Continued)

Legal and Contractual Provisions Governing Deposits and Investments

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

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

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

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

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Input Level</u>
<u>Primary Government</u>			
Citizens State Bank	\$ 49,194	\$ 49,194	1
Investment pools:			
TexStar	4,107	4,107	2
Total investment pools	<u>4,107</u>	<u>4,107</u>	
Total investments	<u>53,301</u>	<u>53,301</u>	

Policies Governing Deposits and Investments

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

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

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

3. DETAILED NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

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

Interest Rate Risk: In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to less than 90 days for investment pools and maturity no more than two years from purchase date for certificates of deposit and money market funds. As of September 30, 2018, the weighted average maturity of TexStar was 30 days.

Other Credit Risk: In compliance with the City’s Investment Policy, as of September 30, 2017, the City minimized credit risk losses due to a default of a security issuer or backer, by limiting investments to the safest types of securities; limiting Certificates of Deposit that are insured by the Federal Deposit Insurance Corporation (FDIC); limiting the City’s investments to obligations issued, guaranteed, insured by or backed by the full faith and credit of the United States or its agencies and instrumentalities; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business; and diversifying the investment portfolio so that potential losses on individual securities were minimized.

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

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

	Primary Government	Discretely Presented Component Unit	Total Reporting Entity
Cash and investments (from previous pages)			
Carrying amount of deposits	\$ 866,687	\$ 35,567	\$ 902,254
Carrying amount of investments	53,301	-	53,301
Total	\$ 919,988	\$ 35,567	\$ 955,555
Statement of Net Position:			
Cash	\$ 470,031	\$ 35,567	\$ 505,598
Restricted cash and investments	262,596	-	262,596
Restricted cash held in escrow	187,361	-	187,361
Total	\$ 919,988	\$ 35,567	\$ 955,555

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

3. DETAILED NOTES ON ALL FUNDS (Continued)

B. CAPITAL ASSETS

Changes in capital assets during the year ended September 30, 2018, were as follows:

	Balance October 1, 2017	Additions	Transfers/ Retirements	Balance September 30, 2018
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 8,817	\$ -	\$ -	\$ 8,817
Total capital assets not being depreciated	<u>8,817</u>	<u>-</u>	<u>-</u>	<u>8,817</u>
Capital assets being depreciated:				
Buildings and improvements	1,551,568	-	-	1,551,568
Machinery and equipment	773,679	13,145	-	786,824
Total capital assets being depreciated	<u>2,325,247</u>	<u>13,145</u>	<u>-</u>	<u>2,338,392</u>
Less accumulated depreciation	<u>(1,155,276)</u>	<u>(94,239)</u>	<u>-</u>	<u>(1,249,515)</u>
Total capital assets being depreciated, net	<u>1,169,971</u>	<u>(81,094)</u>	<u>-</u>	<u>1,088,877</u>
Governmental activities capital assets, net	<u>\$ 1,178,788</u>	<u>\$ (81,094)</u>	<u>\$ -</u>	<u>\$ 1,097,694</u>
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 3,573	\$ -	\$ -	\$ 3,573
Construction in progress	-	12,335	-	12,335
Total capital assets not being depreciated	<u>3,573</u>	<u>12,335</u>	<u>-</u>	<u>15,908</u>
Capital assets being appreciated:				
Water & sewer system	7,551,187	49,253	-	7,600,440
Machinery and equipment	334,602	-	-	334,602
Total capital assets being depreciated	<u>7,885,789</u>	<u>49,253</u>	<u>-</u>	<u>7,935,042</u>
Less accumulated depreciation	<u>(2,893,751)</u>	<u>(198,159)</u>	<u>-</u>	<u>(3,091,910)</u>
Total capital assets being depreciated, net	<u>4,992,038</u>	<u>(148,906)</u>	<u>-</u>	<u>4,843,132</u>
Business-type activities capital assets, net	<u>\$ 4,995,611</u>	<u>\$ (136,571)</u>	<u>\$ -</u>	<u>\$ 4,859,040</u>

