

CITY OF HITCHCOCK, TEXAS

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2022



CITY OF HITCHCOCK, TEXAS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Hitchcock, Texas (the "City"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2022, 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.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City’s ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund and component unit financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund and component unit financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2023 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's internal control over financial reporting or on compliance. The 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.

Whitley Penn LLP

Houston, Texas
June 26, 2023



CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Hitchcock (the "City"), we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2022.

Financial Highlights

The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$22.2 million (net position). Of this amount, \$13.6 million is net investment in capital assets, \$0.5 million is restricted, and the remaining \$8.1 million in unrestricted net position.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8.4 million. This was an increase from the prior year fund balance of \$1.0 million due to current year operations.

Overview of the Financial Statements

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

Government-wide Financial Statements.

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

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal 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 only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health, welfare and sanitation, and culture and recreation. The business-type activity of the City is a water and sewer operating fund.

The government-wide financial statements include the City itself (known as the primary government), but also legally separate component units. Financial information for these component units are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found beginning on page 13 of this report.

CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the 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 this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, community development fund, grant fund, and debt service fund, all of which are considered major funds. Data from the other governmental funds is combined into a single, aggregated column for presentation.

The basic governmental fund financial statements can be found beginning on page 16 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found beginning on page 20 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 23 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's net pension liability, the City's total OPEB liability, information regarding the City's obligation to provide pension/OPEB benefits to its employees/retirees, and general fund budgetary comparisons. Required supplementary information can be found beginning on page 49 of this report.

CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The combining statements referred to earlier in connection with nonmajor governmental funds and component units are presented immediately following the required supplementary information on pensions. Combining statements can be found beginning on page 57 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$22.2 million.

By far the largest portion of the City's net position of \$13.6 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. 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.

CITY OF HITCHCOCK, TEXAS
Net Position (in thousands)
September 30, 2022 and 2021

	2022			2021		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 12,024	\$ 6,598	\$ 18,622	\$ 9,645	\$ 3,981	\$ 13,626
Capital assets	4,017	13,287	17,304	3,365	11,514	14,879
Total Assets	16,041	19,885	35,926	13,010	15,495	28,505
Deferred outflows of resources	142	35	177	95	25	120
Current liabilities	3,015	1,449	4,464	1,923	790	2,713
Long-term liabilities	3,935	5,030	8,965	4,227	1,246	5,473
Total Liabilities	6,950	6,479	13,429	6,150	2,036	8,186
Deferred inflows of resources	388	95	483	148	39	187
Net position						
Net investment in capital assets	2,932	10,707	13,639	2,655	10,307	12,962
Restricted	196	282	478	118	81	199
Unrestricted	5,717	2,357	8,074	4,034	3,057	7,091
Total Net Position	\$ 8,845	\$ 13,346	\$ 22,191	\$ 6,807	\$ 13,445	\$ 20,252

An additional portion of the City's net position, \$0.5 million, represents resources that are subject to external restrictions on how they may be used. The amount of unrestricted net position is \$8.1 million.

CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The government's net position increased by \$2.0 million during the current fiscal year. The following table summarizes the changes in net position for the City for the year ended September 30, 2022:

CITY OF HITCHCOCK, TEXAS
Changes in Net Position (in thousands)
For the Fiscal Years Ended September 30, 2022 and 2021

	2022			2021		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues						
Program Revenues:						
Charges for services	\$ 2,344	\$ 4,030	\$ 6,374	\$ 2,497	\$ 3,732	\$ 6,229
Operating grants and contributions	789	-	789	1,237	-	1,237
Capital grants and contributions	238	-	238	-	44	44
General revenues:						
Property taxes	2,477	-	2,477	2,104	-	2,104
Franchise fees	469	-	469	410	-	410
Sales tax	1,011	-	1,011	1,024	-	1,024
Other	368	9	377	286	85	371
Total Revenues	7,696	4,039	11,735	7,558	3,861	11,419
Expenses						
General government	1,589	-	1,589	1,470	-	1,470
Public safety	2,708	-	2,708	2,059	-	2,059
Public works	979	-	979	1,194	-	1,194
Health, welfare and sanitation	-	-	-	-	-	-
Community Development	212	-	212	4	-	4
Interest on long-term debt	16	-	16	105	-	105
Water and Sewer	-	4,307	4,307	-	3,494	3,494
Total Expenses	5,504	4,307	9,811	4,832	3,494	8,326
Transfer in (out)	(169)	169	-	(316)	316	-
Special item	81	-	81	(2,290)	-	(2,290)
Change in net position	2,104	(99)	2,005	120	683	803
Beginning Net Position	6,807	13,445	20,252	6,687	12,762	19,449
Ending Net Position	\$ 8,845	\$ 13,346	\$ 22,191	\$ 6,807	\$ 13,445	\$ 20,252

Governmental activities

Governmental activities increased the City's net position by \$2.10 million. A comparison of program expenses to program revenues and revenues by source for governmental activities (\$ in thousands) is as follows:

Program	2022			2021		
	Expenses	Program Revenues	Net (Cost) of Services	Expenses	Program Revenues	Net (Cost) of Services
General government	\$ 1,589	\$ 5	\$ (1,584)	\$ 1,470	\$ -	\$ (1,470)
Public safety	2,708	480	(2,228)	2,059	1,467	(592)
Public works	979	1,602	623	1,194	1,703	509
Health, welfare and sanitation	-	553	553	-	503	503
Community Development	212	731	519	4	61	57
Interest on long term debt	16	-	(16)	105	-	(105)
	\$ 5,504	\$ 3,371	\$ (2,133)	\$ 4,832	\$ 3,734	\$ (1,098)

While total expenses increased from the prior year by \$672,000, total program revenue decreased by \$363,000.

CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Business-type activities

The net position of the City's business-type activities decreased by approximately \$99 thousand due to increased costs for repairs to equipment.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8.4 million.

The General fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the general fund was \$7.2 million. This is approximately \$1.0 million more than September 30, 2021. This was primarily due less than anticipated spending compared to the annual budget.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements.

Unrestricted net position of the Water and Sewer Enterprise fund at the end of the year amounted to \$2,356,524 or 55% of annual operating and non-operating expenses for the fund.

General Fund Budgetary Highlights

The final budget for fiscal year 2022 reflected an increase in fund balance of \$0.2 million. The actual change in fund balance was an increase of \$1.0 million. The most significant contributing factors were positive variances in sales taxes and charges for services with actual expenditures for all departments coming in under appropriations.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business type activities, as of September 30, 2022, amounted to \$17.3 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, park facilities, water and wastewater plants and service lines, machinery and equipment.

CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

A summary of capital assets (\$ in thousands), as of September 30, 2022, is as follows:

	2022			2021		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Land	\$ 1,518	\$ 62	\$ 1,580	\$ 1,518	\$ 62	\$ 1,580
Construction in progress	722	994	1,716	541	664	1,205
Infrastructure	-	11,506	11,506	-	10,139	10,139
Buildings	879	120	999	361	129	490
Equipment and furniture	899	606	1,505	945	520	1,465
	<u>\$ 4,018</u>	<u>\$ 13,288</u>	<u>\$ 17,306</u>	<u>\$ 3,365</u>	<u>\$ 11,514</u>	<u>\$ 14,879</u>

Additional information on the City's capital assets can be found in Note 7 of the basic financial statements of this report.

Long-Term Debt. At the end of the current fiscal year, the City had total debt outstanding of approximately \$8.7 million. A summary of long-term debt (\$ in thousands) as of September 30, 2022, is as follows:

	2022			2021		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ -	\$ 840	\$ 840	\$ -	\$ 885	\$ 885
Private placement bonds	985	-	985	1,050	-	1,050
Sales tax obligation	2,208	-	2,208	2,290	-	2,290
Financed purchase arrangements	508	4,140	4,648	666	321	987
	<u>\$ 3,701</u>	<u>\$ 4,980</u>	<u>\$ 8,681</u>	<u>\$ 4,006</u>	<u>\$ 1,206</u>	<u>\$ 5,212</u>

The City's total debt increased by approximately \$3.50 million during the fiscal year primarily due to entering into a financed purchase agreement in the amount of \$3.7 million for improvements to the City's water and sewer system. Additional information on the City's long-term debt can be found in Note 8 of the basic financial statements of this report.

Economic Factors and Next Year's Budgets and Rates

The fiscal year 2023 adopted budget includes \$2,480,740 in maintenance and operations support for the General Fund from property taxes. The budget is based upon the City adopting the Adopted tax rate of \$0.50 cents per \$100 of assessed valuation, a decrease of 5.66% from the City's proceeding year's tax rate of \$0.53. The average taxable value of a residential homestead this year is \$189,381. The amount of tax imposed on the average homestead is \$946.91, which equates to a daily cost per capita of \$2.59 for city services. A portion of the City's property tax rate is dedicated to the debt service fund to pay for the issuance of certificates of obligation debt associated with the remodeling of an existing building for a new City Hall/Municipal Court building and parking lot later this year. The FY 2023 debt service rate is \$0.009754/\$100 of taxable value. The General Fund revenues and expenditures for FY 2023 are projected to increase. General Fund revenues projected for the next fiscal year are \$6,650,183, an increase of 5.53%, with expenditures of \$8,576,163, which includes \$1,283,267 in fund balance transfers to other funds. The projected fund balance at the end of FY 2023 is expected to decrease to \$4,917,900 for the General Fund.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed to the Office of the City Manager, 7423 Highway 6, Hitchcock, Texas 77563.

