

ANNUAL FINANCIAL REPORT

CITY OF HALE CENTER, TEXAS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2021

CITY OF HALE CENTER
Hale Center, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2021

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page Number</u>
INTRODUCTORY SECTION		
City Council and Administrative Staff		1
FINANCIAL SECTION		
Independent Auditors' Report on Financial Statements		2
Management's Discussion and Analysis (Required Supplementary Information)		5
<u>Basic Financial Statements</u>		
Government-Wide Financial Statements:		
Statement of Net Position	A-1	14
Statement of Activities	B-1	15
Governmental Fund Financial Statements:		
Balance Sheet-Governmental Funds	C-1	16
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position	C-1R	17
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds	C-2	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities		
	C-3	19
Proprietary Fund Financial Statements		
Statement of Net Position	D-1	20
Statement of Revenues, Expenses, and Changes in Fund Net Position	D-2	21
Statement of Cash Flows	D-3	22
Notes to the Financial Statements		23
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedules:		
General Fund	E-1	48
Schedule of Changes in NPL and Related Ratios - TMRS	E-2	49
Schedule of Changes in OPEB Liability – TMRS	E-3	50
Schedule of Contributions for Pensions – TMRS	E-4	51
Schedule of Contributions for OEPB – TMRS	E-5	52
Notes to the Required Supplementary Information		53
OTHER SUPPLEMENTARY INFORMATION		
Schedule of Delinquent Taxes Receivable	F-1	55

CITY OF HALE CENTER
Hale Center, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2021

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page Number</u>
Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		56
Schedule of Findings and Questioned Costs		58
Schedule of Status of Prior Year Findings		59

INTRODUCTORY SECTION

CITY OF HALE CENTER
Hale Center, Texas

September 30, 2021

CITY COUNCIL

W.H. Johnson	Mayor
Christine Reyna	Mayor Pro Tem
Karen Boyce	Councilmember
Israel Flores	Councilmember
Mario Martinez	Councilmember
Janet Peoples	Councilmember

ADMINISTRATIVE STAFF

Mike Cypert	City Manager
Patricia Isaguirre	City Secretary

FINANCIAL SECTION

Terry & King, CPAs, P.C.

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P.O. Box 93550
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Independent Auditors' Report on Financial Statements

Honorable Mayor and City Council
City of Hale Center, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units (except for the Hale Center Volunteer Fire Department), each major fund, and the aggregate remaining fund information of the City of Hale Center, Texas, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Adverse
General Fund	Unmodified
Water and Sewer Fund	Unmodified
Aggregate Remaining Fund Information	Qualified

-2-



Basis for Adverse Opinion on Aggregate Discretely Presented Component Units and Qualified Opinion on Aggregate Remaining Fund Information

The financial statements referred to above do not include financial data for the Hale Center Volunteer Fire Department (HCVFD), a legally separate component unit of the City of Hale Center. Accounting principles generally accepted in the United States of America require financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the HCVFD, an aggregate discretely presented component unit, have been omitted.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units and Qualified Opinion on Aggregate Remaining Fund Information" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City of Hale Center, as of September 30, 2021, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units and Qualified Opinion on Aggregate Remaining Fund Information" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of the City of Hale Center, as of September 30, 2021, 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.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Hale Center, as of September 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Independent Auditors' Report
Page 2

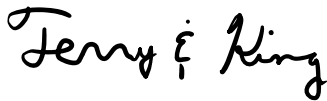
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hale Center's basic financial statements. The accompanying other schedules listed in the table of contents as Other Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is 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 April 11, 2022, on our consideration of the City of Hale Center'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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hale Center's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink that reads "Terry & King". The signature is written in a cursive, flowing style.

Terry & King, CPAs, P.C.
Lubbock, Texas
April 11, 2022

BASIC FINANCIAL STATEMENTS

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2021

Note A: Summary of Significant Accounting Policies

The City of Hale Center (the City) was founded in 1921. The City operates under the Council-Manager form of government. Prior to the year ended September 30, 2009, the City operated under a Council-Mayor form of government. The City provides a full range of municipal services including public safety (police and fire), highway and streets, sanitation, culture and recreation, public improvement, planning and zoning, and general administrative services. In addition, the City provides water and sewer service as a proprietary function of the City.

