

City of Howe, Texas
Annual Financial Report
For the Fiscal Year Ended September 30, 2021

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City of Howe, Texas
Annual Financial Report
Fiscal Year Ended September 30, 2021

| Table of Contents | PAGE |
|--|-------------|
| FINANCIAL SECTION | |
| Independent Auditor's Report..... | 1-2 |
| Required Supplementary Information: | |
| Management's Discussion and Analysis..... | 3-8 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position..... | 11 |
| Statement of Activities..... | 12-13 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds..... | 14-15 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position..... | 17 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds..... | 18-19 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.. | 20 |
| Statement of Net Position - Proprietary Fund..... | 21 |
| Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund..... | 22 |
| Statement of Cash Flows - Proprietary Fund..... | 23 |
| Statement of Fiduciary Net Position - Collins Fiduciary Fund..... | 24 |
| Statement of Changes in Fiduciary Net Position - Collins Fiduciary Fund..... | 25 |
| Notes to the Financial Statements..... | 27-51 |
| Required Supplementary Information: | |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund..... | 55 |
| Schedule of Changes in Net Pension Liability and Related Ratios TMRS – Last Ten Measured Years..... | 56-57 |
| Schedule of Contributions to Pension Plan – TMRS – Last Ten Fiscal Years..... | 58-59 |
| Schedule of Changes in Total OPEB Liability and Related Ratios TMRS – Last Ten Measured Years..... | 60 |
| Schedule of Contributions to OPEB Plan – TMRS – Last Ten Fiscal Years..... | 61 |
| Other Supplementary Information: | |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - HCFDC..... | 65 |

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Howe, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Howe, Texas (the City), 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. 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Howe, Texas, 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 on pages 3-8, Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund on page 55, and TMRS pension and OPEB information on pages 56-61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – HCFDC on page 65, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – HCFDC is the responsibility of management and were 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, the combining and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



LaFollett & Company PLLC
Tom Bean, Texas
October 18, 2022

City of Howe, Texas

Management's Discussion and Analysis

For the Year Ended September 30, 2021

As management of the City of Howe, (the City) we offer 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, 2021.

Financial Highlights

- The assets and outflows of the City exceeded its liabilities and inflows at the close of the most recent fiscal year by \$1,013,818 (net position). \$508,540 reflects the City's investment in capital assets (e.g. land, buildings, equipment, infrastructure, and construction in progress) less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Of the remaining amount, \$1,423,200 is restricted for specific purposes. Remaining is a (\$917,922) deficit in unrestricted net position.
- Governmental activities net position increased by \$435,495 in comparison with the prior year and business-type activities net position decreased by \$428,143.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,658,777, an increase of \$371,479 in comparison with the prior year's restated beginning balance of \$1,287,298.
- In the City's governmental funds, of the combined ending balances, \$851,071 is unassigned in the General Fund, \$220,097 is restricted for the Howe Community Facilities Development Corporation (HCFDC), \$146,647 is restricted for debt service, \$103,252 is restricted for Municipal Court security and technology, \$48,403 is restricted for police forfeiture, and \$289,307 is restricted for capital projects.
- The City's total long-term liabilities decreased by \$225,604 due to the pay offs of capital leases and the City paying off long term debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City of Howe's basic financial statements are comprised of three components:

1. Government-wide Financial Statements
2. Fund Financial Statements, and
3. Notes to the Financial Statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

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

The Statement of Net Position presents information on all of the City of Howe'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 of Howe is improving or deteriorating.

City of Howe, Texas

Management's Discussion and Analysis

For the Year Ended September 30, 2021

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported 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, community development, parks and recreation. The business-type activities of the City include the Water and Sewer Fund.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Howe Community Facilities Development Corporation (HCFDC) for which the City is financially accountable. Financial information for the HCFDC is presented as a blended component and is included with the primary government as a non-major special revenue fund, presented in a separate column in the fund financial statements.

The government-wide financial statements can be found in the pages that follow this discussion.

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 of Howe, 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 three categories: governmental funds, proprietary funds, and fiduciary 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.

The City of Howe maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, and several non-major funds including Special Revenue HCFDC Fund, Debt Service Fund, and Capital Projects Fund.

City of Howe, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2021

The City of Howe adopts an annual appropriated budget for its General Fund and HCFDC. A separate budgetary comparison statement is presented for these funds to demonstrate compliance with the adopted budget. This comparison can be found in the required supplementary information section and other supplementary information section.

Proprietary funds

The City of Howe maintains one enterprise fund 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 of Howe uses the enterprise fund to account for its water and sewer operations.

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

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Will and Grace Collins Memorial Fund is a fiduciary fund of the City of Howe.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on the pages immediately following the financial statements.

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, in total, net position was \$1,013,818 at the close of the most recent fiscal year.

\$508,540 of net position reflects the City's investment in capital assets (e.g. land, buildings, equipment, infrastructure, and construction in progress) less any debt used to acquire those assets that is still outstanding. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources need to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Howe, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2021

The following table is a comparative summary of the City's net position as of September 30, 2021 and 2020:

| | 2021 | | | 2020 | | |
|---|-------------------------|--------------------------|---------------------|-------------------------|--------------------------|-------------------|
| | Governmental Activities | Business-Type Activities | Total | Governmental Activities | Business-Type Activities | Total |
| Current and other assets | \$ 1,959,580 | \$ 666,779 | \$ 2,626,359 | \$ 1,581,396 | \$ 735,203 | \$ 2,316,599 |
| Capital assets, net | 699,089 | 4,515,701 | 5,214,790 | 795,878 | 4,699,440 | 5,495,318 |
| Total Assets | 2,658,669 | 5,182,480 | 7,841,149 | 2,377,274 | 5,434,643 | 7,811,917 |
| Deferred outflows related to pension | 39,938 | 24,628 | 64,566 | 29,610 | 21,060 | 50,670 |
| Deferred outflows related to OPEB | 10,503 | 6,477 | 16,980 | 6,321 | 4,496 | 10,817 |
| Deferred loss on refunding | - | - | - | - | - | - |
| Total Def. Outflows of Resources | 50,441 | 31,105 | 81,546 | 35,931 | 25,556 | 61,487 |
| Long-term liabilities | 1,298,885 | 3,530,797 | 4,829,682 | 1,427,896 | 3,627,390 | 5,055,286 |
| Other liabilities | 83,808 | 1,904,797 | 1,988,605 | 112,042 | 1,591,348 | 1,703,390 |
| Total Liabilities | 1,382,693 | 5,435,594 | 6,818,287 | 1,539,938 | 5,218,738 | 6,758,676 |
| Deferred inflows related to pension | 52,172 | 32,172 | 84,344 | 62,050 | 44,132 | 106,182 |
| Deferred inflows related to OPEB | 3,863 | 2,383 | 6,246 | 1,292 | 919 | 2,211 |
| Deferred charges on bond refunding | - | - | - | - | 33,750 | - |
| Total Def. Inflows of Resources | 56,035 | 34,555 | 90,590 | 63,342 | 78,801 | 108,393 |
| Net Position: | | | | | | |
| Net investment in capital assets | (515,911) | 1,024,451 | 508,540 | (261,639) | 1,114,440 | 852,801 |
| Restricted for: | | | | | | |
| Deposits held in trust by GTUA | - | 615,494 | 615,494 | - | 719,308 | 719,308 |
| Debt service | 146,647 | - | 146,647 | 122,436 | - | 122,436 |
| Capital projects | 289,307 | - | 289,307 | 12,683 | - | 12,683 |
| Public safety | 103,252 | - | 103,252 | 105,877 | - | 105,877 |
| Police forfeiture | 48,403 | - | 48,403 | - | - | - |
| Economic development | 220,097 | - | 220,097 | 418,166 | - | 418,166 |
| Unrestricted | 978,587 | (1,896,509) | (917,922) | 412,402 | (1,671,088) | (1,258,686) |
| Total Net Position | \$ 1,270,382 | \$ (256,564) | \$ 1,013,818 | \$ 809,925 | \$ 162,660 | \$ 972,585 |

Changes in Net Position

Governmental activities increased net position by \$435,495, and business-type activities decreased net position by \$428,143, for a net total increase in net position of \$7,352.

An increase of \$171,030 in miscellaneous revenue (due to the write-off of the previously established due to the HCFDC in the amount of \$185,432 in the current year), \$34,551 in property tax revenue, and \$45,551 in sales tax revenue are the primary reasons for the increase in net position. Increase in water expense of \$13,396 and wastewater expense of \$53,091 are the primary reason for the decrease to net position for business-type activities.

For the year ended September 30, 2021, revenues from governmental activities totaled \$2,133,956. Sales taxes, property taxes, and charges for services are the City's largest revenue sources. Governmental revenues increased by \$330,305 when compared to 2020.

For the year ended September 30, 2021, expenses for governmental activities totaled \$1,735,761. This represents an increase of \$272,630 from the prior year. The City's largest functional expenses; public safety and general government totaled \$1,310,534, together increased by \$206,583.

Proprietary funds

The City of Howe's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail. The deficit in unrestricted net position of the Water and Sewer fund increased by \$225,421 in fiscal year 2021, from \$1,671,088 in the prior year to \$1,896,509 in fiscal year 2021. Business-type activities net position decreased overall by \$428,143.

City of Howe, Texas

Management's Discussion and Analysis

For the Year Ended September 30, 2021

For the year ended September 30, 2021, charges for services by business-type activities totaled \$2,116,390. This is a decrease of \$1,345 from the previous year. Expenses totaled \$2,507,233, which was a decrease of \$46,062.