BASIC FINANCIAL STATEMENTS



CITY OF HITCHCOCK, TEXAS
STATEMENT OF NET POSITION
September 30, 2022

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and temporary investments	\$ 9,535,869	\$ 2,946,539	\$ 12,482,408	\$ 1,078,484
Receivables, net of allowance	606,938	473,012	1,079,950	68,950
Due from primary government	-	-	-	47,320
Internal balances	83,860	(83,860)	-	-
Net pension asset	448,009	109,300	557,309	-
Restricted cash	1,348,751	3,152,674	4,501,425	789,200
Capital assets, not being depreciated	2,240,155	1,055,378	3,295,533	-
Capital assets, net of depreciation	1,777,275	12,231,518	14,008,793	-
Total Assets	16,040,857	19,884,561	35,925,418	1,983,954
Deferred Outflows of Resources:				
Pension and OPEB related	141,707	34,500	176,207	-
Total Deferred Outflows of Resources	141,707	34,500	176,207	-
Liabilities				
Accounts payable	531,797	716,574	1,248,371	1,562
Due to component unit	47,320	-	47,320	-
Accrued interest	-	22,452	22,452	-
Unearned revenue	2,080,528	262,262	2,342,790	-
Customer deposits	354,933	447,561	802,494	-
Noncurrent liabilities:				
Due within one year	301,096	133,637	434,733	50,909
Due in more than one year	3,492,399	4,861,620	8,354,019	1,485,189
Total OPEB liability	141,966	34,700	176,666	-
Total Liabilities	6,950,039	6,478,806	13,428,845	1,537,660
Deferred Inflows of Resources:				
Pension and OPEB related	387,705	94,500	482,205	-
Total Deferred Inflows of Resources	387,705	94,500	482,205	-
Net Position				
Net investment in capital assets	2,932,105	10,707,445	13,639,550	-
Restricted for:				
Debt Service	72,890	281,786	354,676	-
Public Safety	5,260	-	5,260	-
Municipal court operations	68,966	-	68,966	-
Culture and Recreation	48,896	-	48,896	-
Community Development	-	-	-	571,862
Unrestricted	5,716,703	2,356,524	8,073,227	(125,568)
Total Net Position	\$ 8,844,820	\$ 13,345,755	\$ 22,190,575	\$ 446,294

CITY OF HITCHCOCK, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2022

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 1,589,433	\$ 4,895	\$ -	\$ -
Public safety	2,707,970	422,508	57,015	-
Public works	979,264	1,363,710	-	237,820
Health, welfare and sanitation	-	553,157	-	-
Community Development	211,705	-	731,486	-
Interest on long-term debt	16,282	-	-	-
Total Governmental Activities	5,504,654	2,344,270	788,501	237,820
Business-type Activities:				
Water and Sewer	4,307,211	4,030,184	-	-
Total Business-type Activities	4,307,211	4,030,184	-	-
Total Primary Government	\$ 9,811,865	\$ 6,374,454	\$ 788,501	\$ 237,820
Component Units				
Hitchcock Economic Development Corporation	\$ 442,732	\$ -	\$ 143,513	\$ -
Reinvestment Zone Number One	100,489	-	-	-
Total Component Units	\$ 543,221	\$ -	\$ 143,513	\$ -

CITY OF HITCHCOCK, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2022

Net (Expense) Revenue and Changes in Net Position				
Primary Government				
Functions/Programs	Governmental Activities	Business-type Activities	Total	Component Units
Primary Government				
Governmental Activities:				
General government	\$ (1,584,538)	\$ -	\$ (1,584,538)	\$ -
Public safety	(2,228,447)	-	(2,228,447)	-
Public works	622,266	-	622,266	-
Health, welfare and sanitation	553,157	-	553,157	-
Community Development	519,781	-	519,781	-
Interest on long-term debt	(16,282)	-	(16,282)	-
Total Governmental Activities	(2,134,063)	-	(2,134,063)	-
Business-type Activities:				
Water and Sewer	-	(277,027)	(277,027)	-
Total Business-type Activities	-	(277,027)	(277,027)	-
Total Primary Government	(2,134,063)	(277,027)	(2,411,090)	-
Component Units				
Hitchcock Economic Development Corporation				
				(299,219)
Reinvestment Zone Number One				
				(100,489)
Total Component Units				(399,708)
General Revenues:				
Taxes:				
Property taxes	2,477,409	-	2,477,409	593,929
Sales tax	1,011,336	-	1,011,336	337,112
Franchise taxes	469,482	-	469,482	-
Gain on sale of capital assets	15,065	-	15,065	-
Special item - sales tax obligation	81,288	-	81,288	27,096
Unrestricted investment earnings	38,310	9,128	47,438	2,651
Miscellaneous	247,965	-	247,965	-
Transfers	(169,115)	169,115	-	-
Total General Revenues	4,171,740	178,243	4,349,983	960,788
Change in net position	2,037,677	(98,784)	1,938,893	561,080
Net position - beginning	6,807,143	13,444,539	20,251,682	(114,786)
Net Position - Ending	\$ 8,844,820	\$ 13,345,755	\$ 22,190,575	\$ 446,294

CITY OF HITCHCOCK, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2022

	General Fund	Community Development Fund	Grant Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 7,647,596	\$ 59,041	\$ 2,097,827	\$ 68,653	\$ 1,011,503	\$ 10,884,620
Due from other funds	83,860	-	-	-	-	83,860
Receivables, net of allowance	420,202	-	-	4,237	-	424,439
Other receivables	23,428	-	159,071	-	-	182,499
Total Assets	\$ 8,175,086	\$ 59,041	\$ 2,256,898	\$ 72,890	\$ 1,011,503	\$ 11,575,418
Liabilities:						
Accounts payable	-	4,031	159,070	-	-	163,101
Due to component unit	47,320	-	-	-	-	47,320
Other liabilities	351,217	-	-	-	-	351,217
Accrued wages	21,510	-	-	-	-	21,510
Unearned revenue	-	27,760	2,048,737	-	-	2,076,497
Customer deposits	354,933	-	-	-	-	354,933
Total Liabilities	774,980	31,791	2,207,807	-	-	3,014,578
Deferred Inflows of Resources						
Unavailable revenue:						
Property taxes	148,219	-	-	4,889	-	153,108
Court fines and fees	23,428	-	-	-	-	23,428
Total Deferred Inflows of Resources	171,647	-	-	4,889	-	176,536
Fund Balances						
Restricted:						
Culture and recreation	-	27,250	-	-	21,646	48,896
Municipal court operations	-	-	-	-	68,966	68,966
Public safety	-	-	-	-	5,260	5,260
Grant programs	-	-	49,091	-	-	49,091
Debt service	-	-	-	68,001	-	68,001
Capital projects	-	-	-	-	915,631	915,631
Unassigned	7,228,459	-	-	-	-	7,228,459
Total Fund Balance	7,228,459	27,250	49,091	68,001	1,011,503	8,384,304
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 8,175,086	\$ 59,041	\$ 2,256,898	\$ 72,890	\$ 1,011,503	\$ 11,575,418

CITY OF HITCHCOCK, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2022

Total fund balance, governmental funds	\$ 8,384,304
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in this fund financial statement but are reported in the governmental activities of the Statement of Net Position.	4,017,430
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Certain other unavailable assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

Property tax	153,108
Court fines and fees	23,428
Net Pension Asset	448,009

Deferred inflows and outflows related to pension activities	(269,300)
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Deferred inflows and outflows related to OPEB activities	23,302
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Some liabilities are not due and payable in the current period and are not included in the fund financial statements but are included in the governmental activities of the Statement of Net Position. These are as follows:

Compensated absences	(92,221)
Financed purchase arrangements	(507,978)
Bonds payable	(985,000)
Sales tax obligation	(2,208,296)
Total OPEB Liability	(141,966)

Net position of governmental activities in the statement of net position	<u>\$ 8,844,820</u>
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CITY OF HITCHCOCK, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2022

	General Fund	Community Development Fund	Grant Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 2,301,529	\$ -	\$ -	\$ 149,283	\$ -	\$ 2,450,812
Sales, franchise and local taxes	1,473,769	-	-	-	7,049	1,480,818
Licenses and permits	1,356,675	-	-	-	-	1,356,675
Charges for services	784,946	-	-	-	4,895	789,841
Fines and forfeitures	290,348	-	-	-	32,668	323,016
Earnings on investments	38,310	-	-	-	-	38,310
Intergovernmental	-	237,820	767,836	-	-	1,005,656
Other	147,925	-	-	-	-	147,925
Total Revenues	6,393,502	237,820	767,836	149,283	44,612	7,593,053
Expenditures						
Current:						
General government	986,187	-	17,101	-	-	1,003,288
Public safety	2,526,384	-	695	-	24,156	2,551,235
Public works	1,424,456	-	-	-	-	1,424,456
Community development	207,470	-	-	-	-	207,470
Capital outlay	280,177	237,820	608,845	-	91,274	1,218,116
Debt service:						
Principal retirement	158,268	-	-	65,000	-	223,268
Interest and fees	20,212	-	-	16,282	-	36,494
Total Expenditures	5,603,154	237,820	626,641	81,282	115,430	6,664,327
Excess (deficiency) of revenues over expenditures	790,348	-	141,195	68,001	(70,818)	928,726
Other Financing Sources (Uses)						
Proceeds from sale of capital assets	15,065	-	-	-	-	15,065
Operating transfers in	160,737	-	-	-	12,106	172,843
Transfers out	(12,106)	-	-	-	-	(12,106)
Total Other Financing Sources (Uses)	163,696	-	-	-	12,106	175,802
Net change in fund balances	954,044	-	141,195	68,001	(58,712)	1,104,528
Fund Balances - Beginning	6,274,415	27,250	(92,104)	-	1,070,215	7,279,776
Fund Balances - Ending	\$ 7,228,459	\$ 27,250	\$ 49,091	\$ 68,001	\$ 1,011,503	\$ 8,384,304

CITY OF HITCHCOCK, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2022**

Net change in fund balances - total governmental funds: \$ 1,104,528

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The capital asset expenditures are allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital Outlay	1,239,741
Depreciation	(257,150)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.