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

3. DETAILED NOTES ON ALL FUNDS (Continued)

B. CAPITAL ASSETS (Continued)

	Balance October 1, 2017	Additions	Transfers/ Retirements	Balance September 30, 2018
Component Unit:				
Hubbard Economic Development Corporation:				
Capital assets not being depreciated:				
Land	\$ 125,000	\$ -	\$ -	\$ 125,000
Total capital assets not being depreciated	<u>\$ 125,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,000</u>
Capital assets being depreciated:				
Buildings and improvements	245,394	10,000	-	255,394
Equipment	10,530	-	-	10,530
Total capital assets being depreciated	255,924	10,000	-	265,924
Less accumulated depreciation	(29,101)	(11,640)	-	(40,741)
Total capital assets being depreciated, net	<u>226,823</u>	<u>(1,640)</u>	<u>-</u>	<u>225,183</u>
Total capital assets, net	<u><u>\$ 351,823</u></u>	<u><u>\$ (1,640)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 350,183</u></u>

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

Governmental activities:	
General government	\$ 8,718
Public safety	30,069
Public works	21,763
Parks and recreation	33,689
Total depreciation expense - governmental activities	<u>\$ 94,239</u>
Business-type activities:	
Water and sewer	<u>\$ 198,159</u>

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

Component Unit:	
Hubbard Economic Development Corporation	11,640
Total depreciation - component unit	<u>\$ 11,640</u>

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

3. DETAILED NOTES ON ALL FUNDS (Continued)

C. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended September 30, 2018:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental activities:					
Equipment loans	\$ 79,581	\$ -	\$ (9,743)	\$ 69,838	\$ 10,174
Police vehicles	14,799	-	(7,242)	7,557	7,557
OPEB liability	12,584	2,914	-	15,498	-
Governmental activity long-term liabilities	<u>\$ 106,964</u>	<u>\$ 2,914</u>	<u>\$ (16,985)</u>	<u>\$ 92,893</u>	<u>\$ 17,731</u>
Business - type activities:					
Refunding Bond 2014	\$ 2,355,000	\$ -	\$ (160,000)	\$ 2,195,000	\$ 160,000
Government Capital Corp.	111,013	-	(19,403)	91,610	17,503
Tax & Revenue Certificates of Obligation, Series 2012	1,360,000	-	(35,000)	1,325,000	35,000
OPEB liability	3,758	871	-	4,629	-
Business-type activity long-term liabilities	<u>\$ 3,829,771</u>	<u>\$ 871</u>	<u>\$ (214,403)</u>	<u>\$ 3,616,239</u>	<u>\$ 212,503</u>
Component Unit activities:					
Note Payable	<u>\$ 252,002</u>	<u>\$ -</u>	<u>\$ (12,551)</u>	<u>\$ 239,451</u>	<u>\$ 13,194</u>

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

3. DETAILED NOTES ON ALL FUNDS (Continued)

C. LONG-TERM DEBT (Continued)

Long-term debt at September 30, 2018 is comprised of the following:

	Governmental Type Activities	Business- Type Activities
Combination Tax and Revenue Bonds:		
\$1,500,000 Tax & Revenue Certificates of Obligation, Series 2012, due in annual installments of \$35,000 to \$80,000 through 2043; interest at .35% to 4.25%	\$ -	\$ 1,325,000
\$2,810,000 Tax and Revenue Refunding Bonds, Series 2014 due in annual installments of \$150,000 to \$235,000 through 2029; interest at 3.26%	-	2,195,000
Loans payable:		
\$125,000 loan due in quarterly installments of \$5,223 through 2023; interest at 3.982% for water treatment plant upgrades	-	91,610
\$28,140 bank loan, due in monthly installments of \$451 through 2023; interest at 4.82%, for the purchase of a truck.	23,996	-
\$35,560 loan, due in annual installments of \$7,886 through 2019, interest at 4.35% for the purchase of a police vehicle	7,557	-
\$62,000 loan, due in annual installments of \$7,624 through 2025; interest at 3.92% for the purchase of machinery	45,842	-
	\$ 77,395	\$ 3,611,610