The key elements of the changes in the City's net position are shown in the following table:

| | For the Year Ended September 30, 2021 | | | For the Year Ended September 30, 2020 | | |
|--|---------------------------------------|--------------------------|--------------------------|---------------------------------------|--------------------------|--------------------------|
| | Governmental Activities | Business-Type Activities | Total Primary Government | Governmental Activities | Business-Type Activities | Total Primary Government |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 405,045 | \$ 2,116,390 | \$ 2,521,435 | \$ 318,281 | \$ 2,117,735 | \$ 2,436,016 |
| Grants and contributions | - | - | - | - | - | - |
| General revenues: | | | | | | |
| Property taxes | 871,632 | - | 871,632 | 837,081 | - | 837,081 |
| Franchise taxes | 115,819 | - | 115,819 | 123,039 | - | 123,039 |
| Sales taxes | 505,864 | - | 505,864 | 460,313 | - | 460,313 |
| Investment interest | 497 | - | 497 | 368 | - | 368 |
| Insurance proceeds | - | - | - | 500 | - | 500 |
| Miscellaneous | 235,099 | - | 235,099 | 64,069 | - | 64,069 |
| Total Revenues | 2,133,956 | 2,116,390 | 4,250,346 | 1,803,651 | 2,117,735 | 3,921,386 |
| Expenses | | | | | | |
| Community development | 146,375 | - | 146,375 | 137,143 | - | 137,143 |
| General government | 669,481 | - | 669,481 | 586,483 | - | 586,483 |
| Public works | 121,479 | - | 121,479 | 108,132 | - | 108,132 |
| Public safety | 641,053 | - | 641,053 | 517,468 | - | 517,468 |
| Water sales | - | 972,692 | 972,692 | - | 959,296 | 959,296 |
| Wastewater treatment | - | 900,410 | 900,410 | - | 847,319 | 847,319 |
| Sanitation | - | 421,062 | 421,062 | - | 437,341 | 437,341 |
| Interest on long-term debt | 32,229 | 213,069 | 245,298 | 38,798 | 309,339 | 348,137 |
| Municipal court | 125,144 | - | 125,144 | 75,107 | - | 75,107 |
| Total Expenses | 1,735,761 | 2,507,233 | 4,242,994 | 1,463,131 | 2,553,295 | 4,016,426 |
| Change in Net Position Before Transfers | 398,195 | (390,843) | 7,352 | 340,520 | (435,560) | (95,040) |
| Transfers | 37,300 | (37,300) | - | - | - | - |
| Total Transfers | 37,300 | (37,300) | - | - | - | - |
| Change in Net Position | 435,495 | (428,143) | 7,352 | 340,520 | (435,560) | (95,040) |
| Beginning Net Position, as Restated | 834,887 | 171,579 | 1,006,466 | 469,405 | 598,220 | 1,067,625 |
| Ending Net Position | \$ 1,270,382 | \$ (256,564) | \$ 1,013,818 | \$ 809,925 | \$ 162,660 | \$ 972,585 |

General Fund Budgetary Highlights

The original adopted budget for the General Fund was not amended. See Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual. A review of actual expenditures compared to the appropriations in the General Fund yields several significant variances, as discussed below. The following is a summary discussion of General Fund budget variances for fiscal year 2021:

Revenues were \$558,647 more than budgeted

- Revenues from sales taxes were \$116,888 more than budgeted due to the growth of the City.
- Revenues from municipal court were \$170,542 more than budgeted due to increased collection efforts.
- Miscellaneous revenues were \$219,835 more than budgeted due to the write off of the due to the HCFDC balance in the current year.

Expenditures were \$130,215 more than budgeted

- Total general government expenditures were \$64,114 more than anticipated due to the City not amending the budget during the fiscal year.
- Total municipal court expenditures were \$60,444 more than anticipated due to the City not amending the budget during the fiscal year.

City of Howe, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2021

Capital Assets and Debt Administration

Capital Assets

The City of Howe's investment in capital assets for its governmental and business-type activities as of September 30, 2021 amounts to \$5,214,790 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, roadway infrastructure, water and sewer system, and construction in progress.

At the end of the 2021 fiscal year, in total, the City had total bonded debt outstanding of \$4,706,250. During fiscal year 2021, principal payments of \$241,119 were made on existing debt obligations.

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

At the end of fiscal year 2021, the City's governmental funds reported combined ending fund balances in the amount of \$1,658,777. This is an increase of \$371,479. The City's General Fund has an unassigned fund balance of \$851,071.

Economic Factors and Next Year's Budget and Rates

In FY 2021 the City's net taxable property values increased by \$41,974,407 or 24.32% increasing from \$172,571,736 in FY 2021 to \$214,546,143 in FY 2022. The overall property tax rate lowered to \$0.545562 in FY 2021-2022.

The increase in net taxable values and the consistent overall tax rate resulted in a 1% increase in the overall tax levy, from \$933,958 in FY 2021 to \$943,362 in FY 2022.

The FY 2022 budgeted expenditures in the General Fund reflect an increase of 9% from the FY 2021 actual expenditures, from \$1,488,893 actual in FY 2021 to \$1,629,633 adopted budget in FY 2022.

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 City of Howe's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City Secretary, PO Box 518, City of Howe, Texas, 75459-0518.

BASIC FINANCIAL STATEMENTS

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City of Howe, Texas
Statement of Net Position
September 30, 2021

| | Primary Government | | |
|---|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 690,282 | \$ 358 | \$ 690,640 |
| Certificates of deposit | 131,234 | - | 131,234 |
| Receivables (net of allowance for uncollectibles) | 282,120 | 229,969 | 512,089 |
| Internal balances | 738,344 | (738,344) | - |
| Net pension asset | 117,600 | 72,518 | 190,118 |
| Restricted assets: | | | |
| Cash and cash equivalents | - | 436,784 | 436,784 |
| Deposits held in trust by GTUA | - | 615,494 | 615,494 |
| Certificate of deposits | - | 50,000 | 50,000 |
| Capital assets: | | | |
| Land | 96,386 | 134,788 | 231,174 |
| Buildings | 107,937 | - | 107,937 |
| Machinery and equipment | 21,913 | 93,716 | 115,629 |
| Infrastructure | 472,853 | 4,287,197 | 4,760,050 |
| Total assets | <u>2,658,669</u> | <u>5,182,480</u> | <u>7,841,149</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pension | 39,938 | 24,628 | 64,566 |
| Deferred outflows related to OPEB | 10,503 | 6,477 | 16,980 |
| Total deferred outflows of resources | <u>50,441</u> | <u>31,105</u> | <u>81,546</u> |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | 80,122 | 777,257 | 857,379 |
| Deferred revenue - federal grant | - | 414,547 | 414,547 |
| Accrued interest payable | 3,686 | 568,923 | 572,609 |
| Customer deposits | - | 110,320 | 110,320 |
| Bond charges payable | - | 33,750 | 33,750 |
| Noncurrent liabilities: | | | |
| Compensated absences | 37,348 | 10,850 | 48,198 |
| Total OPEB liability | 46,537 | 28,697 | 75,234 |
| Debt due within one year | 115,000 | 96,250 | 211,250 |
| Debt due in more than one year | 1,100,000 | 3,395,000 | 4,495,000 |
| Total liabilities | <u>1,382,693</u> | <u>5,435,594</u> | <u>6,818,287</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pension | 52,172 | 32,172 | 84,344 |
| Deferred inflows related to OPEB | 3,863 | 2,383 | 6,246 |
| Total deferred inflows of resources | <u>56,035</u> | <u>34,555</u> | <u>90,590</u> |
| NET POSITION | | | |
| Net investment in capital assets | (515,911) | 1,024,451 | 508,540 |
| Restricted for: | | | |
| Deposits held in trust by GTUA | - | 615,494 | 615,494 |
| Debt service | 146,647 | - | 146,647 |
| Capital projects | 289,307 | - | 289,307 |
| Public safety | 103,252 | - | 103,252 |
| Police forfeiture | 48,403 | - | 48,403 |
| Economic development | 220,097 | - | 220,097 |
| Unrestricted | 978,587 | (1,896,509) | (917,922) |
| Total net position | <u>\$ 1,270,382</u> | <u>\$ (256,564)</u> | <u>\$ 1,013,818</u> |

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

City of Howe, Texas
Statement of Activities
For the Year Ended September 30, 2021

| <u>Functions/programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | |
|--------------------------------|------------------|-----------------------------|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Primary government: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 641,053 | \$ 58,969 | \$ - | \$ - |
| General government | 669,481 | 55,978 | - | - |
| Community development | 146,375 | 2,280 | - | - |
| Public works | 121,479 | - | - | - |
| Interest | 32,229 | - | - | - |
| Municipal court | 125,144 | 287,818 | - | - |
| Total governmental activities | <u>1,735,761</u> | <u>405,045</u> | <u>-</u> | <u>-</u> |
| Business-type activities: | | | | |
| Water | 972,692 | 984,767 | - | - |
| Sewer | 900,410 | 765,472 | - | - |
| Solid Waste | 421,062 | 366,151 | - | - |
| Interest on long term debt | 213,069 | - | - | - |
| Total business-type activities | <u>2,507,233</u> | <u>2,116,390</u> | <u>-</u> | <u>-</u> |
| Total primary government | \$ 4,242,994 | \$ 2,521,435 | \$ - | \$ - |

General revenues:
Property taxes
Sales taxes
Franchise taxes
Miscellaneous
Interest
Transfers in (out)
Total general revenues and transfers
Change in net position
Net position - beginning, as restated
Net position - ending

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

**Net (Expense) Revenue and Changes in Net
Position**

| Primary Government | | |
|------------------------------------|--|---------------------|
| Governmental Activities | Business- type Activities | Total |
| \$ (582,084) | | \$ (582,084) |
| (613,503) | | (613,503) |
| (144,095) | | (144,095) |
| (121,479) | | (121,479) |
| (32,229) | | (32,229) |
| 162,674 | | 162,674 |
| <u>(1,330,716)</u> | | <u>(1,330,716)</u> |
| | \$ 12,075 | 12,075 |
| | (134,938) | (134,938) |
| | (54,911) | (54,911) |
| | (213,069) | (213,069) |
| | <u>(390,843)</u> | <u>(390,843)</u> |
| | <u>(390,843)</u> | <u>(1,721,559)</u> |
| 871,632 | - | 871,632 |
| 505,864 | - | 505,864 |
| 115,819 | - | 115,819 |
| 235,099 | - | 235,099 |
| 497 | - | 497 |
| 37,300 | (37,300) | - |
| <u>1,766,211</u> | <u>(37,300)</u> | <u>1,728,911</u> |
| 435,495 | (428,143) | 7,352 |
| 834,887 | 171,579 | 1,006,466 |
| <u>\$ 1,270,382</u> | <u>\$ (256,564)</u> | <u>\$ 1,013,818</u> |

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

City of Howe, Texas

Balance Sheet Governmental Funds September 30, 2021

| | <u>General Fund</u> | <u>HCFDC</u> |
|--|---------------------|-------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 277,892 | \$ 81,796 |
| Certificates of deposit | 31,234 | 100,000 |
| Receivables (net of allowance for uncollectibles): | | |
| Sales taxes | 69,692 | 23,231 |
| Municipal court | 132,772 | - |
| Property taxes | 39,175 | - |
| Franchise taxes | 7,742 | - |
| Due from other funds | 853,090 | 33,075 |
| Total assets | <u>\$ 1,411,597</u> | <u>\$ 238,102</u> |
| LIABILITIES | | |
| Accounts payable | \$ 70,550 | \$ 5 |
| Accrued liabilities | - | - |
| Wages payable | 9,567 | - |
| Due to other funds | 232,101 | 18,000 |
| Total liabilities | <u>312,218</u> | <u>18,005</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable revenue - property taxes | 26,704 | - |
| Unavailable revenue - municipal court fines | 69,949 | - |
| Total deferred inflows of resources | <u>96,653</u> | <u>-</u> |
| FUND BALANCES (DEFICITS) | | |
| Restricted for: | | |
| Debt service | - | - |
| Capital projects | - | - |
| Public safety | 103,252 | - |
| Police forfeiture | 48,403 | - |
| Economic development | - | 220,097 |
| Unassigned | 851,071 | - |
| Total fund balances | <u>1,002,726</u> | <u>220,097</u> |
| Total liabilities, deferred inflows of resources, and fund balances (deficits) | <u>\$ 1,411,597</u> | <u>\$ 238,102</u> |