Unavailable property tax revenue	26,597
Unavailable fines and fees	(4,557)

Contributions are treated as expenditures in the fund based financial statements, but are treated as reductions in the City's net pension/OBEB liability in the statement of net position. This amount is the difference between contributions and net pension/OPEB expense (revenue) for the current fiscal year.

Pension/OPEB related activities	(51,784)
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Bond and other debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond and other debt principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Principal paid on private placement bonds	65,000
Amounts paid for sales tax obligation	81,288
Principal paid on financed purchase arrangements	158,268

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Decrease in accrued compensated absences.	5,598
Transfer of capital assets to business-type activities	(329,852)

Change in net position of governmental activities	<u><u>\$ 2,037,677</u></u>
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CITY OF HITCHCOCK, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2022

	Business-type Activities
	Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,946,539
Customer receivable, net	473,012
Restricted cash and cash equivalents	3,152,674
Total current assets	<u>6,572,225</u>
Net pension Asset	109,300
Capital assets, not subject to depreciation/amortization	1,055,378
Capital assets, net of depreciation/amortization	12,231,518
Total non-current assets	<u>13,396,196</u>
Total Assets	<u>19,968,421</u>
Deferred Outflows of Resources	
Deferred outflows of resources for pensions	27,100
Deferred outflows of resources for OPEB	7,400
Total Deferred Outflows of Resources	<u>34,500</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	703,646
Due to other funds	83,860
Accrued wages	12,928
Accrued interest payable	22,452
Unearned revenues	262,262
Customer deposits	447,561
Current portion of long term liabilities	133,637
Total current liabilities	<u>1,666,346</u>
Non-current liabilities:	
Bonds payable	795,000
Leases payable	4,051,689
Compensated absences	14,931
Total OPEB liability	34,700
Total non-current liabilities	<u>4,896,320</u>
Total Liabilities	<u>6,562,666</u>
Deferred Inflows of Resources	
Deferred inflows of resources for pensions	92,800
Deferred inflows of resources for OPEB	1,700
Total Deferred Inflows of Resources	<u>94,500</u>
Net Position:	
Net investment in capital assets	10,707,445
Restricted for debt service	281,786
Unrestricted	2,356,524
Total Net Position	<u>\$ 13,345,755</u>

CITY OF HITCHCOCK, TEXAS**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION****PROPRIETARY FUND***For the Year Ended September 30, 2022*

	Business-type Activities
	Water and Sewer
Operating Revenues	
Charges for services	\$ 4,030,184
Total Operating Revenues	<u>4,030,184</u>
Operating Expenses	
Personnel services	725,531
Contract Services	1,854,627
Supplies	173,173
Repair and maintenance	784,343
Depreciation	705,481
Total Operating Expenses	<u>4,243,155</u>
Operating income (loss)	<u>(212,971)</u>
Non-Operating Revenues (Expenses)	
Investment earnings	9,128
Interest expense and fiscal agent fees	(64,056)
Total Non-Operating Revenues (Expenses)	<u>(54,928)</u>
Income (loss) before capital contributions and transfers	(267,899)
Capital contributions	329,852
Operating transfers out	(160,737)
Change in net position	(98,784)
Net Position - Beginning	<u>13,444,539</u>
Net Position - Ending	<u>\$ 13,345,755</u>

CITY OF HITCHCOCK, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2022

	<u>Business-type Activities Water and Sewer</u>
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 4,031,161
Cash payments to suppliers for goods and services	(2,217,398)
Cash payments to employees for services	<u>(716,225)</u>
Net cash provided by (used for) operating activities	<u>1,097,538</u>
Cash Flows from Noncapital Financing Activities	
Operating transfers	<u>(160,737)</u>
Net cash (used for) by noncapital financing activities	<u>(160,737)</u>
Cash Flows From Capital and Related Financing Activities	
Principal payments on financed purchase arrangements	(49,938)
Proceeds from financed purchase arrangements	3,868,944
Acquisition and construction of capital assets	(2,148,901)
Principal payments on debt	(45,000)
Interest and fiscal agent fees paid	<u>(43,214)</u>
Net cash provided by (used for) capital and related financing activities	<u>1,581,891</u>
Cash Flows From Investing Activities	
Investment earnings	<u>9,128</u>
Net cash provided by investing activities	<u>9,128</u>
Net increase (decrease) in cash and cash equivalents	2,527,820
Cash and cash equivalents - beginning of year	<u>3,571,393</u>
Cash and cash equivalents - end of year	<u>\$ 6,099,213</u>
Unrestricted cash and cash equivalents	\$ 2,946,539
Restricted cash and cash equivalents	<u>3,152,674</u>
	<u>\$ 6,099,213</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities	
Operating income (loss)	\$ (212,971)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	705,481
(Increase) decrease in accounts receivable	(78,475)
(Increase) decrease in net pension asset and related deferred inflows/outflows	12,400
Increase (decrease) in accounts payable	571,785
Increase (decrease) in unearned revenue	16,562
Increase (decrease) in customer deposits	62,890
Increase (decrease) in compensated absences	7,834
Increase (decrease) in accrued wages	(13,528)
Increase (decrease) in total OPEB liability and related deferred inflows/outflows	2,600
Increase (decrease) in interfund payables	<u>22,960</u>
Total adjustments	<u>1,310,509</u>
Net cash provided by (used for) operating activities	<u>\$ 1,097,538</u>
Schedule of non-cash capital and related financing activities:	
Contributions of capital assets	329,852

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

Note 1 - Organization

The City of Hitchcock, Texas (the "City") is a political subdivision of the State of Texas governed by an elected mayor and four member City Council. The Mayor, as the official head of City government, resides at all meetings of Council and signs all official documents.

The City provides the following services: public safety, public works, parks and recreation, water and sewer and general administrative services.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described as follows.

A. Reporting Entity

In conformity with GAAP, the financial statements of component units have been included in the financial reporting entity as discretely presented component units.

Hitchcock Industrial Development Corporation ("Corporation" or "HIDC")

The mission of the Corporation is to provide economic development within the City and surrounding areas. The members of the Corporation are appointed by the City's Council Members. The Corporation's budget requires the approval of the City Council. The HIDC also operates under the business title of the Hitchcock Economic Development Corporation ("HEDC").

Reinvestment Zone Number One ("TIRZ")

The City designated approximately 850 acres of which at least 400 acres is designated wetlands, comprising the Harborwalk Development as a reinvestment zone in December 1999. A board of directors was established to make recommendations to the City Council concerning administration of the TIRZ. A final project and financing plan was approved in February 2000. All project costs are to be advanced by the Developer, who will be reimbursed from proceeds of bonds issued by the City and payable from tax increments.

The component units identified above are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City appoints the organizations' boards and is either able to impose its' will on them or a financial benefit/burden exists.

Complete financial statements of the individual component units are not prepared.

The financial reporting entity consists of the primary government and other organizations for which the primary government is financially accountable.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Changes in Net Position) report information about the City as a whole. These statements include all nonfiduciary activities of the primary government and its component units. For the most part, 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

General property taxes are recorded as receivables when levied and as revenue in the period for which they were levied and become available. Property taxes receivable have been recorded as deferred inflows of resources at year end. Property taxes collected within 60 days subsequent to September 30, 2022, are recorded as revenue as they are considered measurable and available. Franchise taxes and Sales taxes relating to underlying transactions that occurred prior to September 30, 2022, have been recorded as receivables and revenue. Licenses, permits and fines are not susceptible to accrual since they are not measurable until received. Revenue on federal and state cost-reimbursement grants is accrued when the related expenditures are incurred. Interest is recorded when earned.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The City reports the following major governmental funds:

The *General Fund* is used to account for all financial transactions that are not accounted for in another fund. The principal sources of revenue of the General Fund are property taxes, sales and use taxes, franchise taxes, licenses, permits, fines and forfeitures. Expenditures are for general government, public safety, public works and other community services.

The *Community Development Fund* is used to account for intergovernmental revenues and expenditures associated with the Community Development Block Grant.

The *Grant Fund* is used to account for intergovernmental revenues and expenditures for grants other than the Community Development Block Grant.

The *Debt Service Fund* is used to account for receipts from the interest and sinking portion of the City's property taxes and to pay the principal and interest on long-term debt.

The City reports the following major proprietary fund:

The *Water and Sewer Operating Fund* is used to account for operations of the water and wastewater division and the construction of related facilities. The fund is financed and operated in a manner similar to private business enterprises - where the intent of the City is that the cost (expenses, including depreciation) of providing goods or services to the general public, on a continuing basis, be financed or recovered primarily through user charges. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation) and other City funds.

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

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

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.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The Government-wide Statement of Net Position classifies net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are as follows:

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings.
- Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, laws, and regulations of other governments, constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted - This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

D. Cash Equivalents

The City reports cash and cash equivalents in the City’s statement of cash flows for Proprietary Fund types and in all other financial statements of financial position. The City considers cash and cash equivalents to be cash on hand, demand deposits, and certificates of deposits with an original maturity of three months or less.

E. Investments

The City reports all investments at fair value. The City categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

F. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown net of an allowance for uncollectibles.

The City levies taxes on or about October 1, of each year. Property taxes attach as an enforceable lien on property as of January 1. These taxes are due by January 31, and are considered delinquent after that date, at which time interest is charged at a rate established by the state property tax code.