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

Year Ended September 30,	Principal	Interest	Total
2019	212,503	119,731	332,234
2020	237,990	112,730	350,720
2021	233,829	105,460	339,289
2022	244,590	97,866	342,456
2023	247,698	89,931	337,629
2024-2028	1,270,000	329,098	1,599,098
2029-2033	485,000	171,016	656,016
2034-2038	305,000	110,053	415,053
2039-2043	375,000	40,628	415,628
Total	\$ 3,611,610	\$ 1,176,513	\$ 4,788,123

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

3. DETAILED NOTES ON ALL FUNDS (Continued)

C. LONG-TERM DEBT (Continued)

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

Year Ended September 30,	Principal	Interest	Total
2019	\$ 17,731	\$ 3,189	\$ 20,920
2020	10,617	2,418	13,035
2021	11,079	1,956	13,035
2022	11,561	1,473	13,034
2023	12,065	969	13,034
2024 & Thereafter	14,342	852	15,194
Total	\$ 77,395	\$ 10,857	\$ 88,252

Component Unit's Long-term debt at September 30, 2018 is comprised of the following:

	Economic Development Corporation
Note Payable:	
\$262,000 Note Payable, due in monthly installments of \$2,072 through 2031; interest at 5.0%	<u>\$ 239,451</u>

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

Year Ended September 30,	Principal	Interest	Total
2019	\$ 13,194	\$ 11,671	\$ 24,865
2020	13,838	11,027	24,865
2021	14,577	10,288	24,865
2022	15,322	9,543	24,865
2023	16,106	8,759	24,865
2024 & Thereafter	166,414	36,648	203,062
Total	\$ 239,451	\$ 87,936	\$ 327,387

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

4. OTHER INFORMATION

A. RISK MANAGEMENT

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

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

B. COMMITMENTS AND CONTINGENCIES

a. Sanitation Services

On March 1, 2005, the City entered a contract with Allied Waste for garbage collection services. The agreement ran through February 28, 2013 at which time, the contract was extended for five years. Fees are billed monthly to the City based upon a fee schedule included in the contract. During the year ended September 30, 2018 payments by the City under the contract totaled \$142,383.

b. Water Purchase Agreement

On February 1, 2016 the City entered into a long-term agreement to purchase water from Post Oak Special Utility District. The agreement runs through January 31, 2021. The contract requires the City to take and/or pay for a minimum quantity of water. The minimum annual take listed in the contract is 3.5 million gallons. The City is committed to pay an estimated minimum of \$27,205 for water during fiscal 2018 under the contract. During the fiscal year ended September 30, 2018, payments by the city under the contract totaled \$58,861.

c. Grants

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

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

4. OTHER INFORMATION (CONTINUED)

B. COMMITMENTS AND CONTINGENCIES (Continued)

d. Litigation and Violations

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

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

C. PENSION PLAN

Plan Description

The City of Hubbard participates as one of the 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency defined pension plan administered in accordance with the TMRS act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the system with a six member board of trustees. Although the Governor, with advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.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% of the member's deposits and interest.

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

4. OTHER INFORMATION (Continued)

C. PENSION PLAN (Continued)

Plan provisions for the City were as follows:

	Plan Year 2017	Plan Year 2016
Employee deposit rate	5.0%	5.0%
Matching ratio (City to Employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0.0%	0.0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees Covered by Benefit Terms

At the December 31, 2017, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	11
Active employees	<u>12</u>
Total	25

Contributions

The contribution rates for employees in TMRS are either 5%, 6% or 7% of employee gross earnings and the city matching percentages are either 100%, 150% or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of the benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Hubbard were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Hubbard were 0.81% and 0.59% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$2,583 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

4. OTHER INFORMATION (Continued)

C. PENSION PLAN (Continued)

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

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

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

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

4. OTHER INFORMATION (Continued)

C. PENSION PLAN (Continued)

The long-term expected rate of return on pension plan investments was determined using a building – block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimate of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