The City of Hale Center is a Type A General-Law municipality governed by an elected mayor and five member City Council who appoint a City Manager. The accompanying financial statements present the City and its discretely presented component units.

This summary of significant accounting policies of the City is presented to assist in the understanding of the City's financial statements. The financial statements and notes are the representation of the City's management who is responsible for their integrity and objectivity. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units.

1. The Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

In evaluating how to define the City for financial reporting purposes management has considered all potential component units. The decision to include any potential component unit in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61, and GASB Statement No. 80. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 2
September 30, 2021

Note A: Summary of Significant Accounting Policies (Continued)

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has four component units required to be reported under GASB Statements No. 14, No. 39, No. 61, and No. 80.

Discretely Presented Component Units

The Hale Center Economic Development Corporation (HCEDC), a non-profit corporation, was created to promote future economic development in Hale Center, Texas. The HCEDC is included in the reporting entity because the City Council appoints the five-member Board of Directors and approves its annual budget. Accordingly, the City is financially accountable and is able to impose its will on the organization. The HCEDC is reported as a governmental fund type component unit, HCEDC's fiscal year end is March 31st, which differs from that of the City's September 30th year end. Accordingly, HCEDC's financial information included in the basic financial statements is as of March 31, 2021 rather than September 30, 2021. The difference in fiscal year ends results in inconsistencies in amounts reported in due to/from accounts. Significant transactions between the City and HCEDC included the City's disbursement of HCEDC's share of sales tax revenues to HCEDC amounting to \$44,807 for the year ended March 31, 2021. Separate HCEDC financial information can be obtained by writing to Hale Center Economic Development Corporation, P.O. Box 957, Hale Center, TX 79041.

Ambulance Service of Hale Center, Inc. (HCEMS) – HCEMS was established to provide emergency medical services within the corporate limits of the City of Hale Center, Texas. The City of Hale Center contributes \$48,000 annually to the operating budget of the HCEMS. The City also bears the cost of utilities and provides City-owned buildings for HCEMS operations. The City appoints 2 members to the HCEMS Board of Directors. HCEMS is reported as a discretely presented component unit in the statement of net position and statement of activities.

Hale Center Public Library, Inc. (the Library) – The Library was established to provide library services to all residents of the City of Hale Center, Texas. The City of Hale Center contributes \$5,400 annually to the operating budget of the Library. The Library is reported as a discretely presented component unit in the statement of net position and statement of activities.

Hale Center Volunteer Fire Department (HCVFD) – HCVFD was established to provide fire prevention, fire protection, and emergency rescue services within the corporate limits of the City of Hale Center, Texas. The City of Hale Center contributes \$9,900 annually to the operating budget of the HCVFD. The City also allows the HCVFD to use City-owned firefighting equipment.

Although the HCVFD meets the requirements for being included in the City's financial statements as a component unit, the City Council has elected to forego this reporting requirement.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 3
September 30, 2021

Note A: Summary of Significant Accounting Policies (Continued)

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the over-reporting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all of taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General Fund: This is the primary operating fund of the City. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

In addition, the City reports the following fund types:

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specific purposes.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 4
September 30, 2021

Note A: Summary of Significant Accounting Policies--Continued

Enterprise Funds: Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims, and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 5
September 30, 2021

Note A: Summary of Significant Accounting Policies (continued)

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus utilizing the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The fund equity is segregated in net investment in capital assets, restricted net position, and unrestricted net position.

c. Fund Balance Classification

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Currently, the City does not have any restricted fund balances.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. Currently, the City has \$27,154 committed for street improvements.

Unassigned: This classification includes the residual fund balance for the General Fund.

