

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2019

4. OTHER INFORMATION (Continued)

C. PENSION PLAN (Continued)

At September 30, 2019, 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	-	8,338
Changes in actuarial assumptions	3,353	-
Differences between projected and actual investment earnings	25,327	-
Contributions subsequent to the measurement date	2,641	-
Total	31,321	8,338
Total deferred outflows of resources, net	22,983	

\$2,641 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, 2019. 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
2019	\$ 8,091
2020	1,667
2021	2,496
2022	8,087
2023	-
Thereafter	-
Total	\$ 20,341

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, 2019

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, 2018, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	4
Active employees	12
Total	18

Total OPEB Liability

The City's total OPEB liability of \$22,791 was measured as of December 31, 2018 and was determined by an actuarial valuation as of that date.

Changes in the Total OPEB Liability

Total OPEB Liability-December 31, 2017	\$ 20,128
Changes for the year	
Service Cost	1,616
Interest on Total OPEB Liability	693
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	2,364
Changes in Assumptions or Other Inputs	(2,010)
Benefit Payments	-
Net Changes	2,663
Total OPEB Liability-December 31, 2018	\$ 22,791

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2019

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*	3.71%
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, 2018.

Note: The actuarial Assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 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 (2.71%) or 1-percentage-point higher (4.71%) than the current discount rate:

	1% Decrease in Discount Rate (2.71%)	Current Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
Total OPEB Liability	28,262	22,791	18,754

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

For the year ended September 30, 2019, the City recognized OPEB expense of \$2,571.

CITY OF HUBBARD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2019

4. OTHER INFORMATION (Continued)

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

At September 30, 2019, 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	\$ 2,062	\$ -
Changes in assumptions and other inputs	-	487
Contributions made subsequent to measurement date	769	-
Total	2,831	487
Total, net	\$ 2,344	

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, 2018)

	Net Deferred Outflows (Inflows) of Resources
2019	\$ 262
2020	262
2021	262
2022	262
2023	262
Thereafter	265
Total	\$ 1,575

E. SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through June 8, 2020 the date the financial statements were available to be issued. No change to the financial statements for the fiscal year ended September 30, 2019 was deemed necessary as a result of this evaluation.

In early March 2020, a Federal Disaster Declaration was issued covering the United States for the period from January 20, 2020 and is still in force currently. The Declaration is in response to the Covid-19 virus and its effects on individuals and business operations. Management has evaluated the economic impact of the Federal Disaster Declaration and determined, thru June 8, 2020, the financial impact will be minimal, since municipal governments have been deemed "essential services" and, the stay-at-home and other measures to slow or disrupt the virus' spread, are not applicable. However, the City is taking steps to reduce personal exposure and enforce certain hygiene and protective garment utilization.

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, 2019

	Budget Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUE				
Property taxes	\$ 381,927	\$ 381,927	\$ 357,819	\$ (24,108)
Sales taxes	93,800	93,800	116,333	22,533
Franchise and other taxes	75,200	75,200	82,067	6,867
Fines	355,000	355,000	217,862	(137,138)
Penalties and interest	100	100	10,925	10,825
Charges for services	4,827	4,827	7,547	2,720
Other	2,510	2,410	2,282	(128)
Total Revenue	<u>913,364</u>	<u>913,264</u>	<u>794,835</u>	<u>(118,429)</u>
EXPENDITURES				
General government	181,297	181,297	212,341	(31,044)
Judicial	201,852	201,852	125,358	76,494
Public safety	325,248	325,248	335,147	(9,899)
Public works	134,569	134,569	116,246	18,323
Parks and recreation	37,634	37,634	44,263	(6,629)
Debt service:				
Principal	21,325	21,325	17,724	3,601
Interest	33	33	3,211	(3,178)
Total Expenditures	<u>901,958</u>	<u>901,958</u>	<u>854,290</u>	<u>47,668</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	11,406	11,306	(59,455)	(70,761)
OTHER FINANCING SOURCES (USES)				
Interest income	400	400	1,187	787
Contributions and grants	2,000	2,000	3,003	1,003
Total other financing sources (uses)	<u>2,400</u>	<u>2,400</u>	<u>4,190</u>	<u>1,790</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 13,806</u>	<u>\$ 13,706</u>	<u>\$ (55,265)</u>	<u>\$ (68,971)</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, 2019

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 \$70,761 where actual expenses were less than budgeted and actual revenues were lower than budgeted. The overall unfavorable budget variance of \$68,971 was primarily attributable to fines coming in at \$137,138 less than budgeted, partially offset by judicial and public safety expenses being \$94,817 less than budgeted. Revenues greater than budgeted from sales taxes helped to offset underbudgeted property tax revenues.