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

**CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018**

4. OTHER INFORMATION (Continued)

C. PENSION PLAN (Continued)

<i>Changes in Net Pension Liability</i>	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2016	367,738	405,863	(38,125)
Changes for the year:			
Service cost	25,120	-	25,120
Interest	25,647	-	25,647
Change of benefit terms	-	-	-
Difference between expected and actual experience	9,765	-	9,765
Changes of assumptions	-	-	-
Contributions - employer	-	3,240	(3,240)
Contributions - employee	-	20,000	(20,000)
Net investment income	-	56,290	(56,290)
Benefit payments, including refunds of employee contributions	(687)	(687)	-
Administrative expense	-	(292)	292
Other changes	-	(15)	15
Net changes	59,845	78,536	(18,691)
Balance at 12/31/2017	427,583	484,399	(56,816)

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	6,265	(56,816)	(107,941)

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 of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2018, the City recognized pension expense of \$4,665.

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

4. OTHER INFORMATION (Continued)

C. PENSION PLAN (Continued)

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience		2,084
Changes in actuarial assumptions	5,505	-
Differences between projected and actual investment earnings	-	12,492
Contributions subsequent to the measurement date	1,822	-
Total	7,327	14,576
Total deferred inflows of resources, net		7,250

\$1,822 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net Deferred Outflows (Inflows) of Resources
2018	\$ 1,185
2019	587
2020	(5,837)
2021	(5,008)
2022	-
Thereafter	-
Total	\$ (9,073)

D. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Benefit Plan Description

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single-employer, defined benefit OPEB plan. 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 retirees. The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

4. OTHER INFORMATION (Continued)

D. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Contributions

The City contributes to the SDBF at a contractually required rate 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.

Employees Covered by Benefit Terms

At the December 31, 2017, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	2
Active employees	12
Total	15

Total OPEB Liability

The City's total OPEB liability of \$20,128 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

Changes in the Total OPEB Liability

Total OPEB Liability-December 31, 2016	\$ 16,343
Changes for the year	
Service Cost	1,440
Interest on Total OPEB Liability	645
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes in Assumptions or Other Inputs	1,700
Benefit Payments	-
Net Changes	3,785
Total OPEB Liability-December 31, 2017	\$ 20,128

**CITY OF HUBBARD, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2018**

4. OTHER INFORMATION (Continued)

D. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Summary of Actuarial Assumptions

Inflation	2.50%
Salary Increases	3.5% to 10.5% including inflation
Discount Rate*	3.31%
Retiree's share of benefit-related costs	None
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
 Mortality Rates-Service Retirees	 RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
 Mortality Rates-Disabled Retirees	 RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

Note: The actuarial Assumptions used in the December 3, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to Decemeber 31, 2014.

Sensitivity of the Total OPEB Liability to Change 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 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current discount rate:

	1% Decrease in Discount Rate (2.31%)	Current Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Total OPEB Liability	24,628	20,128	16,693

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$2,302.

**CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018**

4. OTHER INFORMATION (Continued)

D. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions and other inputs	-	1,483
Contributions made subsequent to measurement date	-	648
Total	-	2,131
Total, net		<u>\$ 2,131</u>

Deferred Outflows and Deferred Inflows of Resources, by year, to be Recognized in Future OPEB Expense (Excluding Contributions Made Subsequent to the Measurement Date of December 31, 2017)

	Net Deferred Outflows (Inflows) of Resources
2018	\$ 217
2019	217
2020	217
2021	217
2022	217
Thereafter	398
Total	<u>\$ 1,483</u>

E. CHANGE IN ACCOUNTING PRINCIPLE

The City determined that restatements to beginning net position of the governmental activities, business-type activities and Water and Sewer Fund were required to recognize the change in accounting principal for the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions, as of October 1, 2017. These restatements are as follows:

	Governmental Activities	Business-Type Activities	Water and Sewer Fund
Net position, as previously reported	\$ 1,460,245	\$ 1,663,270	\$ 1,663,270
Adjustment needed to record the OPEB liability in accordance with GASB Statement No. 75	<u>(12,584)</u>	<u>(3,758)</u>	<u>(3,758)</u>
Net position, as restated	<u>\$ 1,447,661</u>	<u>\$ 1,659,512</u>	<u>\$ 1,659,512</u>

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

4. OTHER INFORMATION (Continued)

F. *SUBSEQUENT EVENTS*

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through July 8, 2019 the date the financial statements were available to be issued. No change to the financial statements for the fiscal year ended September 30, 2018 was deemed necessary as a result of this evaluation.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HUBBARD, TEXAS
SCHEDULE OF REVENUES EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -
GENERAL FUND
For the Year Ended September 30, 2018

	Budget Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUE				
Property taxes	\$ 381,927	\$ 381,927	\$ 336,966	\$ (44,961)
Sales taxes	93,800	93,800	104,626	10,826
Franchise and other taxes	75,200	75,200	71,803	(3,397)
Fines	355,000	355,000	209,868	(145,132)
Penalties and interest	100	100	15,305	15,205
Charges for services	4,827	4,827	4,461	(366)
Other	2,510	2,510	2,247	(263)
Total Revenue	<u>913,364</u>	<u>913,364</u>	<u>745,276</u>	<u>(168,088)</u>
EXPENDITURES				
General government	183,797	183,797	193,342	(9,545)
Judicial	196,819	196,819	138,935	57,884
Public safety	325,248	325,248	316,212	9,036
Public works	132,070	132,070	123,995	8,075
Parks and recreation	37,634	37,634	38,949	(1,315)
Debt service:				
Principal	21,325	21,325	16,950	4,375
Interest	33	33	3,961	(3,928)
Total Expenditures	<u>896,926</u>	<u>896,926</u>	<u>832,344</u>	<u>64,582</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	16,438	16,438	(87,068)	(103,506)
OTHER FINANCING SOURCES (USES)				
Interest income	400	400	891	491
Contributions and grants	2,000	2,000	82,098	80,098
Other	-	-	19,584	19,584
Total other financing sources (uses)	<u>2,400</u>	<u>2,400</u>	<u>102,573</u>	<u>100,173</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 18,838</u>	<u>\$ 18,838</u>	<u>\$ 15,505</u>	<u>\$ (3,333)</u>

The accompanying note is an integral part of the Required Supplementary Information.

CITY OF HUBBARD, TEXAS
NOTE TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET TO ACTUAL – GENERAL FUND
For the Year Ended September 30, 2018

1. Basis of Presentation:

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 capital outlays are recorded when payment is made.

2. Budget Highlights:

Final budget compared to actual results reflects budgeted revenues being less than budgeted expenses by (\$103,506) where actual expenses were less than budgeted and actual revenues were lower than budgeted. The overall unfavorable budget variance of (\$3,333) was primarily attributable to fines coming in at (\$145,132) less than budgeted, partially offset by judicial and public safety expenses being \$66,920 less than budgeted. Unbudgeted revenues from the sale of land and grant proceeds also helped to offset underbudgeted property tax revenues over budgeted general government expenses.

CITY OF HUBBARD, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - EMPLOYEES'
PENSION PLAN
Measurement Dates