The City would typically use Restricted fund balances first, followed by Committed resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

3. Financial Statement Amounts

a. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

For purposes of the statement of cash flows, the City considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Investments having a maturity of one year or more, when purchased, are stated at fair value. Short-term investments are stated at cost or amortized cost.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 6
September 30, 2021

Note A: Summary of Significant Accounting Policies (continued)

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1st for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1st of the year following the year in which imposed. On January 1st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. As of September 30, 2021, the amount deemed uncollectible by this estimate was \$45,362. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect cost applicable to future periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of the donation. The City has elected not to retroactively report its infrastructure assets. Infrastructure assets acquired after the implementation of GASB 34 will be capitalized. The cost of normal maintenance and repairs that do not add to the value of the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20
Buildings	30
Building Improvements	15
System and Improvements	50
Vehicles	5-10
Office Equipment and Furniture	5-10
Computer Equipment	3

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 7
September 30, 2021

Note A: Summary of Significant Accounting Policies (continued)

e. Receivable and Payable Balances

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

All trade receivables are shown net of an allowance for uncollectible. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectible.

f. Accrued Payroll Withholdings

The Ambulance Service of Hale Center, Inc., a discretely presented component unit, has \$158,351 accrued for unpaid fiduciary payroll taxes. This accrual does not include estimates for late filing, late payment, or any other penalties or interest associated with this liability.

g. Long-Term Debt

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

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

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management’s estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 8
September 30, 2021

Note A: Summary of Significant Accounting Policies (continued)

i. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has two types of items, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period when the amounts become available.

j. Pensions

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

j. Other Post Employment Benefits

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

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 9
September 30, 2021

Note B: Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures", violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violations</u>	<u>Action Taken</u>
None Reported	Not Applicable

2. Fair Value Measurements

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 inputs are observable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 10
September 30, 2021

Note C: Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged 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.

Cash Deposits

At September 30, 2021, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing saving accounts included in temporary investments) was \$695,472 and the bank balance was \$749,360. The City's cash deposits at September 30, 2021 and during the year then ended were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

HCEDC's carrying and bank balance was \$224,579. All HCEDC's deposits were covered by FDIC insurance or pledged collateral held by the agent bank in HCEDC's name at March 31, 2021. Accordingly, the HCEDC had no custodial risk for deposits.

HCEMS' carrying amount of deposits was \$7,284, and the bank balance was \$11,989. All HCEDC's deposits were covered by FDIC insurance at September 30, 2021. Accordingly, the HCEMS had no custodial risk for deposits.

The Library's carrying and bank balance was \$84,650. All of the Library's deposits were covered by FDIC insurance at September 30, 2021. Accordingly, the Library had no custodial risk for deposits.

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 11
September 30, 2021

Note C: Deposits and Investments

The Public Funds Investment Act (“Act”) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports an establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

Note D: Receivables

Receivables as of September 30, 2021 for the City’s major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts are as follows:

Governmental activities:

General Fund	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
Property taxes	\$ 69,850	\$ (45,362)	\$ 24,488
Franchise taxes	28,183	-	28,183
Sales taxes	<u>10,255</u>	<u>-</u>	<u>10,255</u>
Total governmental	<u>\$ 108,288</u>	<u>\$ (45,362)</u>	<u>\$ 62,926</u>

Business-type activities:

Water and Sewer Fund			
Customer accounts	<u>\$ 84,508</u>	<u>\$ (6,494)</u>	<u>\$ 78,014</u>
Total business-type	<u>\$ 84,508</u>	<u>\$ (6,494)</u>	<u>\$ 78,014</u>

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 12
September 30, 2021

Note E: Capital Assets

Capital asset activity for the period ended September 30, 2021, was as follows:

Governmental Activities:	Balance <u>10-01-20</u>	Additions	Deletions/ Reclassifications	Balance <u>9-30-21</u>
Land	\$ 35,653	-	(29,875)	\$ 5,778
Infrastructure	1,313,506	68,276	-	1,381,782
Buildings & Improvements	418,921	13,558	-	432,479
Furniture & Equipment	<u>431,495</u>	<u>435,406</u>	-	<u>866,901</u>
Total Capital Assets	<u>\$ 2,199,575</u>	<u>\$517,240</u>	<u>\$ (29,875)</u>	<u>\$ 2,686,940</u>
<u>Less Accumulated Depreciation:</u>				
Infrastructure	\$ 1,005,998	\$ 28,049	-	\$ 1,034,047
Buildings & Improvements	243,078	10,023	-	253,101
Furniture & Equipment	<u>313,540</u>	<u>46,667</u>	-	<u>360,207</u>
Total Accumulated Depreciation	<u>\$ 1,562,616</u>	<u>\$ 84,739</u>	<u>\$ -</u>	<u>\$ 1,647,355</u>
Net Capital Assets	<u>\$ 636,959</u>	<u>\$432,501</u>	<u>\$ (29,875)</u>	<u>\$ 1,039,585</u>
Business-Type Activities:	Balance <u>10-01-20</u>	Additions	Deletions/ Reclassifications	Balance <u>9-30-21</u>
Land	\$ 195,246	-	-	\$ 195,246
Buildings & Improvements	2,808,232	44,955	-	2,853,187
Vehicles, Machinery & Furniture & Fixtures	<u>319,220</u>	<u>85,097</u>	-	<u>404,317</u>
Total Capital Assets	<u>\$ 3,322,698</u>	<u>\$130,052</u>	<u>\$ -</u>	<u>\$ 3,452,750</u>
<u>Less Accumulated Depreciation:</u>				
Buildings & Improvements	\$ 1,576,812	\$ 62,957	-	\$ 1,639,769
Vehicles, Machinery Furniture & Fixtures	<u>273,934</u>	<u>18,441</u>	-	<u>292,375</u>
Total Accumulated Depreciation	<u>\$ 1,850,746</u>	<u>\$ 81,398</u>	<u>\$ -</u>	<u>\$ 1,932,144</u>
Net Capital Assets	<u>\$ 1,471,952</u>	<u>\$ 48,654</u>	<u>\$ -</u>	<u>\$ 1,520,606</u>

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 13
September 30, 2021

Note E: Capital Assets (continued)

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

General Government	\$ 858
Public Safety	41,193
Animal Control	1,606
Streets	29,721
Sanitation	1,846
Culture and Recreation	9,515
Water and Sewer	81,398
	<u>\$166,137</u>

<u>Hale Center Economic Development Corporation:</u>	Balance 10-01-20	Additions	Deletions/ Reclassifications	Balance 9-30-21
Vehicles & Equipment	\$ 38,883	\$ -	\$ -	\$ 38,883
Total Capital Assets	<u>\$ 38,883</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,883</u>
<u>Less Accumulated Depreciation:</u>				
Furniture & Equipment	\$ 5,092	\$ 5,555	\$ -	\$ 10,647
Total Accumulated Depreciation	<u>\$ 5,092</u>	<u>\$ 5,555</u>	<u>\$ -</u>	<u>\$ 10,647</u>
Net Capital Assets	<u>\$ 33,791</u>	<u>\$ (5,555)</u>	<u>\$ -</u>	<u>\$ 28,236</u>

<u>Ambulance Service of Hale Center, Inc.:</u>	Balance 10-01-20	Additions	Deletions/ Reclassifications	Balance 9-30-21
Vehicles & Equipment	\$ 136,307	\$ -	\$ -	\$ 136,307
Total Capital Assets	<u>\$ 136,307</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136,307</u>
<u>Less Accumulated Depreciation:</u>				
Furniture & Equipment	\$ 94,007	\$ 9,400	\$ -	\$ 103,407
Total Accumulated Depreciation	<u>\$ 94,007</u>	<u>\$ 9,400</u>	<u>\$ -</u>	<u>\$ 103,407</u>
Net Capital Assets	<u>\$ 42,300</u>	<u>\$ (9,400)</u>	<u>\$ -</u>	<u>\$ 32,900</u>