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

	Measurement Dates				
	December 31 2014	December 31 2015	December 31 2016	December 31 2017	December 31 2018
Total Pension Liability					
Service cost	\$ 20,396	\$ 25,028	\$ 25,502	\$ 25,120	\$ 25,734
Interest (on the Total Pension Liability)	19,332	21,019	23,979	25,647	29,521
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(2,052)	7,294	(20,939)	9,765	(9,122)
Change of assumptions	-	11,957	-	-	-
Benefit payments, including refunds of employee contributions	(17,261)	(14,515)	(6,600)	(687)	(6,196)
Net Change in Pension Liability	20,415	50,783	21,942	59,845	39,937
Total Pension Liability - Beginning	274,598	295,013	345,796	367,738	427,583
Total Pension Liability - Ending (a)	\$ 295,013	\$ 345,796	\$ 367,738	\$ 427,583	\$ 467,520
Plan Fiduciary Net Position					
Contributions - Employer	\$ 4,266	\$ 2,212	\$ 1,635	\$ 3,240	\$ 2,381
Contributions - Employee	20,142	20,482	20,434	20,000	20,199
Net investment income	18,977	528	24,744	56,290	(14,528)
Benefit payments, including refunds of employee contributions	(17,261)	(14,515)	(6,600)	(687)	(6,196)
Administrative expense	(198)	(321)	(279)	(292)	(280)
Other	(16)	(17)	(15)	(15)	(15)
Net Change in Plan Fiduciary Net Position	25,910	8,369	39,919	78,536	1,562
Plan Fiduciary Net Position - Beginning	331,665	357,575	365,944	405,863	484,399
Plan Fiduciary Net Position - Ending (b)	\$ 357,575	\$ 365,944	\$ 405,863	\$ 484,399	\$ 485,961
Net Pension Liability - Ending (a) - (b)	\$ (62,562)	\$ (20,148)	\$ (38,125)	\$ (56,816)	\$ (18,441)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	121.21%	105.83%	110.37%	113.29%	103.94%
Covered Employee Payroll	\$ 402,841	\$ 409,630	\$ 408,683	\$ 399,998	\$ 403,983
Net Pension Liability as a Percentage of Covered Employee Payroll	-15.53%	-4.92%	-9.33%	-14.20%	-4.56%

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	September 30 2019
Actuarially determined contribution	\$ 2,809	\$ 1,879	\$ 2,479	\$ 2,583	\$ 3,204
Contributions in relation to the actuarially determined contribution	\$ 2,894	\$ 1,879	\$ 2,479	\$ 2,583	\$ 3,204
Contribution deficiency (excess)	\$ (85)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 410,714	\$ 430,295	\$ 396,842	\$ 402,695	\$ 402,695
Contributions as a percentage of covered employee payroll	0.70%	0.44%	0.62%	0.64%	0.80%

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	December 31, 2018
Total OPEB liability		
Service cost	\$ 1,440	\$ 1,616
Interest (on the Total OPEB Liability)	645	693
Changes of benefit terms	-	-
Difference between expected and actual experience	-	2,364
Change in assumptions or other inputs	1,700	(2,010)
Benefit payments**	-	-
Net Change in OPEB Liability	3,785	2,663
 Total OPEB Liability - Beginning	 16,353	 20,128
 Total OPEB Liability - Ending (a)	 \$ 20,138	 \$ 22,791
 Covered Employee Payroll	 \$ 399,998	 \$ 403,983
Net Pension Liability as a Percentage of Covered Employee Payroll	5.03%	5.64%

Notes to Schedule:

Inflation	2.50%
Salary increases	3.5% to 10.5% including inflation
Discount rate*	3.71%
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.

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

Note: The actuarial Assumptions used in the December 31, 2018 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

	<u>September 30, 2018</u>	<u>September 30, 2019</u>
Actuarially determined contribution	\$ 817	\$ 969
Contributions in relation to the actuarially determined contribution	<u>\$ 817</u>	<u>\$ 969</u>
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 402,695	\$ 429,689
Contributions as a percentage of covered employee payroll	0.20%	0.23%

See accompanying Independent Auditors' Report.

COMPLIANCE AND INTERNAL CONTROL SECTION

ALTON D. THIELE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

300 E. AVE. C

P.O. BOX 808

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 9, 2020.

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. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency: 2019-1.

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*.

City of Hubbard's Response to Findings

City of Hubbard's response to the findings identified in our audit is described in the accompanying schedule of finding and responses. City of Hubbard's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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. Thiele, PC

Belton, Texas
June 9, 2020

CITY OF HUBBARD, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended September 30, 2019

Item 2019-1

Finding: Deposits found to be double booked in general and enterprise fund operating accounts.

Effect: Outstanding transactions on the bank reconciliation can cause the cash balances and expense or revenue to be under or overstated.

Conditions: While reviewing bank reconciliations for both the general and enterprise fund's operating accounts, it was noted that there were outstanding deposits dating back to November 2018 that had not cleared as of September 30, 2019. These outstanding deposits turned out to be recorded twice in the general ledger (QuickBooks). This can result in an overstatement of cash and/or revenue in the financial statements.

Recommendations: Those charged with governance and City management should designate someone, besides the person performing the reconciliations, to review the completed reconciliations including the outstanding transaction sections and question any long, outstanding transactions. After review, the reconciliation should be initialed and dated by the reviewer.

Management Response: We are taking this under advisement.