	<u>December 31</u> <u>2014</u>	<u>December 31</u> <u>2015</u>	<u>December 31</u> <u>2016</u>	<u>December 31</u> <u>2017</u>
Total Pension Liability				
Service cost	\$ 20,396	\$ 25,028	\$ 25,502	\$ 25,120
Interest (on the Total Pension Liability)	19,332	21,019	23,979	25,647
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	(2,052)	7,294	(20,939)	9,765
Change of assumptions	-	11,957	-	-
Benefit payments, including refunds of employee contributions	(17,261)	(14,515)	(6,600)	(687)
Net Change in Pension Liability	<u>20,415</u>	<u>50,783</u>	<u>21,942</u>	<u>59,845</u>
Total Pension Liability - Beginning	<u>274,598</u>	<u>295,013</u>	<u>345,796</u>	<u>367,738</u>
Total Pension Liability - Ending (a)	<u>\$ 295,013</u>	<u>\$ 345,796</u>	<u>\$ 367,738</u>	<u>\$ 427,583</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 4,266	\$ 2,212	\$ 1,635	\$ 3,240
Contributions - Employee	20,142	20,482	20,434	20,000
Net investment income	18,977	528	24,744	56,290
Benefit payments, including refunds of employee contributions	(17,261)	(14,515)	(6,600)	(687)
Administrative expense	(198)	(321)	(279)	(292)
Other	(16)	(17)	(15)	(15)
Net Change in Plan Fiduciary Net Position	<u>25,910</u>	<u>8,369</u>	<u>39,919</u>	<u>78,536</u>
Plan Fiduciary Net Position - Beginning	<u>331,665</u>	<u>357,575</u>	<u>365,944</u>	<u>405,863</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 357,575</u>	<u>\$ 365,944</u>	<u>\$ 405,863</u>	<u>\$ 484,399</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ (62,562)</u>	<u>\$ (20,148)</u>	<u>\$ (38,125)</u>	<u>\$ (56,816)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	121.21%	105.83%	110.37%	113.29%
Covered Employee Payroll	\$ 402,841	\$ 409,630	\$ 408,683	\$ 399,998
Net Pension Liability as a Percentage of Covered Employee Payroll	-15.53%	-4.92%	-9.33%	-14.20%

See accompanying Independent Auditors' Report.

CITY OF HUBBARD, TEXAS
SCHEDULE OF CONTRIBUTIONS - EMPLOYEES' PENSION PLAN
Fiscal Years Ended

	September 30 2015	September 30 2016	September 30 2017	September 30 2018
Actuarially determined contribution	\$ 2,809	\$ 1,879	\$ 2,479	\$ 2,583
Contributions in relation to the actuarially determined contribution	\$ 2,894	\$ 1,879	\$ 2,479	\$ 2,583
Contribution deficiency (excess)	\$ (85)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 410,714	\$ 430,295	\$ 396,842	\$ 402,695
Contributions as a percentage of covered employee payroll	0.70%	0.44%	0.62%	0.64%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, Closed
Remaining amortization period	25 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
Salary increases	3.5% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes There were no benefit changes during the year.

CITY OF HUBBARD, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
Measurement Dates

	December 31, 2017
Total OPEB liability	
Service cost	\$ 1,440
Interest (on the Total OPEB Liability)	645
Changes of benefit terms	-
Difference between expected and actual experience	-
Change in assumptions or other inputs	1,700
Benefit payments**	-
Net Change in OPEB Liability	3,785
 Total OPEB Liability - Beginning	 16,353
Total OPEB Liability - Ending (a)	\$ 20,138
 Covered Employee Payroll	 \$ 399,998
Net Pension Liability as a Percentage of Covered Employee Payroll	5.03%

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

Note: The actuarial Assumptions used in the December 3, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

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

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

CITY OF HUBBARD, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS-OPEB-SUPPLEMENTAL DEATH
BENEFIT FUND
Fiscal Years Ended

	September 30, 2018
Actuarially determined contribution	\$ 817
Contributions in relation to the actuarially determined contribution	\$ 817
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 402,695
Contributions as a percentage of covered employee payroll	0.20%

Notes to Schedule:

Inflation	2.50%
Salary increases	3.5% to 10.5% including inflation
Discount rate*	3.31%
Retiree's share of benefit-related costs	None
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements of GASB Statement No. 68.
Mortality rates-Service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates-Disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

See accompanying Independent Auditors' Report.

ALTON D. THIELE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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BELTON, TX 76513-0808

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

To the City Council
City of Hubbard, 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 discretely presented component unit and each major fund of the City of Hubbard, Texas (the City) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 8, 2019.

Internal Control Over Financial Reporting

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

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

Purpose of this Report

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


Alton D. Thibodeau, PC
Belton, Texas
July 8, 2019