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 14
September 30, 2021

Note F: Interfund Balances and Activities

Interfund balances at September 30, 2021 consisted of the following:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
<u>General Fund:</u>		
Proprietary Fund	\$ -	\$ 72,674
<u>Total General Fund</u>	<u>-</u>	<u>72,674</u>
<u>Proprietary Fund:</u>		
General Fund	<u>72,674</u>	<u>-</u>
<u>Total</u>	<u>\$ 72,674</u>	<u>\$ 72,674</u>

These interfund balances were for balances that have not been paid as of year-end. All amounts are to be paid within one year.

Note G: Interfund Transfers

There were no Interfund transfers for the year ended September 30, 2021.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 15
September 30, 2021

Note H: Long-Term Obligations

The City issued a Public Property Finance Act Contract for the purchase of a vehicle and utility equipment. This debt carries an effective interest rate of 3.112% as is due in 7 annual payments beginning November 2021 and ending November 2027.

Changes in long-term obligations for the year ended September 30, 2021 are as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Net Pension Liability	\$ 20,820	\$ 8,900	\$ 12,339	\$ 17,381	\$ -
Total OPEB Liability	<u>9,678</u>	<u>1,965</u>	<u>25</u>	<u>\$ 11,618</u>	<u>-</u>
<u>Total Governmental Funds:</u>	<u>\$ 30,498</u>	<u>\$ 10,865</u>	<u>\$ 12,364</u>	<u>\$ 28,999</u>	<u>\$ -</u>
<u>Business-Type Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Public Property Finance	\$ -	\$ 85,847	\$ -	\$ 85,847	\$ 12,243
Net Pension Liability	13,504	8,156	11,309	10,351	\$ -
Total OPEB Liability	<u>6,226</u>	<u>1,873</u>	<u>24</u>	<u>8,075</u>	<u>-</u>
<u>Total Business-Type Funds:</u>	<u>\$ 19,730</u>	<u>\$ 95,876</u>	<u>\$ 11,333</u>	<u>\$ 104,273</u>	<u>\$ -</u>

Debt service requirements on business-type long-term obligations outstanding at September 30, 2021, are as follows:

<u>Business-Type Activities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending September 30,			
2022	\$ 12,243	\$ 1,395	\$ 13,638
2023	11,347	2,291	13,638
2024	11,700	1,938	13,638
2025	12,064	1,574	13,638
2026	12,440	1,198	13,638
2027-2028	<u>26,053</u>	<u>1,222</u>	<u>27,275</u>
Totals	<u>\$ 85,847</u>	<u>\$ 9,618</u>	<u>\$ 95,465</u>

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 16
September 30, 2021

Note I: TMRS-Pension Plan

Plan Description

The City of Hale Center participates as one of 895 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Comprehensive Annual Financial Report (Annual Report) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

At retirement, the Member's benefit is calculated based on the sum of the Member's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total Member contributions and interest.

	<u>Plan Year 2020</u>	<u>Plan Year 2019</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100%	0%
Annuity Increase (to retirees)	50% of CPI	0% of CPI

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 17
September 30, 2021

Note I: TMRS-Pension Plan (continued)

Employees covered by benefit terms

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>11</u>
Total	19

Contributions

Member contribution rates in TMRS are either 5%, 6% or 7% of the Member’s total compensation, 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 city’s contribution rate is based on the liabilities created from the benefit plan options selected by the city and any changes in benefits or actual experience over time.

Employees for the City of Hale Center were required to contribute 5% of their annual compensation during the fiscal year. The contribution rates for the City of Hale Center were 4.87% and 4.25% in calendar years 2020 and 2021, respectively. The City’s contributions to TMRS for the year ended September 30, 2021 were \$24,396, and were equal to the required contributions.