Property tax revenue is recognized when levied to the extent that they are available. The combined tax rate to finance general governmental services for the year ended September 30, 2022 was \$0.550131 per \$100 of assessed valuation.

G. Restricted assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

H. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life more than one year. All purchased fixed assets are valued at cost where historical records exist. Donated fixed assets are valued at their acquisition value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain and equipment are capitalized and Proprietary Fund fixed assets are depreciated over the remaining useful lives of the related fixed assets using the straight-line method, as applicable. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

Land and construction in progress are not depreciated. The other tangible and intangible capital assets of the primary government are depreciated/amortized using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Estimated Useful Life</u>
Building	40 years
Improvements	20-40 years
Water and sewer system	33 years
Heavy Equipment	10 years
Automobiles, trucks and equipment	5 years
Right to use leased assets	5-20 years

I. Leases

From time to time the City enters into agreements for the noncancellable lease of equipment. If applicable, the City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with an initial, individual value of \$5,000 or more. The City did not have any agreements to report as leases as of September 30, 2022. Lease assets would be reported with other capital assets and lease liabilities would be reported with long-term debt on the statement of net position.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require are measurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

J. Compensated absences

Employees earn vacation based on years of service with the City and may accumulate unused time. Sick leave is accrued at the rate of eight hours per month of employment. In accordance with GAAP, the liability for accumulated vacation, as of September 30, 2022, has been recorded as a liability in the Government-Wide Statement of Net Position.

K. Fund equity

The City reports fund balances in the governmental funds to demonstrate the nature and extent of the constraints placed on a government's fund balances and describes the relative strength of the spending constraints as follows:

Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet.

Restricted fund balance - amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions for capital acquisitions and contractual obligations, retirement of fund indebtedness and other state restrictions have been properly classified in the Governmental Funds Balance Sheet.

Unassigned fund balance – amounts that are available for any purpose.

When multiple categories of fund balance are available for expenditure, the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

L. Revenues and expenditures/expenses

In the fund financial statements, revenues for governmental funds are recorded when they are determined to be both measurable and available. Generally, tax revenues, fees and non-tax revenues are recognized when received. Grants from other governments are recognized when qualifying expenditures are incurred. Expenditures for governmental funds are recorded when the related liability is incurred.

Revenues and expenses in the Government-Wide Statement of Activities are recognized in essentially the same manner as used in commercial accounting.

M. Debt Service

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year of issuance.

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

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

N. Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual amounts could vary from those estimates.

O. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred amounts related to pension/OPEB that qualify for reporting in this category. The deferred amounts related to pension and OPEB relate differences between estimated and actual investment earnings, changes in actuarial assumptions, and other pension and OPEB related changes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. The City has multiple items that qualify for reporting in this category. Unavailable revenue reported only in the governmental funds balance sheet for unavailable revenues for property taxes and court fines/fees. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has deferred amounts related to pension and OPEB in the government-wide financial statements.

P. Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company.

Q. Other Post-employment Benefits (OPEB)

For purposes of measuring the total OPEB liability, the related deferred outflows of resources, and OPEB expense, City specific information about its liability in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's liability have been determined on the same basis as they are reported by TMRS. For this purpose, OPEB expense recognized each fiscal year is equal to the change in the total OPEB liability from the beginning of the year to the end of the year, adjusted for deferred recognition of certain changes in the liability. Investments are reported at fair value. Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

R. Implementation of New Accounting Standards

The following GASB pronouncements were effective during fiscal year 2022:

GASB Statement No. 87 *Leases* was issued in June 2017 and was effective for periods beginning after June 15, 2021. This Statement established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The City of Hitchcock has evaluated the effects of this Statement and has determined that it does impact to the financial statements. The City of Hitchcock has evaluated the effects of this Statement and has determined that it does not impact the financial statements.

GASB Statement No. 89 *Accounting for Interest Cost Incurred before the end of a Construction Period*, was issued in June 2018 and was effective for periods beginning after December 15, 2020. This Statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost was incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement should be handled prospectively. The City of Hitchcock has evaluated the effects of this Statement and has determined that it does not impact the financial statements.

No. 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32* was issued in June 2020. This Statement provides guidance regarding the financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans. The Statement will also enhance (1) information related to Section 457 plans that meet the definition of a pension plan and the benefits provided through those plans and (2) investment information for all Section 457 plans. Paragraphs 4 and 5 of the Statement were effective immediately whereas the remaining requirements of this Statement are effective for periods beginning after June 15, 2021. The City of Hitchcock has evaluated the effects of this Statement and has determined that it does not impact the financial statements.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 3 - Cash and Cash Equivalents

The City’s cash and temporary investments include demand accounts and certificates of deposits.

The City’s agent bank is required to pledge securities 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 year end, all deposits of the City and its component units were fully insured or collateralized by government obligation held in the City’s name by the City’s agent in accordance with Texas Law.

State statutes authorize the City to invest in: 1) obligations of the U.S. or its agencies and instrumentalities; 2) obligations of the State of Texas or its agencies; 3) other obligations guaranteed by the U.S., the State of Texas or their agencies and instrumentalities; 4) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than “A” or its equivalent; 5) guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas; 6) fully collateralized repurchase agreements; 7) a public funds investment pool meeting the requirements of Government Code 2256.016-2256.019; and, 8) commercial paper having received a rating of A1/P1 from a nationally recognized investment rating firm.

The Public Funds Investment Act (PFIA) governs the City’s investment policies and types of investment. The City’s investments (cash equivalents) are in compliance with the authorized investments provided by the PFIA. It is the City’s policy to invest all excess funds only in certificates of deposit (time deposits). The City’s deposits and investments (cash equivalents), including those of the component units, as of September 30, 2022, are summarized below:

	Cash On Hand	Demand Deposits	Certificates of Deposit	Total
Primary government	\$ 1,090	\$ 16,142,997	\$ 839,746	\$ 16,983,833
Component units	-	1,867,684	-	1,867,684
	<u>\$ 1,090</u>	<u>\$ 18,010,681</u>	<u>\$ 839,746</u>	<u>\$ 18,851,517</u>

Certificates of deposits are carried at fair value using Level 1 Fair Value Measurement Inputs.

Note 4 - Restricted Assets

As of September 30, 2022, the City held restricted cash and temporary investments for the following purposes:

	Governmental Activities	Business-type Activities
Restricted for:		
Bond escrow deposits	\$ 364,467	\$ 447,561
Debt service	68,653	304,238
Capital projects	915,631	2,400,875
Total restricted assets	<u>\$ 1,348,751</u>	<u>\$ 3,152,674</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 5 - Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are payable on or before January 31. No penalties or interest shall be collected if payment in full is made by January 31. City property taxes are recognized as current receivables when levied; however, such amounts are reported as deferred inflows of resources, and not reported as revenues until collections are received. At year end, all property taxes receivable are classified as delinquent. Penalties and interest accrued at September 30 are also recognized as receivables.

Within these guidelines, the tax rate per \$100 of assessed valuation, for the year ended September 30, 2022, was 53.0000 cents (50.2511 cents for M&O and 2.7489 cents for I&S) based on an assessed property valuation of approximately of \$596.3 million resulting in a tax levy of approximately \$3.0 million.

Note 6 - Receivables

Amounts recorded as receivables, as of September 30, 2022, for the government’s individual major and nonmajor funds, including the applicable allowance for uncollectible accounts, are as follows:

	Primary Government				Component Units	Total
	Governmental Activities		Business-type Activities			
	General Fund	Grant Fund	Debt Service Fund	Water and Sewer Fund		
Receivables:						
Property taxes	\$ 459,051	\$ -	\$ 5,611	\$ -	\$ -	\$ 464,662
Sales taxes		-	-	-	68,950	68,950
Fines and forfeitures	234,282	-	-	-	-	234,282
Intergovernmental		159,071	-	-	47,320	206,391
Customer accounts	-	-	-	636,152	-	636,152
Other	257,251	-	-	-	-	257,251
Gross receivables	950,584	159,071	5,611	636,152	116,270	1,867,688
Less: allowance for uncollectibles	(506,954)	-	(1,374)	(163,140)	-	(671,468)
Net Total Receivables	\$ 443,630	\$ 159,071	\$ 4,237	\$ 473,012	\$ 116,270	\$ 1,196,220

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets

A summary of activity for capital assets, for the year ended September 30, 2022, follows:

	October 1, 2021	Additions	Retirements	Transfers	September 30, 2022
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 1,518,052	\$ -	\$ -	\$ -	\$ 1,518,052
Construction in progress	541,302	955,039	-	(774,238)	722,103
Total capital assets not being depreciated	2,059,354	955,039	-	(774,238)	2,240,155
Capital assets being depreciated:					
Buildings and improvements	1,306,963	109,500	-	444,386	1,860,849
Machinery and equipment	3,545,974	175,202	-	-	3,721,176
Total capital assets being depreciated	4,852,937	284,702	-	444,386	5,582,025
Less accumulated depreciation for:					
Building and improvements	(946,632)	(35,515)	-	-	(982,147)
Machinery and equipment	(2,600,968)	(221,635)	-	-	(2,822,603)
Total accumulated depreciation	(3,547,600)	(257,150)	-	-	(3,804,750)
Governmental activities capital assets, net	\$ 3,364,691	\$ 982,591	\$ -	\$ (329,852)	\$ 4,017,430
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 61,776	\$ -	\$ -	\$ -	\$ 61,776
Construction in progress	663,750	-	-	329,852	993,602
Total capital assets, not being depreciated	725,526	-	-	329,852	1,055,378
Capital assets being depreciated:					
Water/sewer system	27,864,377	1,916,068	-	-	29,780,445
Buildings and improvements	190,453	-	-	-	190,453
Machinery and equipment	2,342,015	232,833	-	-	2,574,848
Total capital assets being depreciated	30,396,845	2,148,901	-	-	32,545,746
Less accumulated depreciation for:					
Water/sewer system	(17,724,880)	(549,748)	-	-	(18,274,628)
Buildings and improvements	(62,055)	(8,217)	-	-	(70,272)
Machinery and equipment	(1,821,812)	(147,516)	-	-	(1,969,328)
Total accumulated depreciation	(19,608,747)	(705,481)	-	-	(20,314,228)
Business-type activities capital assets, net	\$ 11,513,624	\$ 1,443,420	\$ -	\$ 329,852	\$ 13,286,896
Total Primary Government	\$ 14,878,315	\$ 2,426,011	\$ -	\$ -	\$ 17,304,326