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

| Nonmajor Debt Service Fund | Nonmajor Capital Projects Fund | Total Governmental Funds |
|---|---|---|
| \$ 41,287 | \$ 289,307 | \$ 690,282 |
| - | - | 131,234 |
| - | - | - |
| - | - | 92,923 |
| - | - | 132,772 |
| 9,508 | - | 48,683 |
| - | - | 7,742 |
| 102,280 | - | 988,445 |
| <u>\$ 153,075</u> | <u>\$ 289,307</u> | <u>\$ 2,092,081</u> |
| \$ - | \$ - | \$ 70,555 |
| - | - | - |
| - | - | 9,567 |
| - | - | 250,101 |
| <u>-</u> | <u>-</u> | <u>330,223</u> |
| 6,428 | - | 33,132 |
| - | - | 69,949 |
| <u>6,428</u> | <u>-</u> | <u>103,081</u> |
| 146,647 | - | 146,647 |
| - | 289,307 | 289,307 |
| - | - | 103,252 |
| - | - | 48,403 |
| - | - | 220,097 |
| - | - | 851,071 |
| <u>146,647</u> | <u>289,307</u> | <u>1,658,777</u> |
| <u>\$ 153,075</u> | <u>\$ 289,307</u> | <u>\$ 2,092,081</u> |

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

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City of Howe, Texas

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position For the Year Ended September 30, 2021

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

| | |
|---|---------------------|
| Total fund balances of the governmental funds: | \$ 1,658,777 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 699,089 |
| Property taxes receivable that are not collectible within 60 days are not available to pay for current period expenditures and therefore are deferred in the governmental funds. | 33,132 |
| Municipal court fines receivable that are not collectible within 60 days are not available to pay for current period expenditures and therefore are deferred in the governmental funds. | 69,949 |
| Deferred outflows (inflows) of resources represent a consumption (source) of net position that applies to a future period(s) and are not recognized as an outflow (inflow) of resources (expense/expenditure) until then. | |
| Pension amounts | (12,234) |
| OPEB amounts | 6,640 |
| Long-term liabilities, including bonds payable, accrued interest payable, leases payable and compensated absences payable are not due and payable in the current period, and therefore, are not reported in the funds. | (1,256,034) |
| Net pension asset used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 117,600 |
| Total OPEB liability used in governmental activities are not financial resources and, therefore, are not reported in the funds. | (46,537) |
| Net position of governmental activities | <u>\$ 1,270,382</u> |

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

City of Howe, Texas

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds For the Year Ended September 30, 2021

| | <u>General Fund</u> | <u>HCFDC</u> |
|---|---------------------|-------------------|
| REVENUES | | |
| Taxes: | | |
| Property | \$ 723,887 | \$ - |
| Sales | 377,099 | 128,765 |
| Franchise | 115,819 | - |
| Municipal court | 295,553 | - |
| Building permits and fees | 55,089 | - |
| Miscellaneous | 229,835 | - |
| Fire contract | 23,521 | - |
| Library contract | 2,280 | - |
| Intergovernmental | 889 | - |
| Interest | 299 | 181 |
| Total revenues | <u>1,824,271</u> | <u>128,946</u> |
| EXPENDITURES | | |
| Current: | | |
| General government | 453,207 | 203,433 |
| Public safety | 641,091 | - |
| Community development | 144,404 | - |
| Streets | 73,996 | - |
| Municipal court | 125,144 | - |
| Non-departmental | 11,927 | - |
| Debt service: | | |
| Principal | 37,369 | - |
| Interest | 1,755 | - |
| Total expenditures | <u>1,488,893</u> | <u>203,433</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>335,378</u> | <u>(74,487)</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Insurance recoveries | 49,060 | - |
| Transfers in | 189,127 | - |
| Transfers out | - | (123,582) |
| Total other financing sources and uses | <u>238,187</u> | <u>(123,582)</u> |
| Net change in fund balances | 573,565 | (198,069) |
| Fund balances - beginning, as restated | 429,161 | 418,166 |
| Fund balances - ending | <u>\$ 1,002,726</u> | <u>\$ 220,097</u> |

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

| Nonmajor Debt Service Fund | Nonmajor Capital Projects Fund | Total Governmental Funds |
|---|---|---|
| \$ 159,750 | \$ - | \$ 883,637 |
| - | - | 505,864 |
| - | - | 115,819 |
| - | - | 295,553 |
| - | - | 55,089 |
| 5,264 | - | 235,099 |
| - | - | 23,521 |
| - | - | 2,280 |
| - | - | 889 |
| - | 17 | 497 |
| <u>165,014</u> | <u>17</u> | <u>2,118,248</u> |
| - | - | 656,640 |
| - | - | 641,091 |
| - | - | 144,404 |
| - | - | 73,996 |
| - | - | 125,144 |
| - | - | 11,927 |
| 110,000 | - | 147,369 |
| 30,803 | - | 32,558 |
| <u>140,803</u> | <u>-</u> | <u>1,833,129</u> |
| <u>24,211</u> | <u>17</u> | <u>285,119</u> |
| - | - | 49,060 |
| - | - | 189,127 |
| - | (28,245) | (151,827) |
| - | (28,245) | 86,360 |
| 24,211 | (28,228) | 371,479 |
| 122,436 | 317,535 | 1,287,298 |
| <u>\$ 146,647</u> | <u>\$ 289,307</u> | <u>\$ 1,658,777</u> |

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

City of Howe, Texas
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2021

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

| | |
|--|-------------------|
| Net change in fund balances - total governmental funds | \$ 371,479 |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | (19,740) |
| Governmental funds repayment of debt principal as an expenditure and proceeds of new debt as a financing source. However, in the Statement of Activities, these transactions are only considered changes in long-term debt balances. | |
| Long-term debt repaid in current year | 147,369 |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. | |
| Depreciation expense | (83,177) |
| The net effect of proceeds received associated with a capital asset disposal. | (13,612) |
| Accrued long term debt interest is not recorded in the governmental fund financials but the increase in the balance is recognized for the full accrual government-wide financial statements as interest expense. | 329 |
| Changes to accrued compensated absences are not shown in the fund financial statements. The net effect of the current year decrease is to increase net position. | (11,334) |
| Full accrual based pension expense is not recorded in the governmental fund financials but the (increase) decrease from adjusting the City's contribution expense is realized on the government-wide financial statements. | 49,594 |
| Full accrual based OPEB expense is not recorded in the governmental fund financials but the (increase) decrease from adjusting the City's contribution expense is realized on the government-wide financial statements. | (5,413) |
| Change in net position of governmental activities | <u>\$ 435,495</u> |

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

City of Howe, Texas
Statement of Net Position
Proprietary Fund
September 30, 2021

| | Water and Sewer Fund |
|---|---------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 358 |
| Due from other funds | 23,380 |
| Receivables (net of allowance for uncollectibles) | |
| Water | 144,038 |
| Sewer | 57,882 |
| Solid waste | 28,049 |
| Net pension asset | 72,518 |
| Restricted assets: | |
| Deposits held in trust by GTUA | 615,494 |
| Cash and cash equivalents | 436,784 |
| Certificate of deposits | 50,000 |
| Capital assets: | |
| Land and land rights | 134,788 |
| Buildings | 72,165 |
| Water and sewer system | 9,174,721 |
| Machinery and equipment | 543,061 |
| Less accumulated depreciation | (5,409,034) |
| Total assets | <u>5,944,204</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows related to pensions | 24,628 |
| Deferred outflows related to OPEB | 6,477 |
| Total deferred outflows of resources | <u>31,105</u> |
| LIABILITIES | |
| Accounts payable | 771,190 |
| Deferred revenue - federal grant | 414,547 |
| Wages payable | 6,067 |
| Accrued interest payable | 568,923 |
| Due to other funds | 761,724 |
| Utility customer deposits | 110,320 |
| Bond charges payable | 33,750 |
| Bonds payable | 96,250 |
| Noncurrent liabilities: | |
| Total OPEB liability | 28,697 |
| Bonds payable | 3,395,000 |
| Compensated absences | 10,850 |
| Total liabilities | <u>6,197,318</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows related to pensions | 32,172 |
| Deferred inflows related to OPEB | 2,383 |
| Total deferred inflows of resources | <u>34,555</u> |
| NET POSITION | |
| Net investment in capital assets | 1,024,451 |
| Restricted deposits held in trust by GTUA | 615,494 |
| Unrestricted | (1,896,509) |
| Net position of business-type activities | <u>\$ (256,564)</u> |

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

City of Howe, Texas

Statement of Revenues, Expenses, and Changes in Net Position Proprietary Fund For the Year Ended September 30, 2021

| | Water and Sewer Fund |
|--|---------------------------------|
| OPERATING REVENUES: | |
| Charges for sales and services: | |
| Water sales | \$ 914,228 |
| Sewer charges | 765,472 |
| Solid waste | 366,151 |
| Miscellaneous income | 18,992 |
| Tap fees | 51,547 |
| Total operating revenues | <u>2,116,390</u> |
| OPERATING EXPENSES: | |
| Costs of sales and services: | |
| Sewer treatment | 706,803 |
| Salaries and benefits | 454,542 |
| Depreciation | 284,628 |
| Trash collection | 266,192 |
| Water contract | 165,284 |
| Supplies and maintenance | 189,025 |
| Utilities | 76,880 |
| Administrative | 59,745 |
| Legal and consulting | 41,846 |
| Office expense | 24,465 |
| Miscellaneous | 22,008 |
| Training | 2,746 |
| Total operating expenses | <u>2,294,164</u> |
| Operating income (loss) | <u>(177,774)</u> |
| NONOPERATING REVENUES (EXPENSES): | |
| Interest on long term debt | (213,069) |
| Total nonoperating revenue (expenses) | <u>(213,069)</u> |
| Income (loss) before transfers | <u>(390,843)</u> |
| Transfers out | (37,300) |
| Change in net position | (428,143) |
| Net position-beginning, as restated | 171,579 |
| Net position-ending | <u><u>\$ (256,564)</u></u> |