Net Pension Liability

The City’s Net Pension Liability (NPL) was measured as of December 31, 2020, 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, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 18
September 30, 2021

Note I: TMRS-Pension Plan (continued)

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB (10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, 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 real rates of return for each major asset class in fiscal year 2021 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	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	<u>10.00%</u>	7.75%
Total	100.00%	

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 19
September 30, 2021

Note I: TMRS-Pension Plan (continued)

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 Member and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive Members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Change in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/19	\$ 461,766	\$ 427,442	\$ 34,324
Changes for the year:			
Service cost	40,403		40,403
Interest	31,796		31,796
Change of benefit terms			
Difference between expected and actual experience	1,263		1,263
Changes of assumptions			-
Contributions - employer		23,649	(23,649)
Contributions - employee		24,281	(24,281)
Net investment income		32,344	(32,344)
Benefit payments, including refunds of employee contributions	(21,844)	(21,844)	-
Administrative expense		(210)	210
Other changes		(10)	10
Net changes	<u>51,618</u>	<u>58,210</u>	<u>(6,592)</u>
Balance at 12/31/20	<u>\$ 513,384</u>	<u>\$ 485,652</u>	<u>\$ 27,732</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 100,852	\$ 27,732	\$ (32,422)

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 20
September 30, 2021

Note I: TMRS-Pension Plan (continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position, by Participating City. That report may be obtained 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, 2021, the city recognized pension expense of \$7,085.

At September 30, 2021, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,160	\$ 29,274
Changes in actuarial assumptions	\$ 1,437	\$ -
Difference between projected and actual investment earnings	\$ -	\$ 11,766
Contributions subsequent to the measure date December 31, 2019	<u>\$ 17,601</u>	<u>\$ -</u>
Total	\$ 20,198	\$ 41,040

\$17,601 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:	
2021	\$ (11,969)
2022	(8,095)
2023	(14,732)
2024	(3,647)
2025	-
Thereafter	<u>-</u>
Total	\$ (38,443)

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 21
Year Ended September 30, 2021

Note J: Supplemental Death Benefits Plan

1. Plan Description

The City participates in the single-employer unfunded defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The 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. The SDBF had 777 participating cities on December 31, 2020.

2. OPEB Plan Fiduciary Net Position

Detailed information about the fiduciary net position of the Supplemental Death Benefits Fund is available in the separately-issued TMRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.tmr.com> or by writing to TMRS at P.O. Box 149153, Austin, TX 78714-9153.

3. Benefits Provided

The death benefit for active Members provides a lump-sum payment approximately equal to the Member’s annual salary (calculated based on the Members’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retiree is an “other post-employment benefit” (“OPEB”) and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of the Pension Trust Fund. 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).

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>11</u>
Total	13

4. Contributions

The City contributes to the SDBF monthly based on the covered payroll of employee members. The required contribution rate is actuarially determined annually for each city. 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 contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund. The TMRS Act requires allocation from the Interest Reserve Account to the SDBF on an annual basis. The funding policy of this SDBF is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

CITY OF HALE CENTER
 Hale Center, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 22
 September 30, 2021

Note J: Supplemental Death Benefits Plan (continued)

As such, contributions fund the covered active Member and retiree deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

	<u>Contribution Rates</u>	
City	<u>2020</u>	<u>2021</u>
	0.25%	0.13%
Current Fiscal Year Employer Contributions	\$ 881	

5. Actuarial Assumptions

The total OPEB liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Summary of Actuarial Methods and Assumptions

Valuation Date	December 31, 2020
Actuarial Cost Method	Entry Age Normal
Inflation	2.50%
Salary increases	3.50% to 11.5% including inflation
Discount Rate*	2.00%*
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 set-forward 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, 2020.

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

CITY OF HALE CENTER
 Hale Center, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 23
 September 30, 2021

Note J: Supplemental Death Benefits Plan (continued)

6. Discount Rate

As of December 31, 2020, the discount rate used in the development of the Total OPEB Liability was 2.00% compared to 2.75% as of December 31, 2019. In accordance with GASB No. 75, paragraph 155, 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. The projection of cash flows used to determine the discount rate assumed that contributions are made at the actuarially determined rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to *not be able to* make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of December 31, 2020.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Total OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (2.00%) in measuring the Total OPEB Liability.