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets (continued)

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

<u>Function</u>	<u>Depreciation Expense</u>
Primary Government	
Governmental activities:	
General	\$ 48,496
Public safety	122,831
Public works	84,088
Culture and recreation	1,735
Total Governmental activities	<u>257,150</u>
Business-type activities:	
Water	222,407
Sewer	483,074
Total Business-type activities	<u>705,481</u>
Total Primary Government	<u><u>\$ 962,631</u></u>

The remaining commitments for the construction in progress are as follows:

<u>Function</u>	<u>Approved Construction Budget</u>	<u>Construction in Progress</u>	<u>Estimated Remaining Commitment</u>
Primary Government			
Governmental Activities			
Delaney Street Improvements	1,882,700	333,120	1,549,580
Drainage Improvements	458,272	388,983	69,289
Total Governmental Activities	<u>2,340,972</u>	<u>722,103</u>	<u>1,618,869</u>
Business-type Activities			
Sewer Improvements	1,463,149	776,263	686,886
CBDG GLO MIT 22-085-064-D321	1,004,877	217,339	787,538
Total Business-type Activities	<u>2,468,026</u>	<u>993,602</u>	<u>1,474,424</u>
Total Primary Government	<u><u>\$ 9,617,996</u></u>	<u><u>\$ 3,431,410</u></u>	<u><u>\$ 6,186,586</u></u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for governmental and business-type activities. These instruments can include certificates of obligation, finance purchase arrangements, tax increment bonds, and private placement bonds. Future ad valorem tax revenues, water and sewer system revenues or liens on property and equipment secure these debt obligations. The City also has an obligation to pay back previously collected sales tax which reduces the sales tax revenue distributed from the State. During the year ended September 30, 2022, the following changes occurred in long-term liabilities:

	Balance, as Restated October 01, 2021	Additions	Reductions	Balance September 30, 2022	Due Within One Year
Governmental Activities					
General obligation bonds -					
Private Placement	\$ 1,050,000	\$ -	\$ (65,000)	\$ 985,000	\$ 65,000
Sales tax obligation	2,289,584	-	(81,288)	2,208,296	81,288
Financed purchase arrangements	666,246	-	(158,268)	507,978	115,680
Compensated absences	97,819	-	(5,598)	92,221	39,128
Total Governmental Activities	<u>\$ 4,103,649</u>	<u>\$ -</u>	<u>\$ (310,154)</u>	<u>\$ 3,793,495</u>	<u>\$ 301,096</u>
Business-type Activities					
General obligation bonds	\$ 885,000	\$ -	\$ (45,000)	\$ 840,000	\$ 45,000
Financed purchase arrangements	321,320	3,868,944	(49,938)	4,140,326	88,637
Compensated absences	7,097	7,834	-	14,931	-
Total Business-type Activities	<u>\$ 1,213,417</u>	<u>\$ 3,876,778</u>	<u>\$ (94,938)</u>	<u>\$ 4,995,257</u>	<u>\$ 133,637</u>
Hitchcock Industrial Development Corporation (HIDC)					
Private placement note	\$ -	\$ 800,000	\$ -	\$ 800,000	\$ 23,813
Sales tax obligation	763,194	-	(27,096)	736,098	27,096
	<u>\$ 763,194</u>	<u>\$ 800,000</u>	<u>\$ (27,096)</u>	<u>\$ 1,536,098</u>	<u>\$ 50,909</u>

Current Year Activity

During the current fiscal year, the HIDC issued a private placement Series 2022 note payable in the amount of \$800,000. The net proceeds will be used to purchase land and the note is secured by the pledge of sales taxes.

Additionally, the City entered into two new financed purchase arrangements during fiscal year 2022. The first agreement was to finance the purchase of a vehicle and mini excavator. The second agreement was to finance the purchase of phase 1 of the water and sewer system improvements. Capital assets are recorded for all of these assets under the agreements and are depreciated using straight-line over the asset's useful lives.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Bonds and Notes Payable

The following is a summary of the terms of bonds and notes payable outstanding as of September 30, 2022:

Description	Original Issue	Interest Rate	Maturity Date	Principal Outstanding
Governmental Activities				
Series 2021, Private Placement Bonds	\$ 1,050,000	1.75%	2/1/2036	\$ 985,000
Business-type Activities				
Series 2020, General Obligation Refunding Bonds	920,000	2.00%	7/15/2038	840,000
Hitchcock Industrial Development Corporation (HIDC)				
Series 2022 Note (Private Placement)	800,000	5.15%	7/29/2042	800,000
				<u>\$ 2,625,000</u>

Annual debt service requirements to retire the bonds and notes payable are as follows:

Fiscal Year	Total Primary Government								
	Governmental Activities			Business-type Activities			HIDC		
	(Private Placement)						(Private Placement)		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 65,000	\$ 16,669	\$ 81,669	\$ 45,000	\$ 16,380	61,380	\$ 23,813	\$ 41,200	65,013
2024	65,000	15,531	80,531	45,000	15,503	60,503	25,039	39,974	65,013
2025	65,000	14,394	79,394	45,000	14,625	59,625	26,329	38,684	65,013
2026	65,000	13,256	78,256	50,000	13,748	63,748	27,685	37,328	65,013
2027	65,000	12,119	77,119	50,000	12,773	62,773	29,111	35,902	65,013
2028-2032	355,000	42,394	397,394	260,000	49,140	309,140	169,647	155,418	325,065
2033-2037	305,000	10,806	315,806	285,000	22,815	307,815	218,068	106,997	325,065
2038-2042	-	-	-	60,000	1,170	61,170	280,308	44,758	325,066
	<u>\$ 985,000</u>	<u>\$ 125,169</u>	<u>\$ 1,110,169</u>	<u>\$ 840,000</u>	<u>\$ 146,154</u>	<u>\$ 986,154</u>	<u>\$ 800,000</u>	<u>\$ 500,261</u>	<u>\$ 1,300,261</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Financed Purchase Arrangements

The City has multiple agreements in place to finance the purchase of capital assets. A summary of the agreements and the amounts outstanding at the end of the fiscal year is as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Origination Date</u>	<u>Amount Outstanding</u>	
				<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Equipment	\$ 874,043	2.790%	8/24/2020	\$ 360,922	\$ 271,382
Police vehicles	237,321	3.350%	12/16/2019	147,056	-
Vehicle & mini excavator	197,219	2.787%	12/29/2021	-	197,219
Water and sewer system	3,671,725	3.790%	8/5/2022	-	3,671,725
				<u>\$ 507,978</u>	<u>\$ 4,140,326</u>

The future requirements are as follows:

<u>Fiscal Year</u>	<u>Total Primary Government</u>					
	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 115,681	\$ 14,996	\$ 130,677	\$ 88,637	\$ 147,049	\$ 235,686
2024	119,173	11,503	130,676	230,424	146,083	376,507
2025	122,771	7,904	130,675	244,980	138,401	383,381
2026	74,142	4,195	78,337	260,223	130,206	390,429
2027	76,211	2,126	78,337	276,181	121,472	397,653
2028-2032	-	-	-	1,109,788	484,774	1,594,562
2033-2037	-	-	-	1,555,544	248,687	1,804,231
2038-2040	-	-	-	374,549	13,821	388,370
	<u>\$ 507,978</u>	<u>\$ 40,724</u>	<u>\$ 548,702</u>	<u>\$ 4,140,326</u>	<u>\$ 1,430,493</u>	<u>\$ 5,570,819</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Sales Tax Obligation

On April 21, 2014, the City Commission approved a 380 agreement between the City of Hitchcock and a business (“the Business”) operating within the City. Under Article III, Economic Incentives, the City was required to make payments to the developer from sales tax revenues. From July 2014 through January 2017, the City made payments in the amount of \$974,143 to the Business. On January 28, 2021, the Texas Comptroller Office notified the City that the City was overpaid \$3,161,162 in sales tax. An audit was conducted by the state and the State Comptroller ruled that the Business was not conducting business in Hitchcock and that the sales tax must be repaid to the State. The developer utilized pre-existing properties and facilities and there were no new planned construction improvement projects scheduled within the City of Hitchcock. Therefore, the City agreed to allow deductions from the monthly sales tax payments over a period of 50 months beginning in October 2021. The following amounts are outstanding as of the end of the fiscal year:

<u>Description</u>	<u>Original Amount</u>	<u>Period (months)</u>	<u>Payment Beginning</u>	<u>Payments Ending</u>	<u>Amount Outstanding</u>	
					<u>Governmental Activities</u>	<u>HIDC</u>
Sales Tax Obligation #1	\$ 3,161,162	50	10/1/2021	10/1/2050	\$ 2,208,296	\$ 736,098
					<u>\$ 2,208,296</u>	<u>\$ 736,098</u>

The future requirements are as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>HIDC</u>	<u>Total</u>
2023	\$ 81,288	\$ 27,096	\$ 108,384
2024	81,288	27,096	108,384
2025	81,288	27,096	108,384
2026	81,288	27,096	108,384
2027	81,288	27,096	108,384
2028-2032	406,440	135,480	541,920
2033-2037	406,440	135,480	541,920
2038-2042	406,440	135,480	541,920
2043-2047	406,440	135,480	541,920
2048-2051	176,096	58,698	234,794
	<u>\$ 2,208,296</u>	<u>\$ 736,098</u>	<u>\$ 2,944,394</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Interfund Receivables, Payables and Transfers

The composite of the interfund balances as of September 30, 2022, is as follows:

<u>Fund</u>	<u>Due (to)/from</u>
Utility Fund	\$ (83,860)
General Fund	83,860
Net interfund totals	<u>\$ -</u>

All interfund balances are expected to be repaid within one year.