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

City of Howe, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2021

| | Water and Sewer Fund |
|--|---------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers and users | \$ 2,125,438 |
| Cash received from federal agency | 414,547 |
| Payments to employees | (481,926) |
| Payments to suppliers | (1,460,770) |
| Payments (to) from other funds for services provided | 375,629 |
| Net cash provided from operating activities | <u>972,918</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Payments for transfers to other funds | (37,300) |
| Net cash provided (used) by noncapital and related financing activities | <u>(37,300)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition of capital assets | (100,892) |
| Cash from GTUA restricted assets | (103,814) |
| Principal paid on capital debt | (93,750) |
| Interest paid on capital debt | (224,624) |
| Net cash provided (used) by capital and related financing activities | <u>(523,080)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Net cash provided by investing activities | <u>-</u> |
| Net increase (decrease) in cash and cash equivalents | 412,538 |
| Cash and cash equivalents, October 1, 2020 | 74,604 |
| Cash and cash equivalents, September 30, 2021 | <u>\$ 487,142</u> |
| Reconciliation of net income to net cash provided (used) by operating activities: | |
| Operating income (loss) | \$ (177,774) |
| Adjustments: | |
| Depreciation | 284,628 |
| (Increase) decrease in accounts receivable | 11,297 |
| (Increase) decrease in deferred outflows | (5,549) |
| (Increase) decrease in due from other funds | (23,380) |
| (Increase) decrease in net pension asset | (9,778) |
| Increase (decrease) in accounts payable | 94,224 |
| Increase (decrease) in unearned revenue | 414,547 |
| Increase (decrease) in customer deposits | (2,249) |
| Increase (decrease) in total OPEB liability | 594 |
| Increase (decrease) in deferred inflows | (10,496) |
| Increase (decrease) in due to other funds | 399,009 |
| Increase (decrease) in wages payable | 1,282 |
| Increase (decrease) in compensated absences | (3,437) |
| Net cash provided by operating activities | <u>\$ 972,918</u> |
| Reconciliation of total cash and cash equivalents: | |
| Cash and cash equivalents | \$ 358 |
| Restricted assets-customer deposits | 436,784 |
| Restricted assets-certificate of deposits | 50,000 |
| Total cash and cash equivalents | <u>\$ 487,142</u> |

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

City of Howe, Texas
Statement of Fiduciary Net Position
Collins Fiduciary Fund
September 30, 2021

| | <u>Collins Fund</u> |
|---------------------------------------|-------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ - |
| Restricted assets | |
| Certificates of deposit | <u>25,023</u> |
| Total assets | <u><u>25,023</u></u> |
| LIABILITIES | |
| Accounts payable | <u>3,952</u> |
| Total liabilities | <u><u>3,952</u></u> |
| NET POSITION | |
| Held in trust for restricted purposes | <u><u>\$ 21,071</u></u> |

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

City of Howe, Texas
Statement of Changes in Fiduciary Net Position
Collins Fiduciary Fund
For the Year Ended September 30, 2021

| | <u>Collins Fund</u> |
|----------------------------|-------------------------|
| ADDITIONS | |
| Interest | \$ - |
| Total additions | <u>-</u> |
| DEDUCTIONS | |
| Other expenses | <u>523</u> |
| Total deductions | <u>523</u> |
| Change in net position | (523) |
| Net position-beginning | <u>21,594</u> |
| Net position-ending | <u><u>\$ 21,071</u></u> |

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

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City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

I. Summary of Significant Accounting Policies

The City of Howe, Texas (City) is incorporated as a municipal corporation under the laws of the State of Texas. The City operates under a Mayor-City Council form of government and provides the following services: public safety (police and fire), streets, sanitation, planning and zoning, and general administrative services. Other services include water and sewer operations. Fire protection is provided by the Howe Volunteer Fire Department.

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

A. Financial Reporting Entity

The City, for financial purposes, includes all of the funds relevant to the operations of the City of Howe.

The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the Howe Waterworks and Sewer System are included in the accompanying financial statements as well as Howe Community Facilities Development Corporation. The Howe Volunteer Fire Department, Howe Public Library, and the Howe Housing Authority are excluded from the accompanying financial statements.

Blended Component Unit. The Howe Community Facilities Development Corporation (HCFDC) serves all the citizens of the City and is governed by a board of four members. The annual budget, taxes collected and Board members of the HCFDC are approved by the City Council.

B. Upcoming and Newly Implemented Accounting Pronouncements

The GASB has issued the following statements:

GASB Statement No. 87, Leases, will increase the usefulness of government financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The City is currently evaluating the impact of this Statement.

GASB Statement No. 91, Conduit Debt Obligations, will provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. The adoption of Statement No. 91 has no impact on the City's financial statements.

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

GASB Statement No. 92, Omnibus 2020, establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement are effective for various reporting periods beginning after June 15, 2021. The City is currently evaluating the impact of this Statement.

GASB Statement No. 93, Replacement of Interbank Offered Rates, provides exceptions to the existing provisions for hedge accounting termination and lease modifications to ease the accounting requirements related to the transition away from interbank offered rates. It also identifies appropriate benchmark interest rates for hedging derivative instruments. Some requirements of this Statement will take effect for reporting periods ending after December 31, 2021 while other requirements are effective beginning with fiscal years that end June 30, 2022. The adoption of Statement No. 93 has no impact on the City's financial statements.

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, improves financial reporting by addressing these relationships and availability payment arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The City is currently evaluating the impact of this Statement.

GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA), provides guidance on the accounting and financial reporting of contractual arrangements. It defines SBITA; establishes that a SBITA results in a right-to-use subscription asset; provides capitalization criteria; and requires note disclosures. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The City is currently evaluating the impact of this Statement.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which potential component unit does not have a governing board and the primary government performs the duties that governing board typically would perform; mitigate costs associated with the reporting of certain defined contribution pension, OPEB and benefit plans other than pension or OPEB plans; and enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. The City is currently evaluating the impact of this Statement for the requirements effective in fiscal year 2022.

GASB Statement No. 98, The Annual Comprehensive Financial Report, establishes the term annual comprehensive financial report and its acronym ACFR. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. The City does not intend to issue an Annual Comprehensive Financial Report in this fiscal year.

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

C. Government-wide Financial Statements and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component unit and are prepared on the accrual basis of accounting. Activity for the primary government and its component unit are reported in a blended presentation in the government-wide financial statements. The effect of interfund activity between the governmental activities and business-type activities has been eliminated in these statements.

Governmental activities are supported in part by property taxes, sales taxes, franchise taxes, and grant revenues from the federal government and the State of Texas. Governmental activities are reported separately from *business-type activities*, which rely to a large extent on fees and charges for support. Significant revenues generated from business-type activities include: charges to customers for water and wastewater services and sanitation fees.

The Statement of Activities reports the change in the City's net position from October 1, 2020 to September 30, 2021. This statement demonstrates the degree to which the direct expenses of a given function of government are offset by program revenues. Specifically, the City has identified the following functions of government: general government services, public safety services, municipal court, public works services, community development services, water and wastewater utility services and sanitation services. *Direct expenses* are those that are clearly identifiable with a specific function of City government.

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

In addition to the government-wide financial statements, the City also reports separate financial statements for major governmental funds and proprietary funds; these funds are classified as *fund financial statements*. The fund financial statements are organized on the basis of funds, each of which is considered a separate accounting entity with self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses. Governmental resources are allocated to and accounted for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Funds are organized into two distinct categories: governmental and proprietary. Information in the fund financial statements is reported on a major fund basis. The calculation of major funds is conducted by the City each year under the methods outlined in GASB Statement No. 34.

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds, designated non-major governmental funds, and major individual proprietary funds are reported as separate columns in the fund financial statements. Other non-major governmental funds are reported in the combining financial statements.

The major funds at September 30, 2021, are as follows: General Fund, HCFDC, and Water and Wastewater Utility Fund.

Major governmental funds include the following:

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

Howe Community Facilities Development Corporation Fund: This fund accounts for all financial resources of the HCFDC, which is the blended component unit.

There are two non-major funds: Debt Service Fund and the Capital Projects Fund.

Non-major governmental funds include the following:

Debt Service Fund: This fund accounts for the resources accumulated and payments made for principal and interest on the debt of the governmental funds. Due to the significance of the Debt Service Fund, management has designated the Debt Service Fund to be presented in its own column in the Fund Financial Statements.

Capital Projects Fund: This fund accounts for the payments made for capital improvements. Due to the significance of the Capital Projects Fund, management has designated the Capital Projects Fund to be presented in its own column in the Fund Financial Statements.

Major enterprise funds include the following:

Water and Wastewater Utility Fund: This fund accounts for water, wastewater system and sanitation services provided for residents of the City.

D. Measurement Focus and Basis of Accounting

1. Governmental Funds

The City uses the modified accrual basis of accounting and the flow of current financial resources measurement focus for all governmental funds. Under the modified accrual basis of accounting, revenues are recognized when both “measurable and available.” Measurable means knowing, or being capable of calculating or estimating the amount to be received. Available means collectible within the current period or soon enough thereafter to pay current liabilities (generally 60 days). Also, under the modified accrual basis of accounting, expenditures (including capital outlay) are recorded in the period when the related fund liability is incurred.

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

Major revenue sources susceptible to accrual in the governmental funds include:

Sales taxes are collected by the State and remitted to the City in 60 days arrears. The City recognizes sales tax revenues when collected by the State. Additional amounts estimated to be collectible in time to be a resource payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with GAAP have been recognized as revenue. The City allocates its sales tax revenues to the General Fund and HCFDC Fund pursuant to City ordinances.

Franchise fees are remitted regularly by franchise owners for utilities operating in the City.

Property taxes are billed and collected by the Grayson County Tax Assessor based on assessed taxable values each January 1 as determined by the Central Appraisal District using exemptions approved by the City. Taxes are levied and due on the next October 1 and are past due after February 1 of the following year. Property tax receivables are recorded on October 1 when taxes are assessed with a reserve estimate for uncollectibles. Property tax revenues are recorded as taxes are collected. Delinquent tax payments are recognized as revenue when both measurable and available. Additional amounts estimated to be collectible in time to be a resource payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue.

2. Proprietary Funds

The accrual basis of accounting and flow of economic resources measurement focus are used in all proprietary fund types. Under the accrual basis of accounting, revenues are recognized when earned, and expenses (including depreciation) are recorded when the liability is incurred.

The accounting objectives are the determination of net income, net position and cash flows. Proprietary fund equity is segregated into (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

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

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the City Council is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the City Council has decided that periodic determination of revenues earned, expenses incurred and/or net income (loss), is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Water and Wastewater enterprise fund of the City is classified as business-type activities in the government-wide statements of net position and activities.

E. Assets, Liabilities, Fund Balance/ Net position and Other

1. Pooled Cash, Investments and Temporary Deposits

The City's cash, investments and temporary deposits are pooled for investment. For purposes of the statement of cash flows, the City considers cash on hand, demand deposits and investments with original maturities of three months or less to be cash equivalents.

2. Restricted Assets

Governmental Activities

Proceeds from the certificates of obligation as well as certain resources set aside for their repayment are classified as restricted assets on the statement of net position because they are kept in separate bank and investment pool accounts and their use is limited by applicable bond covenants.

Business-type Activities

Proceeds of the utility fund contractual obligations as well as certain resources set aside for their repayment are classified as restricted assets on the statement of net position because they are held by GTUA and their use is limited by applicable bond covenants. Proceeds from utility customer deposits are also classified as restricted assets on the statement of net position. The funds associated with the CSLFRF grant, received in the current year, are also classified as restricted assets and unearned revenue.