	1% Decrease in Discount Rate (1.00%)	Discount Rate (2.00%)	1% Increase in Discount Rate (3.00%)
Total OPEB Liability	\$ 24,665	\$ 19,693	\$ 15,914

8. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At September 30, 2021, the City reported a liability of \$19,693 for total OPEB liability. The total OPEB liability was measured as of December 31, 2020 by an actuarial valuation as of that date.

Changes Since the Prior Actuarial Valuation – The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period:

As of December 31, 2020, the discount rate used in the development of the Total OPEB Liability was 2.00% compared to 2.75% as of December 31, 2019. Beginning with the December 31, 2019 actuarial valuation, mortality rates are based on the 2019 Municipal Retirees of Texas Mortality Tables. Prior to the December 31, 2019 actuarial valuation, mortality rates were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment.

For the year ended September 30, 2021, the City recognized OPEB expense of \$3,522.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 24
September 30, 2021

Note J: Supplemental Death Benefits Plan (continued)

Change in the Total OPEB Liability

	Total OPEB Liability (a)
Balance at 12/31/19	\$ 15,904
Changes for the year:	
Service cost	1,700
Interest	460
Change of benefit terms	
Difference between expected and actual experience	(1,273)
Changes of assumptions	2,951
Benefit payments, including refunds of employee contributions	(49)
Other changes	
Net changes	<u>3,789</u>
Balance at 12/31/20	<u>\$ 19,693</u>

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual actuarial experiences	\$ -	\$ 4,083
Changes in actuarial assumptions	\$ 6,115	\$ 742
Difference between projected and actual investment earnings	\$ -	\$ -
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	\$ -	\$ -
Total as of Dec. 31, 2018 measurement date	\$ 6,115	\$ 4,825
Contributions paid to TRS subsequent to the measurement date	\$ 535	\$ -
Total as of fiscal year-end	<u>\$ 6,650</u>	<u>\$ 4,825</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended December 31:</u>	<u>OPEB Expense Amount</u>
2021	\$ 202
2022	202
2023	202
2024	202
2025	115
Thereafter	367

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 25
September 30, 2021

Note K: Litigation

There was no reportable litigation at September 30, 2021.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2021

Schedule of Pension Contributions – TMRS

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	N/A
Asset Valuation Method	10 year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes

There were no benefit changes during the year.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2021

Schedule of Contributions for OPEB – TMRS

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method

Entry Age Normal

Asset Valuation

For purposes of calculating the Total OPEB Liability, the plan is considered to be unfunded and therefore no assets are accumulated for OPEB.

Inflation

2.5%

Salary Increases

3.50% to 11.5% including inflation

Discount Rate*

2.00%

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 set-forward 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, 2020.

OTHER SUPPLEMENTARY INFORMATION

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Randel J. Terry, CPA
Ryan R. King, CPA

Telephone - (806) 698-8858 – Fax – (866) 288-6490

Independent Auditors' Report

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

To the Honorable Mayor and City Council
City of Hale Center, Texas
P.O. Box 532
Hale Center, Texas 79041

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hale Center, Texas, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Hale Center's basic financial statements, and have issued our report thereon dated April 11, 2022.

Internal Control Over Financial Reporting

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

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



Independent Auditors' Report
Page 2

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

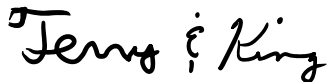
Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

A handwritten signature in black ink that reads "Terry & King". The signature is written in a cursive, flowing style.

Terry & King, CPAs, P.C.
Lubbock, Texas
April 11, 2022

CITY OF HALE CENTER
Hale Center, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021

A. **Findings Required to be Reported in Accordance with *Government Auditing Standards***

None – N/A

CITY OF HALE CENTER
Hale Center, Texas

SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
For the Year Ended September 30, 2021

A. Findings Required to be Reported in Accordance with Government Auditing Standards

None