During the fiscal year, the water and sewer fund transferred \$160,737 to the general fund for administrative costs. Also, the general fund transferred \$11,887 and \$219 to the truancy prevention & diversion fund and the jury fund, respectively. In addition, the governmental activities transferred \$329,852 in capital assets to the business-type activities.

Note 10 - Employee Retirement System

Texas Municipal Retirement System

Plan Description and Provisions

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid agent multiple-employer defined benefit pension plan administered by the Texas Municipal Retirement System (“TMRS”). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the “TMRS Act”) as an agent multiple-employer retirement system for municipal employees in the State 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 the 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 issue a comprehensive annual financial report (“CAFR”) available to the public that can be obtained at www.tmr.org. 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 accumulated 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 payments 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. A summary of plan provisions for the City are as follows:

	<u>Plan Year 2022</u>
Employee deposit rate:	6%
Matching ratio (City to employee):	2 to 1
Years required for vesting:	5
Retirement Eligibility (Age/Service)	60/5, 0/20
Updated Service Credit:	50% Repeating Transfers
Annuity Increase (to retirees)	0% of CPI
Supplemental death benefit – active members	Yes
Supplemental death benefit – retirees	Yes

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 10 - Employee Retirement System (continued)

Benefits Provided (continued)

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	38
Inactive employees entitled to but not yet receiving benefits	59
Number of active employees receiving benefits	<u>44</u>
Total	<u><u>141</u></u>

Contributions

The contributions rate for employees in TMRS are either 5%, 6%, or 7% of the 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 benefits earned by employees during the year, with an additional amount to finance any unfunded liability.

Employees of the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 6.77% and 4.33% in calendar years 2022 and 2021, respectively. The City’s contributions to TMRS for the year ended September 30, 2022 were \$166,309 and were equal to the required contributions.

Net Pension Liability

The City’s Net Pension Liability (NPL) was measured as of December 31, 2021, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate	2.50%
Salary increases	3.50% to 11.50% including inflation
Investment rate of return	6.75%

Overall Payroll Growth is used to calculate the contribution rates for the retirement plan of each participating city as a level percentage of payroll. This represents the expected increase in total payroll. This increase rate is solely due to the effect of wage inflation on salaries, with no allowance for future membership growth. However, for cities with a decrease in the number of contributing members from 2008 to 2018, the payroll growth is decreased by half the annual percentage decrease in the count capped at a 1.0% decrease per year and rounded down to the nearest 0.1%.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 10 - Employee Retirement System (continued)

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investment was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, 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 estimates of arithmetic real rates of return for each major asset class in plan year 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	35%	7.55%
Core Fixed Income	6%	2.00%
Non-Core Fixed Income	20%	5.68%
Other Public and Private Markets	12%	7.22%
Real Estate	12%	6.85%
Hedge Funds	5%	5.35%
Private Equity	10%	10.00%
Total	<u><u>100.0%</u></u>	

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 the 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 period of projected benefit payments to determine the Total Pension Liability.

Basis of Allocation

Pension items are allocated between governmental activities and business-type activities on the basis of employee payroll funding. For the year ended September 30, 2022, those percentages were 80% and 20%, respectively, which approximated the prior year’s allocations.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 10 - Employee Retirement System (continued)

Changes in Net Pension (Asset) Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at December 31, 2020	\$ 4,582,702	\$ 4,947,147	\$ (364,445)
Service Cost	285,544	-	285,544
Interest (on the Total Pension Liability)	324,866	-	324,866
Changes of benefit terms	278,721	-	278,721
Difference between expected and actual experience	(229,361)	-	(229,361)
Contributions – employer	-	95,794	(95,794)
Contributions – employee	-	115,981	(115,981)
Net investment income	-	643,824	(643,824)
Administrative Expense	-	(2,984)	2,984
Other	-	19	(19)
Benefit payments, including refunds of employee contributions	(382,729)	(382,729)	-
Balance at December 31, 2021	<u>\$ 4,859,743</u>	<u>\$ 5,417,052</u>	<u>\$ (557,309)</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the City, calculated using the discount rate of 6.75%, as well as what the City’s net pension liability (asset) 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 (5.75%)	Current (6.75%)	1% Increase (7.75%)
City's Net Pension Liability (Asset)	\$ 37,313	\$ (557,309)	\$ (1,044,675)

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, 2022, the City recognized pension expense of \$209,317.

At September 30, 2022, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ -	\$ (139,684)
Net difference between projected and actual earnings	-	(333,630)
Contributions made subsequent to measurement date	138,314	-
	<u>\$ 138,314</u>	<u>\$ (473,314)</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 10 - Employee Retirement System (continued)

The deferred outflows of resources related to contributions made subsequent to measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	Amount
2023	\$ (164,381)
2024	(177,108)
2025	(69,850)
2026	(61,975)
Total	<u>\$ (473,314)</u>

Note 11 - Other Post-employment Benefits

TMRS Supplemental Death Benefits Fund

Plan Description

The City’s single-employer defined benefit group-term life insurance plan is operated by the Texas Municipal Retirement System (TMRS) via the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Benefits Provided

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); retired employees are insured for \$7,500; this coverage is another post-employment benefit (OPEB). 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).

Membership in the plan as of the measurement date of December 31, 2021 was as follows:

Inactive employees or beneficiaries currently receiving benefits	23
Inactive employees entitled to but not yet receiving benefits	10
Active employees	<u>44</u>
Total	<u><u>77</u></u>

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually. The City’s contribution rates are 0.19% and 0.20% for calendar years 2022 and 2021, respectively. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees’ entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 11 - Other Post-employment Benefits (continued)

Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both active employees and retirees and the assets are not segregated for these groups. In accordance with GASB Statement No. 75, the applicable discount rate for an unfunded OPEB is based on an index of tax exempt 20-year municipal bond rates rated as AA or higher. As of December 31, 2021, the discount rate used in the development of the Total OPEB Liability was 1.84% compared to 2.00% as of December 31, 2020.

Actuarial Assumptions

The City’s Total OPEB Liability was measured at December 31, 2021 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

Inflation	2.50%
Salary increase	3.50% to 11.50% including inflation
Discount rate*	1.84%
Retirees' share of benefit-related costs	\$0
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	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year setforward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

Notes: The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

Basis of Allocation

Pension items are allocated between governmental activities and business-type activities on the basis of employee payroll funding. For the year ended September 30, 2022, those percentages were 80% and 20%, respectively, which approximated the prior year’s allocations.

Changes in Total OPEB Liability

Balance at December 31, 2020	\$ 155,430
Changes for the year:	
Service cost	9,510
Interest on Total OPEB Liability	3,190
Difference between expected and actual experience	3,746
Changes in assumptions or other inputs	6,182
Benefit payments	<u>(1,392)</u>
Net changes	<u>21,236</u>
Balance at December 31, 2021	<u>\$ 176,666</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 11 - Other Post-employment Benefits (continued)

Sensitivity Analysis

The following presents the total OPEB liability of the employer, calculated using the discount rate of 1.84%, 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 and 1 percentage point higher than the current rate. Note that the healthcare cost trend rate does not affect the total OPEB liability, so sensitivity to the healthcare cost trend rate is not shown.

	1% Decrease (0.84%)	Current (1.84%)	1% Increase (2.84%)
City's Net OPEB Liability	\$ 222,687	\$ 176,666	\$ 142,388

For the year ended September 30, 2022, the City recognized OPEB expense of \$23,575.

As of September 30, 2022, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 6,070	\$ (6,755)
Change in assumptions	30,137	(2,136)
Contributions made subsequent to measurement date	1,686	-
Total	\$ 37,893	\$ (8,891)

The amounts reported as deferred outflows of resources related to contributions made subsequent to measurement date will be recognized as a reduction of the OPEB liability in the subsequent fiscal year.

Amounts currently reported as deferred outflows of resources related to OPEBs, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

Year ended September 30:	Amount
2023	\$ 10,825
2024	9,681
2025	5,934
2026	876
Total	\$ 27,316

Note 12 - Risk Management

General Liability

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’s risk management program encompasses various means of protecting the City against loss by obtaining property, casualty and liability coverage through commercial insurance carriers and from participation in a risk pool. The participation of the City in the risk pool is limited to the payment of premiums. There has not been any significant reduction in insurance coverage in the past three years.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 12 - Risk Management (continued)

Workers' Compensation

The City is a member of the Texas Municipal League (TML) Workers' Compensation Intergovernmental Risk Pool, an unincorporated association of political subdivision of the State of Texas. The company is not intended to operate as an insurance company but rather a contracting mechanism by which the City provides self-insurance benefits to its employees. The fund contracts with a third party administrator for administration, investigation and adjustment services in the handling of claims. Premiums are based on the estimated City payroll by risk factor and rates. The premiums are adjusted by the City's experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for by the TML Pool.