3. Capital Assets and Depreciation

Capital assets (i.e., land, buildings, equipment, improvements, infrastructure, and construction in progress) of all the funds are stated at historical cost or estimated historical cost if historical cost is not known. Donated capital assets are recorded at their fair value on the date donated. An item is classified as an asset if the initial, individual cost is \$5,000 or greater. Capital assets of the City are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements.

Assets subject to depreciation are depreciated using the straight-line method. The useful lives of all depreciable assets are as follows:

| | |
|-------------------------|-------------|
| Buildings | 20-50 years |
| Machinery and Equipment | 5-15 years |
| Infrastructure | 20-40 years |

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

4. Encumbrances

Encumbrance accounting is not used in the City's funds.

5. Compensated Absences

Employees are granted vacation benefits in varying amounts depending on tenure with the City. These benefits accumulate pro rata by pay period. The valuation of accrued compensated absences includes salary related payments such as the City's share of Social Security, Medicare taxes and contributions to the retirement plan in accordance with GASB 16.

6. Risk Management

The City purchases commercial insurance with Texas Municipal League to reduce exposure to risks of loss related to natural disasters, injuries to employees, errors and omissions, and damage or theft of assets. The City accounts for risk management issues in accordance with GASB Statements No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.

7. Nature and Purpose of Classifications of Fund Equity

The City reports fund balances based on the requirements of GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

As of September 30, 2021, fund balances of the governmental funds are classified as follows:

Non-spendable – Amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can only be spent for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purpose. Under the City's policy, only the City Council may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

8. Pensions/Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net pension liability (asset) and total OPEB liability, pension and OPEB related deferred outflows and inflows of resources, and pension and OPEB expense, City specific information about the Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's 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 net pension liability (asset) and total OPEB liability is obtained from the TMRS through reports prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68. Accounting and Financial Reporting for Pensions and GASB No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

II. Stewardship, Compliance, and Accountability

A. Budget and Budgetary Accounting

The City Council adopts an annual budget for the General Fund and Utility Fund. The annual budget for the General Fund is prepared on a modified accrual basis. The budget for the Utility Fund is adopted under a basis consistent with GAAP, except that depreciation is not considered (working capital basis).

For the year ended September 30, 2021, General Fund expenditures exceeded appropriations at the legal level of control by the net amount of \$130,215 as shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances, Budget and Actual – General Fund. The City will ensure that the budget is amended, as necessary, to assure that expenditures are appropriately monitored.

III. Detailed Notes on All Funds

A. Assets

1. Deposits

At September 30, 2021, the carrying amount of the City's deposits at the Independent Bank amounted to \$1,148,757 and \$650 in petty cash. Certificates of deposit at the same bank amounted to \$185,055. Restricted deposits held by fiscal agents were \$615,494.

2. Investments

At September 30, 2021, the City's investments were registered or held by the City or its agent in the City's name. The City's investments were as follows:

| | <u>Fair Value</u> | <u>Weighted Average Maturity (Days)</u> |
|------------------|-------------------|---|
| Investment Pools | \$ 1,276 | 53 |

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

The City's investment in local government investment pools at September 30, 2021 represents an investment in TexSTAR with a carrying amount of \$1,276. TexSTAR operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. They use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the City's position in TexSTAR is the same as the value of TexSTAR shares, respectively. There is no regulatory oversight for TexSTAR, advisory boards consisting of participants and their designees maintain oversight responsibility for the investment pool.

Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires 102% collateralization of certificates of deposit or demand deposits, to be held by an independent third party. The safekeeping bank may not be within the same holding company as the banks from which the securities are pledged. City deposits over and above amounts insured by the Federal Deposit Insurance Corporation (FDIC) are collateralized by securities held by the bank's agent in the bank's name with the notation "to the benefit of the City of Howe". As of September 30, 2021, the market value of the pledged securities was \$1,081,122.

Interest rate risk

Through its investment policy, the City manages its exposure to fair value losses arising from increasing interest rates by limiting the duration of investments within its investment portfolio to no more than 20% of the portfolio may be invested for a period greater than one year.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. According to the City's investment policy, to mitigate credit risk, funds shall be invested in A) obligations of the United States Government, its agencies and instrumentalities, and government sponsoring enterprises, not to exceed two years to stated maturity; B) fully insured or collateralized certificates of deposit from a bank domiciled in the State of Texas and under the terms of a written depository agreement with that bank.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The City investment policy requires funds shall be diversified to minimize risk or loss resulting from over-concentration of assets in a specific maturity, specific issuer, or specific class of securities.

Diversification requirements are:

Fully collateralized deposits at the depository bank - 100%
United States Government Treasury Securities – 100%
United States Government Agency Securities – 50%
Money Market Funds – not to exceed 80%

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

3. Receivables

Receivables as of the year ended September 30, 2021 for the City's government-wide activities including the allowances for uncollectible accounts, are as follows:

| Receivables: | General Fund | Debt Service Fund | HCFDC | Water and Sewer Fund | Total |
|------------------------------------|---------------------|------------------------------|------------------|---------------------------------|-------------------|
| Sales Taxes | \$ 69,692 | \$ - | \$ 23,231 | \$ 1,993 | \$ 94,916 |
| Municipal Court | 885,146 | - | - | - | 885,146 |
| Property Taxes | 41,237 | 10,008 | - | - | 51,245 |
| Franchise Taxes | 7,742 | - | - | - | 7,742 |
| Accounts | - | - | - | 232,976 | 232,976 |
| Gross Receivables | 1,003,817 | 10,008 | 23,231 | 234,969 | 1,272,025 |
| Less: Allowance for Uncollectibles | (754,436) | (500) | - | (5,000) | (759,936) |
| Net Total Receivables | <u>\$ 249,381</u> | <u>\$ 9,508</u> | <u>\$ 23,231</u> | <u>\$ 229,969</u> | <u>\$ 512,089</u> |

4. Capital Assets

Capital assets, additions, disposals, and depreciation for governmental activities and business- type activities for the year ended September 30, 2021 were as follows:

Governmental Activities Capital Assets:

| | Beginning Balances | Additions | Disposals/ Reclasses | Ending Balances |
|--|-------------------------------|--------------------|---------------------------------|----------------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 96,386 | \$ - | \$ - | \$ 96,386 |
| Total capital assets not being depreciated | 96,386 | - | - | 96,386 |
| Capital assets, being depreciated | | | | |
| Machinery & equipment | 864,381 | - | (83,374) | 781,007 |
| Infrastructure | 5,939,151 | - | - | 5,939,151 |
| Buildings and improvements | 477,105 | - | - | 477,105 |
| Total capital assets being depreciated | 7,280,637 | - | (83,374) | 7,197,263 |
| Less accumulated depreciation | | | | |
| Machinery & equipment | (802,812) | (26,044) | 69,762 | (759,094) |
| Infrastructure | (5,420,307) | (45,992) | - | (5,466,299) |
| Buildings and improvements | (358,026) | (11,141) | - | (369,167) |
| Total accumulated depreciation | (6,581,145) | (83,177) | 69,762 | (6,594,560) |
| Net capital assets being depreciated | 699,492 | (83,177) | (13,612) | 602,703 |
| Total capital assets | <u>\$ 795,878</u> | <u>\$ (83,177)</u> | <u>\$ (13,612)</u> | <u>\$ 699,089</u> |

Depreciation expense was charged to governmental functions as follows:

| Governmental activities: | Depreciation |
|---|---------------------|
| General government | \$ 10,428 |
| Parks and recreation | 1,971 |
| Public works | 47,483 |
| Public safety | 23,295 |
| Total depreciation expense - governmental activities | <u>\$ 83,177</u> |

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

Business-type Activities Capital Assets:

| | <u>Beginning Balances</u> | <u>Additions</u> | <u>Disposals/ Reclasses</u> | <u>Ending Balances</u> |
|--|-------------------------------|---------------------|---------------------------------|----------------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 134,788 | \$ - | \$ - | \$ 134,788 |
| Total capital assets not being depreciated | 134,788 | - | - | 134,788 |
| Capital assets, being depreciated | | | | |
| Machinery & equipment | 496,627 | 46,434 | - | 543,061 |
| Buildings and Improvements | 72,165 | - | - | 72,165 |
| Water and sewer system | 9,120,263 | 54,458 | - | 9,174,721 |
| Total capital assets being depreciated | 9,689,055 | 100,892 | - | 9,789,947 |
| Less accumulated depreciation | | | | |
| Machinery & equipment | (422,571) | (26,774) | - | (449,345) |
| Water and sewer system | (4,629,670) | (257,854) | - | (4,887,524) |
| Buildings and improvements | (72,165) | - | - | (72,165) |
| Total accumulated depreciation | (5,124,406) | (284,628) | - | (5,409,034) |
| Net capital assets being depreciated | 4,564,649 | (183,736) | - | 4,380,913 |
| Total capital assets | \$ 4,699,437 | \$ (183,736) | \$ - | \$ 4,515,701 |

B. Liabilities

1. Interfund receivables, payables and transfers

| | <u>Due From Other Funds</u> | <u>Due To Other Funds</u> | <u>Internal Balances</u> |
|----------------------------|---------------------------------|-------------------------------|------------------------------|
| Governmental Funds: | | | |
| General Fund | \$ 853,090 | \$ (232,101) | |
| Debt Service | 102,280 | - | |
| HCFDC | 33,075 | (18,000) | |
| Capital Projects Fund | - | - | |
| | <u>\$ 988,445</u> | <u>\$ (250,101)</u> | <u>\$ 738,344</u> |
| Proprietary Funds: | | | |
| Water and Sewer Fund | \$ 23,380 | \$ (761,724) | |
| | <u>\$ 23,380</u> | <u>\$ (761,724)</u> | <u>\$ (738,344)</u> |
| | <u>\$ 1,011,825</u> | <u>\$ (1,011,825)</u> | <u>\$ -</u> |

The General Fund is due \$761,724 from the Water Fund for the reimbursement of operating expenses and payroll expenses and also \$18,000 from the HCFDC for rent expense. The Debt Service Fund is due \$102,280 from the General Fund for debt payments. The HCFDC is due \$33,075 from the General Fund for sales tax revenue.

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

| | Transfers To Other Funds | Transfers From Other Funds | Net Transfers |
|----------------------------|-----------------------------|-------------------------------|--------------------|
| Governmental Funds: | | | |
| General Fund | \$ - | \$ 189,127 | |
| HCFDC | 123,582 | - | |
| Capital Projects Fund | 28,245 | - | |
| | <u>\$ 151,827</u> | <u>\$ 189,127</u> | <u>\$ 37,300</u> |
| Proprietary Funds: | | | |
| Water and Sewer Fund | \$ 37,300 | \$ - | |
| | <u>\$ 37,300</u> | <u>\$ -</u> | <u>\$ (37,300)</u> |

The transfers above are for various items such as operating expenses, GTUA payments, and payroll.

2. Accounts Payable

At September 30, 2021, the City owes the City of Sherman \$385,523 for past due sewer charges. This amount is recorded in accounts payable. Subsequent to year end, the City continued to pay past due sewer charges to the City of Sherman. At the time of the issuance of the report, the total balance owed to the City of Sherman is \$350,304. At September 30, 2021, the City owes the WC of Texas \$51,160 for past due sanitation charges. This amount is recorded in accounts payable. Subsequent to year end, the City continued to pay past due sanitation charges to WC of Texas, the total balance owed to WC of Texas is \$57,797.

3. Long-Term Liabilities

Below is a summary of changes in the City's long-term liabilities for governmental and business type activities at September 30, 2021:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Refunded/ Reductions</u> | <u>Ending Balance</u> | <u>Due within One Year</u> |
|--|------------------------------|------------------|---------------------------------|---------------------------|--------------------------------|
| Governmental Activities: | | | | | |
| General Obligation Refunding Bond | \$ 990,000 | \$ - | \$ 90,000 | \$ 900,000 | \$ 95,000 |
| Combination Tax and Revenue Certificates of Obligation | 335,000 | - | 20,000 | 315,000 | 20,000 |
| Capital Lease Obligations | 37,369 | - | 37,369 | - | - |
| Total Debt | <u>1,362,369</u> | <u>-</u> | <u>147,369</u> | <u>1,215,000</u> | <u>115,000</u> |
| Compensated Absences | 26,014 | 37,348 | 26,014 | 37,348 | 37,348 |
| Net Pension Liability (Asset) | (88,212) | (29,388) | - | (117,600) | - |
| Total OPEB Liability | 39,513 | 7,024 | - | 46,537 | - |
| Total Governmental Activities | <u>\$1,339,684</u> | <u>\$ 14,984</u> | <u>\$ 173,383</u> | <u>\$ 1,181,285</u> | <u>\$ 152,348</u> |

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Refunded/ Reductions</u> | <u>Ending Balance</u> | <u>Due within One Year</u> |
|---|------------------------------|------------------------|---------------------------------|----------------------------|--------------------------------|
| <u>Business-type Activities:</u> | | | | | |
| GTUA Contractual Obligations | \$3,585,000 | \$ - | \$ 93,750 | \$ 3,491,250 | \$ 96,250 |
| Compensated Absences | 14,287 | 10,850 | 14,287 | 10,850 | 10,850 |
| Net Pension Liability (Asset) | (62,740) | (9,778) | - | (72,518) | - |
| Total OPEB Liability | 28,103 | 594 | - | 28,697 | - |
| Total Business-type Activities | <u>\$3,564,650</u> | <u>\$ 1,666</u> | <u>\$ 108,037</u> | <u>\$ 3,458,279</u> | <u>\$ 107,100</u> |

Governmental Activities – 2020 General Obligation Refunding Bond

On January 14, 2020, the City issued the Series 2020 General Obligation Refunding Bonds in the original principal amount of \$1,020,000 with UMB Bank. The proceeds were utilized to refund existing debt obligations. Interest is payable semi-annually at a rate of 2.300%. The principal is due in annual installments varying from \$30,000 to \$110,000 with the final maturity on February 15, 2030. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. As of September 30, 2021, the outstanding principal balance of the obligation was \$900,000.

Governmental Activities – 2020 Combination Tax and Revenue Certificates of Obligation

On January 14, 2020, the City issued the Series 2020 Combination Tax and Revenue Certificates of Obligation in the original principal amount of \$335,000 with UMB Bank. The proceeds were utilized for capital projects. Interest is payable semi-annually at a rate of 2.790%. The principal is due in annual installments varying from \$20,000 to \$25,000 with the final maturity on February 15, 2035. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. As of September 30, 2021, the outstanding principal balance of the obligation was \$315,000.

The remaining annual debt service requirements for the governmental bonds payable at September 30, 2021 are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total Requirements</u> |
|--------------|----------------------------|--------------------------|-------------------------------|
| 2022 | \$ 115,000 | \$ 28,117 | \$ 143,117 |
| 2023 | 110,000 | 25,432 | 135,432 |
| 2024 | 115,000 | 22,746 | 137,746 |
| 2025 | 115,000 | 20,003 | 135,003 |
| 2026 | 120,000 | 17,203 | 137,203 |
| 2027-2031 | 540,000 | 42,342 | 582,342 |
| 2032-2035 | 100,000 | 5,580 | 105,580 |
| Total | <u>\$ 1,215,000</u> | <u>\$ 161,422</u> | <u>\$ 1,376,422</u> |

Governmental Activities – Capital Lease Obligations

The City utilized capital leases for three (3) vehicles, two (2) 2014 Dodge Chargers and one (1) Jeep. Indebtedness of the City is reflected in the Statement of Net Position. Current requirements for principal and interest expenditures are accounted for in the General Fund. The entire value of the capital lease was due in fiscal year 2021. This balance was paid off during the fiscal year.

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

Business-type Activities – GTUA Contractual Obligations:

The City has three long-term contractual obligations with the Greater Texoma Utility Authority (GTUA). The City recognizes that GTUA has an undivided ownership interest in the City's sewer collection and treatment facility equivalent to the percentage of the total cost of the facility provided by GTUA through the issuance and sale of GTUA bonds. Under the terms of these contracts, the City's obligation to make payments to GTUA, as well as GTUA's ownership interest in the facility, terminates when all of GTUA's bonds issued have been paid in full, are retired, and are no longer outstanding.

Series 2003 bond proceeds were obtained from GTUA in the amount of \$600,000 for the year ended September 30, 2003. The Series 2003 bond has a coupon rate of 5.08%. The City's obligation under the contract will expire with the retirement of the obligation in the fiscal year ending September 30, 2023. At September 30, 2021, the City's obligation under this contract is \$135,000

Collin Grayson Municipal Alliance Transmission Water Pipeline

On December 13, 2004, the City, along with the Cities of Anna, Melissa, and Van Alstyne formed a group called the Collin Grayson Municipal Alliance ("CGMA"). CGMA entered into a long-term contract with the GTUA for the purpose of providing funds for the construction of a transmission water pipeline that will provide water to the CGMA cities. The cost of the pipeline is being funded with contractual obligations in four phases.

The original principal obligation for Phase I of the pipeline project was issued in fiscal year 2005 in the amount of \$2,800,000, of which twenty-five percent (25%) or \$700,000 pertained to the City. The Phase I contract has interest rates varying between 2.29% and 5.74%. As of September 30, 2021, the City's obligation under this contract was \$338,750. The City's obligation to GTUA under the Phase I contract is to expire with the retirement of the obligation in the fiscal year ending September 30, 2028.

The original principal obligation for Phase II of the pipeline project was issued in fiscal year 2006, with the original principal balance of \$8,675,000, of which twenty-five percent (25%) or \$2,168,750 pertained to the City. The Phase II contract has interest rates varying between 5.68% and 5.83%. Interest payments for this contract were deferred until fiscal year 2009. At September 30, 2021, the City's obligation under this contract remains \$2,168,750. The City's obligation under the contract will expire with the retirement of the obligation in the fiscal year ending September 30, 2040.

The original principal obligation for Phase III of the pipeline project was issued in fiscal year 2007 in the amount of \$5,000,000, of which twenty-five percent (25%) or \$1,250,000 pertained to the City. The Phase III contract has interest rates varying between 2.67% and 5.62%. At September 30, 2021, the City's obligation under this contract was \$848,750. The City's obligation to GTUA under Phase III contract expires with the retirement of the GTUA obligation in the fiscal year ending September 30, 2036. Phase IV of the pipeline project will occur in the future. The original principal obligation is expected to be \$1,500,000, of which twenty-five percent (25%) or \$375,000 will pertain to the City.

Each CGMA city is required to make payments to GTUA in an amount equivalent to 25% of the total obligation to cover their portion of the cost of the obligation until the pipeline project is complete and the water is pumping for three months.

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

From the time water has been delivered to each CGMA city through the pipeline for three months and forward and while water continues to flow to each CGMA city, upon a monthly basis, the City shall be charged its percentage or fraction share of debt service on the obligation based upon: the amount of water to be paid by the City under its water contract (i.e. the greater of its minimum take-or-pay amount or the actual amount of water taken) divided by the total amount of water to be paid by all CGMA cities. The sum of the four (4) fractional amounts shall always equal 100% of the debt service on the contractual obligation with GTUA.

The billing rates for each City will be calculated to provide funds necessary to cover the contractual obligation, interest, repairs, maintenance, and production costs. In fiscal year 2021, the City did not take water from the pipeline and incurred "take or pay" charges of \$165,284.

At the end of the contractual obligation with GTUA, the City will own an undivided interest in the transmission water pipeline based on the percentage of water it utilized and paid for during the contract term. Presently it appears that the undivided interest will be approximately 25% of the waterline. The contract will expire and the transfer of ownership will occur during the fiscal year ended September 30, 2040, as long as no new debt is issued.

The utility fund has the following outstanding contractual obligations at September 30, 2021:

| <u>Water and Sewer Fund Contractual Obligations</u> | <u>Outstanding</u> |
|--|---------------------------|
| \$600,000 Series 2003 GTUA Contract Revenue Bonds. The interest rates range from 2.45% to 5.25%. | \$ 135,000 |
| <u>CGMA Water Line Project Phase I: \$700,000 Series</u> 2005 GTUA Contract Revenue Bonds. The interest rates range from 2.29% to 5.74%. | 338,750 |
| <u>CGMA Water Line Project Phase II: \$2,168,750 Series</u> 2006 GTUA Contract Revenue Bonds. The interest rates range from 5.68% to 5.83%. | 2,168,750 |
| <u>CGMA Water Line Project Phase III: \$1,250,000 Series</u> 2007 GTUA Contract Revenue Bonds. The interest rates range from 2.67% to 5.62%. | 848,750 |
| Total outstanding contractual obligations: | <u>\$ 3,491,250</u> |

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

At September 30, 2021, the principal and interest requirements for the next five fiscal years and in five-year totals starting in 2027 through 2041 are as follows:

| | Principal | Interest | Total Requirements |
|--------------|---------------------|--------------------|-------------------------------|
| 2022 | \$ 96,250 | \$ 296,206 | \$ 392,456 |
| 2023 | 145,000 | 290,697 | 435,697 |
| 2024 | 57,500 | 286,226 | 343,726 |
| 2025 | 70,000 | 282,702 | 352,702 |
| 2026 | 168,750 | 174,941 | 343,691 |
| 2027-2031 | 978,750 | 722,108 | 1,700,858 |
| 2032-2036 | 1,208,750 | 424,841 | 1,633,591 |
| 2037-2041 | 766,250 | 114,690 | 880,940 |
| Total | \$ 3,491,250 | \$2,592,412 | \$ 6,083,662 |

4. Defined Benefit Pension Plans

Plan Description

The City of Howe participates as one of 895 plans in the nontraditional, joint contributory, hybrid 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 issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The City has approved an annually repeating (automatic) basis of monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement.

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity.