Note 13 - Amounts Due to Developer

In a prior year the City created Reinvestment Zone One (the "Zone"). The development and financing agreement between the City, the Zone and the developer provides that the developer will advance the funds to provide for construction costs that will be reimbursed from proceeds of bonds issued by the City and payable from tax increments, as provided in the agreement, which was amended on September 1, 2006.

The property included in the Zone is adjacent to West Bay and the Highland Bayou Diversionary Canal. Originally, the only vehicular access to this waterfront land was via 2nd Street. Now, primary vehicular access to this waterfront property is via Harbor Drive from State Highway 6. The construction of a bridge over the Diversionary Canal and reconstruction of Basford Bayou Bridge are completed. The public improvement and associated cost are estimated at \$13.56 million, while the estimated appraised value is estimated by the Galveston Central Appraisal District to be \$71.9 million as of January 1, 2014. Since the Zone's creation in 1999, \$13.9 million in expenses have been paid or advanced to finance the development expenses, engineering cost, environmental studies, land surveys, bridge construction/repairs, regional lift station, road improvements and tax zone expenses. The amounts due to developer are to be paid from tax increment funds meeting the requirements in Section 4.08 of the amended agreement. The Board of the Zone must approve an independent accountants' report detailing the project costs to be paid and verifying the amount of interest owed to the Developer for advancement of Project Costs.

In November 2018, the Board of Reinvestment Zone One approved the Independent Accountant's Report on Applying Agreed-Upon Procedures related to the amounts due to Harborwalk LP (the "Developer"). Based on the report approved by the Board, the total amount to be paid to the Developer was \$7,702,520. In April 2019, approximately \$750 thousand was paid to the Developer. The remaining will be paid in accordance with Section 4.08 of the Development and Financing Agreement. During fiscal year 2021, the City paid \$950,000 to Harborwalk, LP pursuant to the Indenture of Trust and Amendment to Development and Financing Agreement dated September 1, 2006 by and between the City of Hitchcock, Reinvestment Zone Number One, City of Hitchcock, Texas, Wells Fargo Bank, NA and Harborwalk, LP.

Note 14 - Subsequent Events

On October 20, 2022, the City added an additional \$5,059,784 and \$3,302,691 to the financed purchase arrangement related to the water and sewer system upgrades for a total additional debt of \$8,362,475.

On October 24, 2022, the City accepted the payment terms for an additional sales tax obligation notice from the Texas Comptroller in the amount of \$87,332 to be reduced from sales tax receipts by \$2,079 for 42 months beginning in fiscal year 2023.

On November 17, 2022, the City of Hitchcock Reinvestment Zone No. 1 issued \$3,490,000 in Series 2022 Tax Increment Bonds.

REQUIRED SUPPLEMENTARY INFORMATION



CITY OF HITCHCOCK, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended September 30, 2022

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property taxes	\$ 2,328,801	\$ 2,287,571	\$ 2,301,529	\$ 13,958
Sales, franchise and local taxes	1,342,315	1,413,022	1,473,769	60,747
Licenses and permits	1,334,909	1,359,270	1,356,675	(2,595)
Charges for services	643,650	751,010	784,946	33,936
Fines and forfeitures	339,715	285,031	290,348	5,317
Earnings on investments	66,478	39,047	38,310	(737)
Other	-	135,667	147,925	12,258
Total Revenues	<u>6,055,868</u>	<u>6,270,618</u>	<u>6,393,502</u>	<u>122,884</u>
Expenditures				
Current:				
General government	1,211,261	1,105,731	986,187	119,544
Public safety	2,942,748	2,711,557	2,526,384	185,173
Public works	1,832,149	1,670,130	1,424,456	245,674
Community development	230,447	228,231	207,470	20,761
Capital Outlay	-	371,378	280,177	91,201
Debt service:				
Principal retirement	-	182,740	158,268	24,472
Interest and fees	-	16,273	20,212	(3,939)
Total Expenditures	<u>6,216,605</u>	<u>6,286,040</u>	<u>5,603,154</u>	<u>682,886</u>
Excess (deficiency) of revenues over (under) expenditures	(160,737)	(15,422)	790,348	805,770
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	15,065	15,065	-
Operating transfers in	160,737	160,737	160,737	-
Operating transfer out	-	-	(12,106)	(12,106)
Total Other Financing Sources (Uses)	<u>160,737</u>	<u>175,802</u>	<u>163,696</u>	<u>(12,106)</u>
Net change in fund balance	-	160,380	954,044	793,664
Fund balances - beginning	<u>6,274,415</u>	<u>6,274,415</u>	<u>6,274,415</u>	<u>-</u>
Fund balances - ending	<u>\$ 6,274,415</u>	<u>\$ 6,434,795</u>	<u>\$ 7,228,459</u>	<u>\$ 793,664</u>

CITY OF HITCHCOCK, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION

Year Ended September 30, 2022

A. Legal Compliance - Budgets

Prior to October 1, the departments and agencies of the City transmit their estimates of their budgetary requirements to the Mayor. The Council may revise, alter, increase or decrease the items of the budget, provided that when it shall increase the total proposed expenditures, it shall also increase the total anticipated income. At least ten days before the beginning of the fiscal year, the Council approves the budget plan. One or more public hearings are conducted to obtain taxpayer comments. The budget is legally enacted prior to October 1. The City adopts budgets for funds at the department level.

B. Basis of Accounting

The City adopts a budget based on Generally Accepted Accounting Principles (GAAP).

C. Expenditures in Excess of Appropriations

The City exceeded appropriations in debt service interest. However, the City was under budget overall in debt service expenditures by \$20,533.

CITY OF HITCHCOCK, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
Texas Municipal Retirement System (Unaudited)
Schedule of Changes in Net Pension Liability and Related Ratios
For the Last Eight Measurement Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:								
Service cost	\$ 285,544	\$ 200,879	\$ 196,833	\$ 200,384	\$ 228,554	\$ 205,211	\$ 162,996	\$ 133,102
Interest	324,866	297,890	284,857	276,531	255,650	233,888	229,110	215,538
Changes of benefit terms	278,721	-	-	-	-	-	-	-
Difference between expected and actual experience	(229,361)	(53,198)	20,919	(108,675)	6,954	2,434	(184,715)	(8,473)
Change in assumptions	-	-	11,836	-	-	-	108,274	-
Benefit payments, including refunds of employee contributions	<u>(382,729)</u>	<u>(351,222)</u>	<u>(295,566)</u>	<u>(190,645)</u>	<u>(144,813)</u>	<u>(116,794)</u>	<u>(172,736)</u>	<u>(149,740)</u>
Net change in total pension liability	277,041	94,349	218,879	177,595	346,345	324,739	142,929	190,427
Total pension liability - beginning	<u>4,582,702</u>	<u>4,488,353</u>	<u>4,269,474</u>	<u>4,091,879</u>	<u>3,745,534</u>	<u>3,420,795</u>	<u>3,277,866</u>	<u>3,087,439</u>
Total pension liability - ending (a)	<u>\$ 4,859,743</u>	<u>\$ 4,582,702</u>	<u>\$ 4,488,353</u>	<u>\$ 4,269,474</u>	<u>\$ 4,091,879</u>	<u>\$ 3,745,534</u>	<u>\$ 3,420,795</u>	<u>\$ 3,277,866</u>
Plan fiduciary net position:								
Contributions - employer	\$ 95,794	\$ 89,587	\$ 91,239	\$ 92,159	\$ 110,278	\$ 87,163	\$ 82,579	\$ 69,866
Contributions - employee	115,981	107,422	107,913	111,572	129,419	114,133	98,309	86,042
Net investment income	643,824	359,588	648,700	(129,234)	514,110	229,604	4,998	183,055
Benefit payments, including refunds of employee contributions	<u>(382,729)</u>	<u>(351,222)</u>	<u>(295,566)</u>	<u>(190,645)</u>	<u>(144,813)</u>	<u>(116,794)</u>	<u>(172,736)</u>	<u>(149,740)</u>
Administrative expense	(2,984)	(2,330)	(3,665)	(2,498)	(2,664)	(2,593)	(3,044)	(1,911)
Other	18	(91)	(110)	(130)	(134)	(141)	(151)	(157)
Net change in plan fiduciary net position	469,904	202,954	548,511	(118,776)	606,196	311,372	9,955	187,155
Plan fiduciary net position - beginning	<u>4,947,148</u>	<u>4,744,194</u>	<u>4,195,683</u>	<u>4,314,459</u>	<u>3,708,263</u>	<u>3,396,891</u>	<u>3,386,936</u>	<u>3,199,781</u>
Plan fiduciary net position - ending (b)	<u>\$ 5,417,052</u>	<u>\$ 4,947,148</u>	<u>\$ 4,744,194</u>	<u>\$ 4,195,683</u>	<u>\$ 4,314,459</u>	<u>\$ 3,708,263</u>	<u>\$ 3,396,891</u>	<u>\$ 3,386,936</u>
Net pension (asset) liability - ending (a) - (b)	<u>\$ (557,309)</u>	<u>\$ (364,446)</u>	<u>\$ (255,841)</u>	<u>\$ 73,791</u>	<u>\$ (222,580)</u>	<u>\$ 37,271</u>	<u>\$ 23,904</u>	<u>\$ (109,070)</u>
Plan fiduciary net position as a percentage of total pension liability	111.47%	107.95%	105.70%	98.27%	105.44%	99.00%	99.30%	103.33%
Covered payroll	\$ 2,319,608	\$2,199,839	\$2,158,252	\$2,231,442	\$2,588,381	\$2,282,664	\$1,966,176	\$1,720,845
Net pension asset as a percentage of covered payroll	-24.03%	-16.57%	-11.85%	3.31%	-8.60%	1.63%	1.22%	-6.34%

Note 1: The amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end.