The plan provisions are adopted by the City Council, within the available options in the state statutes governing TMRS. Plan provisions for the City were as follows:

| | |
|-----------------------------------|----------------|
| Employee deposit rate | 5% |
| Matching ratio (city to employee) | 2 to 1 |
| Years required for vesting | 5 |
| Retirement eligibility | 20 Years |
| Updated service credit | 100% Repeating |
| Annuity increase (to retirees) | 0% of CPI |

Employees Covered by Benefit Terms

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 10 |
| Inactive employees entitled to but not yet receiving benefits | 20 |
| Active employees | 19 |
| Total | 49 |

Contributions

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

Employees of the City of Howe were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Howe were 7.64% and 7.51% in calendar years 2020 and 2021, respectively. The City's contributions to TMRS for the year ended September 30, 2021 were \$74,080, 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.

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

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 | 3.5% to 10.5% per year including inflation |
| Investment Rate of Return | 6.75% |

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 active, 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 is 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.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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.

The target allocation and best estimates of arithmetic real rates of return for each major asset class 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 | 30.0% | 5.30% |
| Core Fixed Income | 10.0% | 1.25% |
| Non-Core Fixed Income | 20.0% | 4.14% |
| Real Return | 10.0% | 3.85% |
| Real Estate | 10.0% | 4.00% |
| Absolute Return | 10.0% | 3.48% |
| Private Equity | 10.0% | 7.75% |
| Total | 100.0% | |

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

Discount Rate

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

Changes in the Net Pension Liability

| | <u>Total Pension Liability (a)</u> | <u>Plan Fiduciary Net Position (b)</u> | <u>Net Pension Liability (a) - (b)</u> |
|--|---|---|---|
| Balance at 12/31/2019 | \$ 2,440,634 | \$ 2,591,586 | \$ (150,952) |
| Changes for the year: | | | |
| Service Cost | 91,730 | - | 91,730 |
| Interest | 164,382 | - | 164,382 |
| Difference between expected and actual experience | 13,153 | - | 13,153 |
| Changes of assumptions | - | - | - |
| Contributions - employer | - | 68,193 | (68,193) |
| Contributions - employee | - | 44,746 | (44,746) |
| Net Investment income | - | 196,813 | (196,813) |
| Benefit payments, including refunds of emp. contributions | (102,433) | (102,433) | - |
| Administration expense | - | (1,271) | 1,271 |
| Other changes | - | (50) | 50 |
| Net Changes | <u>166,832</u> | <u>205,998</u> | <u>(39,166)</u> |
| Balance at 12/31/2020 | <u>\$ 2,607,466</u> | <u>\$ 2,797,584</u> | <u>\$ (190,118)</u> |

Sensitivity of the Net Pension Liability 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:

| Sensitivity of the Net Pension Liability to Changes in the Discount Rate | | |
|---|---|-------------------|
| | Current Single Rate Assumption 6.75% | |
| 1% Decrease 5.75% | | 1% Increase 7.75% |
| \$151,299 | (\$190,118) | (\$471,538) |

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

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.tmr.com.

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2021, the City recognized pension expense of \$76,157. At September 30, 2021 the City reported deferred outflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred (Inflows) of Resources</u> |
|--|---|--|
| Differences between expected and actual economic experience | \$ 8,187 | \$ - |
| Difference in assumption changes | - | (10,216) |
| Differences between projected and actual investment earnings | - | (74,128) |
| Contributions subsequent to the measurement date | 56,379 | - |
| Total | <u>\$ 64,566</u> | <u>\$ (84,344)</u> |

\$56,379 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 in the fiscal year ended September 30, 2022. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended September 30:</u> | <u>Net Deferred (Inflows) Outflows of Resources</u> |
|-------------------------------------|---|
| 2022 | \$ (32,573) |
| 2023 | 3,928 |
| 2024 | (43,135) |
| 2025 | (4,377) |
| 2026 | - |
| Thereafter | - |
| | <u>\$ (76,157)</u> |

5. Other Post-Employment Benefits

Plan Description

Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers 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 City has elected to participate in the SDBF for its active members including retirees.

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer other postemployment benefit plan (OPEB) (i.e. no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75) for City reporting.

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). The death benefit for retirees is considered another post-employment benefit ("OPEB") and is a fixed amount of \$7,500.

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 | 6 |
| Inactive employees entitled to but not yet receiving benefits | 5 |
| Active employees | 19 |
| Total | 30 |

Contributions

The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers.

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 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 funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

The City's contributions to the SDBF for the year ended September 30, 2021 were \$4,120, and were equal to the required contributions. The contribution rates to the SDBF for the City are as follows:

| Plan/Calendar Year | Total SDB Contribution (Rate) | Retiree Portion of SDB Contribution (Rate) |
|--------------------|-------------------------------|--|
| 2020 | 0.34% | 0.10% |
| 2021 | 0.45% | 0.29% |

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

Total OPEB Liability

The City's Total OPEB Liability (TOL) was measured as of December 31, 2020 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

Methods and Assumptions used to Determine Contribution Rates:

| | |
|--|--|
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% 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 actuarial assumptions used in the December 31, 2019, valuation were developed primarily from an actuarial experience study of the four-year period from December 31, 2014 through December 31, 2018. The post-mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2014 through 2018 and dated December 31, 2018. In conjunction with these changes first used in the December 31, 2019 valuation, TMRS adopted the Entry Age Normal actuarial cost method. Salary increases were based on a service-related table.

Discount Rate

A single discount rate of 2.00% was used to measure the Total OPEB Liability and was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

Changes in Total OPEB Liability

| | Total OPEB Liability |
|---|----------------------------|
| Balance at 12/31/2019 | \$ 67,616 |
| Changes for the year: | |
| Service cost | 3,580 |
| Interest on Total OPEB Liability | 1,896 |
| Change of benefit terms | - |
| Difference between expected and actual experience | (5,890) |
| Changes of assumptions or other inputs | 8,927 |
| Benefit payments | (895) |
| Net changes | \$ 7,618 |
| Balance at 12/31/2020 | <u>\$ 75,234</u> |

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.00%, 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 (1.00%) or 1 percentage-point higher (3.00%) than the current rate:

| Sensitivity of the Total OPEB Liability to Changes in the Discount Rate | | |
|--|--------------------------------|----------------------|
| 1% Decrease 1.00% | Current Discount Rate 2.00% | 1% Increase 3.00% |
| \$90,336 | \$75,234 | \$63,715 |

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

For the year ended September 30, 2021, the City recognized OPEB revenue of \$9,845. At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred (Inflows) of Resources |
|---|--------------------------------------|---------------------------------------|
| Changes of assumptions | \$ 13,267 | \$ - |
| Differences between actual and expected economic experience | - | (6,246) |
| Contributions made subsequent to measurement date | 3,713 | - |
| | <u>\$ 16,980</u> | <u>\$ (6,246)</u> |

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

The \$3,713 contributions made after the measurement date of the total OPEB liability but before the end of the City's reporting period will be recognized as a reduction of the total OPEB liability in the subsequent fiscal period. The other amount reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ended September 30: | Deferred Outflows (Inflows) of Resources |
|-----------------------------|--|
| 2022 | \$ 2,499 |
| 2023 | 1,933 |
| 2024 | 2,073 |
| 2025 | 516 |
| 2026 | - |
| Thereafter | - |
| <u>Total</u> | <u>\$ 7,021</u> |

IV. Howe Community Facilities Development Corporation

Howe Community Facilities Development Corporation (HCFDC) was established under the provisions of Section 4B of the Development Corporation Act of 1979 as a Texas Municipal Corporation. HCFDC was organized specifically for the public purposes to study and fund permissible projects prescribed in the Development Corporation Act.

Blended methodology was used to present the HCFDC in the financial statements of the City of Howe as a governmental fund special revenue type. This methodology was selected after evaluation of all the circumstances and available standards. It should be noted that when the blended method is used, transactions of the component unit are presented as if they were executed directly by the primary government.

During the fiscal year ended September 30, 2021, the Board of Directors of the HCFDC met twice and adopted a budget. Total assets of the HCFDC at September 30, 2021 consisted of cash deposits in the amount of \$81,796, fully insured by FDIC insurance, certificates of deposits in the amount of \$100,000, sales taxes receivable \$23,231, and amounts due from the General Fund totaling \$33,075. The HCFDC also has liabilities in the amount of \$18,005 for amounts owed to the General Fund for rental expense.

V. Related Party Lease

On November 18, 2014, the City Council approved a three-year lease for a building at 101 East Haning St., Howe, Texas. The building is used by the HCFDC, Keep Howe Beautiful, and eventually the Howe Chamber of Commerce. This lease ended as of April 30, 2018 and the City has continued leasing the building on a month to month basis for the same annual amount of \$18,000. The Director of the HCFDC owns this leased property. The HCFDC recognized \$18,000 in related party rent expenditures during fiscal year 2021.

City of Howe, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2021

VI. Fund Equity Deficit Considerations

The deficit balance for the City's Water and Sewer Fund unrestricted net position increased from \$1,671,088 to \$1,896,509 at September 30, 2021. Total ending net position also decreased from \$171,579 to (\$256,564) at September 30, 2021. Continued increases in fund equity deficits could affect the City's ability to continue as a going concern.

VII. Prior Period Adjustment:

The funds listed below had the following prior period adjustments related to recording utility fund customer deposits in the Water Fund, agreeing opening balances, consolidating the Municipal Court Technology and Security Funds in the General Fund, and to correct a payroll error.

| | Government Wide | Water and Sewer Fund | General Fund | Capital Projects Fund | Municipal Court Technology Fund | Municipal Court Security Fund |
|--|--------------------|-------------------------|-------------------|-----------------------------|---------------------------------------|-------------------------------------|
| Beginning balances, as previously reported | \$ 809,925 | \$ 162,660 | \$ 298,322 | \$ 317,535 | \$ 55,734 | \$ 50,143 |
| Prior period adjustment | 24,962 | 8,919 | 130,839 | (28,228) | (55,734) | (50,143) |
| Beginning balances, as restated | <u>\$ 834,887</u> | <u>\$ 171,579</u> | <u>\$ 429,161</u> | <u>\$ 289,307</u> | <u>\$ -</u> | <u>\$ -</u> |

VIII. Subsequent Events

Management has evaluated all events or transactions that occurred after September 30, 2021 up through the date of the auditor's report on page one. This is the date the financial statements were available for issuance. Management has identified no subsequent events.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Howe, Texas

Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual - General Fund For the Year Ended September 30, 2021

| | Original Budgeted Amounts | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|---|---------------------------------|---------------------------|---------------------|-------------------------------|
| REVENUES | | | | |
| Taxes: | | | | |
| Property | \$ 668,352 | \$ 668,352 | \$ 723,887 | \$ 55,535 |
| Sales | 260,211 | 260,211 | 377,099 | 116,888 |
| Franchise | 115,000 | 115,000 | 115,819 | 819 |
| Municipal court | 125,011 | 125,011 | 295,553 | 170,542 |
| Building permits | 40,000 | 40,000 | 55,089 | 15,089 |
| Miscellaneous | 10,000 | 10,000 | 229,835 | 219,835 |
| Fire contract | 22,000 | 22,000 | 23,521 | 1,521 |
| Library contract | - | - | 2,280 | 2,280 |
| Intergovernmental | 25,000 | 25,000 | 889 | (24,111) |
| Interest | 50 | 50 | 299 | 249 |
| Total revenues | <u>1,265,624</u> | <u>1,265,624</u> | <u>1,824,271</u> | <u>558,647</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 389,093 | 389,093 | 453,207 | (64,114) |
| Public safety | 621,864 | 625,364 | 641,091 | (15,727) |
| Community development | 121,560 | 121,560 | 144,404 | (22,844) |
| Streets | 111,656 | 111,656 | 73,996 | 37,660 |
| Municipal court | 64,700 | 64,700 | 125,144 | (60,444) |
| Non-departmental | - | - | 11,927 | (11,927) |
| Debt service: | | | | - |
| Principal | 46,305 | 46,305 | 37,369 | 8,936 |
| Interest | - | - | 1,755 | (1,755) |
| Total expenditures | <u>1,355,178</u> | <u>1,358,678</u> | <u>1,488,893</u> | <u>(130,215)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(89,554)</u> | <u>(93,054)</u> | <u>335,378</u> | <u>688,862</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Insurance recoveries | - | - | 49,060 | 49,060 |
| Transfers out | (123,900) | (123,900) | - | 123,900 |
| Transfers in | 173,220 | 173,220 | 189,127 | 15,907 |
| Total other financing sources and uses | <u>49,320</u> | <u>49,320</u> | <u>238,187</u> | <u>188,867</u> |
| Net change in fund balances | (40,234) | (43,734) | 573,565 | 877,729 |
| Fund balances - beginning | 429,161 | 429,161 | 429,161 | |
| Fund balances - ending | <u>\$ 388,927</u> | <u>\$ 385,427</u> | <u>\$ 1,002,726</u> | |

City of Howe, Texas

Schedule of Changes in Net Pension Liability and Related Ratios ¹ Texas Municipal Retirement System Last Ten Measured Years

| | 2020 | 2019 | 2018 |
|---|---------------------|---------------------|---------------------|
| Total pension liability | | | |
| Service Cost | \$ 91,730 | \$ 85,971 | \$ 75,879 |
| Interest (on the Total Pension Liability) | 164,382 | 155,374 | 146,387 |
| Changes of benefit terms | - | - | - |
| Difference between expected and actual experience | 13,153 | 6,990 | (28,551) |
| Change of assumptions | - | (28,300) | - |
| Benefit payments, including refunds of employee contributions | (102,433) | (76,515) | (54,725) |
| Net Change in Total Pension Liability | 166,832 | 143,520 | 138,990 |
| Total Pension Liability - Beginning | 2,440,634 | 2,297,114 | 2,158,124 |
| Total Pension Liability - Ending (a) | <u>\$ 2,607,466</u> | <u>\$ 2,440,634</u> | <u>\$ 2,297,114</u> |
| Plan Fiduciary Net Position | | | |
| Contributions - Employer | 68,193 | 62,206 | 55,534 |
| Contributions - Employee | 44,746 | 40,591 | 36,202 |
| Net Investment Income | 196,813 | 343,884 | (67,569) |
| Benefit payments, including refunds of employee contributions | (102,433) | (76,515) | (54,725) |
| Administrative Expense | (1,271) | (1,942) | (1,306) |
| Other | (50) | (58) | (69) |
| Net Change in Plan Fiduciary Net Position | 205,998 | 368,166 | (31,933) |
| Plan Fiduciary Net Position - Beginning | 2,591,586 | 2,223,422 | 2,255,355 |
| Plan Fiduciary Net Position - Ending (b) | <u>\$ 2,797,584</u> | <u>\$ 2,591,588</u> | <u>\$ 2,223,422</u> |
| Net Pension Liability - Ending (a) - (b) | \$ (190,118) | \$ (150,954) | \$ 73,692 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 107.29% | 106.19% | 96.79% |
| Covered Payroll | 894,926 | 811,814 | 724,033 |
| Net Pension Liability as a Percentage of Covered Payroll | -21.24% | -18.59% | 10.18% |

NOTES TO SCHEDULE OF NET PENSION LIABILITY

¹ The schedule above reflects the changes in net pension liability for the current year. GASB 68 requires ten fiscal years of data to be provided in this schedule. However, until a full ten-year trend is compiled, only available information is shown.

| <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---------------------|---------------------|---------------------|---------------------|
| \$ 72,515 | \$ 67,294 | \$ 60,482 | \$ 46,430 |
| 137,456 | 127,792 | 117,586 | 108,993 |
| - | - | - | - |
| (5,395) | 14,870 | 18,236 | 14,472 |
| - | - | 62,530 | - |
| (93,161) | (45,629) | (52,029) | (56,283) |
| 111,415 | 164,327 | 206,805 | 113,612 |
| 2,046,709 | 1,882,382 | 1,675,577 | 1,561,965 |
| <u>\$ 2,158,124</u> | <u>\$ 2,046,709</u> | <u>\$ 1,882,382</u> | <u>\$ 1,675,577</u> |
| 52,986 | 49,563 | 45,868 | 40,628 |
| 34,498 | 32,260 | 29,824 | 26,554 |
| 275,445 | 123,615 | 2,662 | 97,089 |
| (93,161) | (45,629) | (52,029) | (56,283) |
| (1,427) | (1,396) | (1,621) | (1,014) |
| (72) | (75) | (80) | (83) |
| 268,269 | 158,338 | 24,624 | 106,891 |
| 1,987,086 | 1,828,748 | 1,804,124 | 1,697,233 |
| <u>\$ 2,255,355</u> | <u>\$ 1,987,086</u> | <u>\$ 1,828,748</u> | <u>\$ 1,804,124</u> |
| \$ (97,231) | \$ 59,623 | \$ 53,634 | \$ (128,547) |
| 104.51% | 97.09% | 97.15% | 107.67% |
| 689,965 | 645,195 | 596,472 | 531,081 |
| -14.09% | 9.24% | 8.99% | -24.20% |

Schedule of Contributions to Pension Plan¹ Texas Municipal Retirement System Last Ten Fiscal Years

NOTES TO SCHEDULE OF CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Methods and Assumptions Used to Determine Contribution Rates:

Other Information:

58

| <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---------------|---------------|---------------|---------------|
| \$ 52,135 | \$ 29,376 | \$ 33,799 | \$ 39,249 |
| <u>52,135</u> | <u>49,339</u> | <u>43,348</u> | <u>39,249</u> |
| \$ - | \$ (19,963) | \$ (9,549) | \$ - |
| \$ 645,195 | \$ 641,597 | \$ 566,645 | \$ 519,976 |
| 8.08% | 7.69% | 7.65% | 7.55% |

City of Howe, Texas

Schedule of Changes in Total OPEB Liability and Related Ratios¹ Texas Municipal Retirement System Last Ten Measured Years

| | 2020 | 2019 | 2018 | 2017 |
|--|------------------|------------------|------------------|------------------|
| Total OPEB Liability | | | | |
| Service Cost | \$ 3,580 | \$ 2,435 | \$ 1,882 | \$ 1,587 |
| Interest (on the Total OPEB Liability) | 1,896 | 2,024 | 1,875 | 1,877 |
| Changes of benefit terms | - | - | - | - |
| Differences between expected and actual experience | (5,890) | (1,283) | (1,929) | - |
| Changes in assumptions or other inputs | 8,927 | 11,521 | (3,464) | 4,006 |
| Benefit payments | (895) | (812) | (652) | (621) |
| Net Change in Total OPEB Liability | 7,618 | 13,885 | (2,288) | 6,849 |
| Total OPEB Liability - Beginning | 67,616 | 53,731 | 56,019 | 49,170 |
| Total OPEB Liability - Ending (a) | \$ 75,234 | \$ 67,616 | \$ 53,731 | \$ 56,019 |
| Covered Payroll | \$ 894,926 | \$811,814 | \$ 724,033 | \$ 689,965 |
| Total OPEB Liability as a Percentage of Covered Payroll | 8.41% | 8.33% | 7.42% | 8.12% |

NOTES TO SCHEDULE OF TOTAL OPEB LIABILITY

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

City of Howe, Texas
Schedule of Contributions to OPEB Plan ¹
Texas Municipal Retirement System
Last Ten Fiscal Years

| | 2021 | 2020 | 2019 | 2018 |
|--|------------|------------|------------|------------|
| Actuarially Determined Contribution | \$ 4,120 | \$ 2,882 | \$ 2,454 | \$ 2,014 |
| Contributions in relation to the actuarially determined contribution | 4,120 | 2,882 | 2,454 | 2,014 |
| Contribution deficiency (excess) | - | - | - | - |
| Covered payroll | \$ 985,861 | \$ 859,485 | \$ 786,652 | \$ 689,965 |
| Contributions as a percentage of covered payroll | 0.4% | 0.3% | 0.3% | 0.3% |

NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

Valuation Timing:

Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|--|--|
| Actuarial Cost Method | Entry Age Normal |
| Inflation | 2.50% |
| Salary Increases | 3.5% 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:

| | |
|-------------------|--|
| Service Retirees | 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. |
| 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 became 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. |

Other Information:

| | |
|-------|--|
| Notes | There were no benefit changes during the year. |
|-------|--|

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OTHER SUPPLEMENTARY INFORMATION

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City of Howe, Texas

Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual - HCFDC For the Year Ended September 30, 2021

| | Original Budgeted Amounts | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|---|--|-----------------------------------|-----------------------|---------------------------------------|
| REVENUES | | | | |
| Taxes: | | | | |
| Sales | \$ 65,872 | \$ 65,872 | \$ 128,765 | \$ 62,893 |
| Interest | 99 | 99 | 181 | 82 |
| Total revenues | <u>65,971</u> | <u>65,971</u> | <u>128,946</u> | <u>62,975</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | <u>251,500</u> | <u>251,500</u> | <u>203,433</u> | <u>(48,067)</u> |
| Total expenditures | <u>251,500</u> | <u>251,500</u> | <u>203,433</u> | <u>(48,067)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(185,529)</u> | <u>(185,529)</u> | <u>(74,487)</u> | <u>111,042</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | <u>-</u> | <u>-</u> | <u>(123,582)</u> | <u>(123,582)</u> |
| Total other financing sources and uses | <u>-</u> | <u>-</u> | <u>(123,582)</u> | <u>(123,582)</u> |
| Net change in fund balances | (185,529) | (185,529) | (198,069) | (12,540) |
| Fund balances - beginning | <u>418,166</u> | <u>418,166</u> | <u>418,166</u> | |
| Fund balances - ending | <u>\$ 232,637</u> | <u>\$ 232,637</u> | <u>\$ 220,097</u> | |