Note 2: Ten years of data should be presented in this schedule but data was unavailable prior to 2014.

CITY OF HITCHCOCK, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
Texas Municipal Retirement System (Unaudited)
Schedule of City Contributions
For the Last Nine Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially Determined Contributions	\$ 166,309	\$ 94,157	\$ 89,045	\$ 90,022	\$ 103,138
Contribution in relation of the actuarially determined contribution	<u>166,309</u>	<u>94,157</u>	<u>89,045</u>	<u>90,022</u>	<u>103,138</u>
Contribution deficiency(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,786,247	\$ 2,272,209	\$ 2,125,781	\$ 2,140,918	\$ 2,356,563
Contributions as a percentage of covered payroll	5.97%	4.14%	4.19%	4.20%	4.38%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	
Actuarially Determined Contributions	\$ 113,759	\$ 92,303	\$ 75,141	\$ 56,263	
Contribution in relation of the actuarially determined contribution	<u>113,759</u>	<u>92,303</u>	<u>75,141</u>	<u>56,263</u>	
Contribution deficiency(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered payroll	\$ 2,614,412	\$ 2,174,840	\$ 1,802,750	\$ 1,703,174	
Contributions as a percentage of covered payroll	4.35%	4.24%	4.17%	3.30%	

Valuation Date Actuarially determined contribution rates are calculated on a calendar year basis 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	N/A
Asset valuation method	10-year smoothed market; 12% soft corridor
Inflation rate	2.50%
Salary increases	3.50% to 11.50% including inflation
Investment rate of return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018.
Mortality rate	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other notes	During fiscal year 2022: Adopted 50% repeating USC with transfer. Adopted 20 yr, any age retirement eligibility. Increased Member contribution rate from 5% to 6%. Increased statutory max to 12.50% due to plan changes.

CITY OF HITCHCOCK, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
Texas Municipal Retirement System (Unaudited)
Schedule of Changes in Total OPEB Liability and Related Ratios
Last Five Measurement Years

	2021	2020	2019	2018	2017
Total OPEB Liability:	\$ 155,430	\$ 124,140	\$ 80,510	\$ 86,123	\$ 66,549
Service cost	9,510	10,527	7,770	8,926	9,318
Interest on total OPEB liability	3,190	3,553	3,127	2,995	2,687
Difference between expected and actual experience	3,746	(5,982)	7,150	(10,811)	-
Changes in assumptions	6,182	23,622	25,799	(6,500)	7,828
Benefit payments*	(1,392)	(430)	(216)	(223)	(259)
Net changes in total OPEB liability	\$ 21,236	31,290	43,630	(5,613)	19,574
Total OPEB liability - December 31	\$ 176,666	\$ 155,430	\$ 124,140	\$ 80,510	\$ 86,123
Covered Payroll	\$ 2,319,608	\$ 2,199,839	\$ 2,158,252	\$ 2,231,442	\$ 2,588,381
Total OPEB liability as a percentage of covered payroll	7.62%	7.07%	5.75%	3.61%	3.33%

The amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end. Total OPEB liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 75. Ten years of data should be presented in this schedule but data was unavailable prior to 2017.

Actuarial Methods and Assumptions

Notes to Schedule:

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

Summary of Actuarial Assumptions:

Inflation	2.50%
Salary increase	3.50% to 11.50% including inflation
Discount rate*	1.84%
Retirees' share of benefit-related costs	\$0
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	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year setforward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.



OTHER SUPPLEMENTARY INFORMATION



CITY OF HITCHCOCK, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2022

	<i>Special Revenue</i>							Total Nonmajor Governmental Funds	
	Court Security and Technology Fund	Parks and Recreation	Donation Fund	Seizure Fund	Hotel Tax Fund	Truancy Prevention & Diversion Fund	Jury Fund		Capital Projects Fund
Assets									
Cash and cash equivalents	\$ 51,965	\$ 5,273	\$ 621	\$ 4,639	\$ 16,373	\$ 16,658	\$ 343	\$ 915,631	\$ 1,011,503
Total Assets	<u>51,965</u>	<u>5,273</u>	<u>621</u>	<u>4,639</u>	<u>16,373</u>	<u>16,658</u>	<u>343</u>	<u>915,631</u>	<u>1,011,503</u>
Fund Balances									
Restricted:									
Culture and recreation	-	5,273	-	-	16,373	-	-	-	21,646
Municipal court operations	51,965	-	-	-	-	16,658	343	-	68,966
Public safety	-	-	621	4,639	-	-	-	-	5,260
Capital projects	-	-	-	-	-	-	-	915,631	915,631
Total Fund Balance	<u>\$ 51,965</u>	<u>\$ 5,273</u>	<u>\$ 621</u>	<u>\$ 4,639</u>	<u>\$ 16,373</u>	<u>\$ 16,658</u>	<u>\$ 343</u>	<u>\$ 915,631</u>	<u>\$ 1,011,503</u>

CITY OF HITCHCOCK, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2022

	<i>Special Revenue</i>							Total Nonmajor Governmental Funds	
	Court Security and Technology Fund	Parks and Recreation	Donation Fund	Seizure Fund	Hotel Tax Fund	Truancy Prevention & Diversion Fund	Jury Fund		Capital Projects Fund
Revenues									
Sales, franchise and local taxes	\$ -	\$ -	\$ -	\$ -	\$ 7,049	\$ -	\$ -	\$ -	\$ 7,049
Charges for services	-	-	-	-	-	4,771	124	-	4,895
Fines and forfeitures	12,003	-	-	20,665	-	-	-	-	32,668
Total Revenues	12,003	-	-	20,665	7,049	4,771	124	-	44,612
Expenditures									
Current:									
Public safety	1,256	-	2,600	20,300	-	-	-	-	24,156
Capital outlay	-	-	-	-	-	-	-	91,274	91,274
Total Expenditures	1,256	-	2,600	20,300	-	-	-	91,274	115,430
Excess (deficiency) of revenues over expenditures	10,747	-	(2,600)	365	7,049	4,771	124	(91,274)	(70,818)
Other Financing Sources (Uses)									
Transfers in	-	-	-	-	-	11,887	219	-	12,106
Total Other Financing Sources (Uses)	-	-	-	-	-	11,887	219	-	12,106
Net change in fund balances	10,747	-	(2,600)	365	7,049	16,658	343	(91,274)	(58,712)
Fund balances - beginning	41,218	5,273	3,221	4,274	9,324	-	-	1,006,905	1,070,215
Fund balances - ending	\$ 51,965	\$ 5,273	\$ 621	\$ 4,639	\$ 16,373	\$ 16,658	\$ 343	\$ 915,631	\$ 1,011,503

CITY OF HITCHCOCK, TEXAS
COMBINING BALANCE SHEET
COMPONENT UNITS
September 30, 2022

	<u>HIDC</u>	<u>TIRZ #1</u>	<u>Total Component Units</u>
Assets			
Cash and temporary investments	\$ 1,295,822	\$ 571,862	\$ 1,867,684
Due from primary government	47,320	-	47,320
Sales tax receivable	68,950	-	68,950
Total Assets	<u>\$ 1,412,092</u>	<u>\$ 571,862</u>	<u>\$ 1,983,954</u>
Liabilities			
Accounts payable	\$ 433	\$ -	\$ 433
Other liabilities	1,129	-	1,129
Total Liabilities	<u>1,562</u>	<u>-</u>	<u>1,562</u>
Fund Balance:			
Restricted:			
Capital projects	789,200	-	789,200
Community development	621,330	571,862	1,193,192
Total Fund Balance	<u>1,410,530</u>	<u>571,862</u>	<u>1,982,392</u>
Total Liabilities and Fund Balances	<u>\$ 1,412,092</u>	<u>\$ 571,862</u>	<u>\$ 1,983,954</u>
Reconciliation from Fund Balance to Net Position			
Fund Balance	\$ 1,410,530	\$ 571,862	\$ 1,982,392
Sales tax obligation	(736,098)	-	(736,098)
Notes payable	(800,000)	-	(800,000)
(Deficit) Net Position - Restricted/(Unrestricted)	<u>\$ (125,568)</u>	<u>\$ 571,862</u>	<u>\$ 446,294</u>

CITY OF HITCHCOCK, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

COMPONENT UNITS

For the Year Ended September 30, 2022

	<u>HIDC</u>	<u>TIRZ #1</u>	<u>Total Component Units</u>
Revenues			
Property taxes	\$ -	\$ 593,929	\$ 593,929
Sales tax	337,112	-	337,112
Earnings on investments	1,960	691	2,651
Intergovernmental	143,513	-	143,513
Total Revenues	<u>482,585</u>	<u>594,620</u>	<u>1,077,205</u>
Expenditures			
Economic Development	442,732	489	443,221
Culture and recreation	-	100,000	100,000
Total Expenditures	<u>442,732</u>	<u>100,489</u>	<u>543,221</u>
Other Financing Sources (Uses)			
Note payable issued	800,000	-	800,000
Total Other Financing Sources (Uses)	<u>800,000</u>	<u>-</u>	<u>800,000</u>
Net change in fund balances	839,853	494,131	1,333,984
Fund balances - beginning	570,677	77,731	648,408
Fund balances - ending	<u>\$ 1,410,530</u>	<u>\$ 571,862</u>	<u>\$ 1,982,392</u>
Reconciliation from changes in fund balance to changes in net position			
Change in Fund Balance	\$ 839,853	\$ 494,131	\$ 1,333,984
Sales tax obligation - current year			
reductions to sales tax revenue	27,096	-	27,096
Note payable issued	(800,000)	-	(800,000)
Changes in Net Position	<u>\$ 66,949</u>	<u>\$ 494,131</u>	<u>\$ 561,080</u>